

**SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK****LIST OF ACRONYMS**

ACOR	The American Center for Oriental Research
ADC	Aqaba Development Corporation
ASE	Amman Stock Exchange
ASEZ	Aqaba Special Economic Zone
ASEZA	Aqaba Special Economic Zone Authority
AZEM	Aqaba Zone for Economic Mobility Project
BDC	Business Development Center
BDS	Business Development Services
BMTF	Border Management Task Force
BIRD	Bilateral Industrial Research and Development
CBJ	Central Bank of Jordan
CTO	Cognizant Technical Officer
DCA	Development Credit Authority
EPC	Executive Privatization Commission
EO	Economic Opportunities Office
ERfKE	Education Reform for a Knowledge Economy
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FIU	Financial Intelligence Unit
FATF	Financial Action Task Force
FZC	Free Zones Corporation
GDA	Global Development Alliance

GDP	Gross Domestic Product
GOJ	Government of Jordan
GPA	Government Procurement Agreement
ICT	Information and Communications Technology
INJAZ	Economic Opportunities for Jordanian Youth Program
IPR	Intellectual Property Rights
IT	Information Technology
IMD	Institute for Management Development
IMP	Implementation and Monitoring Plan
JD	Jordanian Dinar
JAED	Jordan Authority for Enterprise Development
JEDCO	Jordan Enterprise Development Corporation
JIEC	Jordan Industrial Estates Development Corporation
JISM	Jordan Institute for Standards and Metrology
JIB	Jordan Investment Board
JNA	Jordan National Agenda
JSC	Jordan Securities Commission
JUSBP	Jordan-United States Business Partnership
JNCT	Jordan National Competitiveness Team
JV2020	Jordan Vision 2020
MENA	Middle East and North Africa
MIT	Ministry of Industry and Trade
MOF	Ministry of Finance
MFI	Microfinance Institution
MIS	Management Information System
MOTA	Ministry of tourism and Antiquities

NTS National Tourism Strategy

NICRA Negotiable Indirect Cost Rate Agreement

PMP Performance Management Plan

PSD Private Sector Development

QIZ Qualifying Industrial Zone

R&D Research and Development

RSCN Royal Society for the Conservation of Nature

SEC U.S. Securities and Exchange Commission

SDC Securities Depository Center

S&T Science and Technology

SETP Social and Economic Transformation Program

SME Small & Medium Enterprises

SIYAHA The USAID Tourism Project

SOW Scope of Work

ST TA Short Term Technical Assistance

LT TA Long Term Technical Assistance

TRC Telecommunications and Regulatory Commission

TIJARA Trade and Investment for Jordanian American Reciprocal Agreements

TRIDE Trilateral Industrial Development

TP Technical Proposal

USAID United States Agency for International Development

VTC Vocational Training Corporation

WTO World Trade Organization

WEF World Economic Forum

WAEDAT Women's Access to Entrepreneurial Development and Training

## I. BACKGROUND

### A. CHALLENGES AND GOAL

On the economic front the Hashemite Kingdom of Jordan is currently facing two fundamental challenges: 1) high unemployment rates and 2) low private sector competitiveness. Both need to be tackled if Jordan is to achieve the levels of sustainable economic growth needed to reduce poverty and develop a solid middle class. Currently there are about 50,000 new entrants into the labor force annually and unemployment stands at between 12-14%. In addition, Jordan's WEF competitiveness ranking has slipped from 35<sup>th</sup> to 45<sup>th</sup>. While significant, a large part can be attributed to an increased number of countries being ranked, as well as the country's growing debt burden linked to a drop in foreign aid and the recent exponential increase in petroleum product prices. Nevertheless, even at previous levels, Jordan has a long way to go to compete with the models it aspires to emulate (Singapore and Ireland).

Since 1999, the Government of Jordan (GOJ) has made major strides in social, economic, and to a lesser extent, political reform. Nevertheless, this process is still far from over. Emerging from decades with an economy dominated substantially by state-owned organizations, it is primarily the country's elite who have embraced the mantra of private enterprise and free markets as the model for achieving growth. At the mid and lower echelons of government, career civil servants are less interested in implementing the reforms approved at senior levels. Furthermore, many small and medium enterprises are family-owned companies with little expertise in modern management techniques, product development, marketing and trade promotion required to compete in a global economy. There are still strong protectionist tendencies both in government and the private sector that impede efforts to fully open the economy to international trade. While the rules of the game have improved, there is still a long way to go with too many laws, policies and regulations that hamper private enterprise. Government regulatory institutions remain weak and need improved systems and capacity in order to play a positive role for the economy.

Businesses are used to competing, not cooperating, and they are just learning the benefits of forming associations and acquiring the skills to lobby government. There is minimal interaction between universities, researchers and developers of new technology and private industry, with the latter investing only minimally in research and development (R&D). With some exceptions, product quality remains low and non-competitive globally. Labor productivity lags behind other low-middle income countries in the Middle East and North Africa (LI-MENA). Furthermore, entrants into the labor market remain poorly equipped for modern jobs. At the lower end of the pay scale, there is little incentive to work since a household of five with only one wage earner

can make more by staying on welfare. A further complication is that negative cultural attitudes about certain jobs mean that there is an overly high reliance on foreign workers in the country.

To address these problems, SABEQ will work with both the public and private sectors to achieve two principle goals: 1) increasing the number of jobs available to Jordanians and 2) enhancing the competitiveness of Jordanian firms.

The SABEQ Program will have four components as described below. Woven through each one will be a public outreach activity and access to grants.

- Financial Integrity, Oversight, and Broadened Capital Markets
- Expanded Trade and Investment
- Removal of GOJ Constraints to Achieving Private Sector Competitiveness
- Enhanced Productivity (Improved People/Improved Product).

## **b.     oVERVIEW OF THE JORDANIAN ECONOMY**

### **Macro-Economics**

Situated in one of the most politically volatile regions of the world, the Hashemite Kingdom of Jordan has enjoyed remarkable economic and political stability since gaining its independence in 1946. The Kingdom is a constitutional monarchy, ruled by H.M. King Abdullah II, who succeeded his late father, King Hussein, in February 1999. Executive power is vested in the Council of Ministers, which is appointed by the King, and is accountable to a two-house parliament. The King appoints the 55 members of the Upper House, while 110 deputies of the Lower House are elected by popular vote. Since 1999, there have been a series of positive developments in support of economic reform and liberalization, education, social development, national consensus-building and democracy.

Jordan is a small country with limited natural resources. Since 2000, exports of light manufactured products, principally textiles and garments manufactured in the Qualifying Industrial Zones (QIZ) that enter the United States tariff and quota free, have been driving economic growth. Jordan exported \$6.9 million in goods to the U.S. in 1997, when two-way trade was \$395 million; it exported \$1.1 billion in 2004 with two-way trade at \$1.6 billion. Similar

growth in exports to the United States under the bilateral Free Trade Agreement that came into effect in December 2001, to the European Union under the bilateral Association Agreement, and to countries in the region, holds considerable promise for diversifying Jordan's economy away from its traditional reliance on exports of phosphates and potash, overseas remittances, and foreign aid. The government has emphasized the information technology (IT) and tourism sectors as other promising growth sectors. In fact, tourism is the second largest earner of net foreign exchange after remittances. While garments out of the QIZs earn more in export revenue, the value added remaining in country as a result of tourism is larger. Of critical importance is the fact that the tariff advantages of the QIZs disappear in 2010 when all remaining FTA tariff reductions go into effect. The agreement also provides for more open markets in communications, construction, finance, health, transportation, and services, as well as strict application of international standards for the protection of intellectual property. In 1996, Jordan and the United States signed a civil aviation agreement that provides for "open skies" between the two countries, and a U.S.-Jordan treaty for the protection and encouragement of bilateral investment entered into force in 2003. Jordan has been a member of the World Trade Organization since 2000.

Jordan is classified by the World Bank as a "lower middle income" country. The per capita GDP was approximately \$2,000 and between 12 - 14% of the economically active population was unemployed in 2004. Education and literacy rates and measures of social well-being are relatively high compared to other countries with similar incomes. Jordan's population growth rate is high, but has declined in recent years, with a total fertility rate of 3.5 in 2004 (replacement rates are at 2.1). One of the most important factors in the government's efforts to improve the well-being of its citizens is the macro-economic stability that has been achieved since the 1990s. Inflation rates of price are low, at 3.4% in 2004, and the currency has been stable with an exchange rate fixed at JD 0.71 to the U.S. dollar since 1995.

Economic activity, which was disrupted in 2003 by the war in Iraq, bounced back in 2004. Real GDP rose 7.5 percent compared to 4.0 percent in 2003, with nearly all sectors benefiting from the recovery. Real GDP growth in 2005 is expected to amount to 7.6 percent. Stronger regional economic activity has nominally boosted basic manufacturing projects and demand for housing has underpinned strong growth in construction, and there has been a robust recovery in tourism.

The outlook over the coming years is encouraging with sound macro-economic management and recent structural reforms having laid a solid foundation for growth. A number of crucial challenges remain, however. Reducing dependence on foreign grants (10.2 percent of GDP in 2004), which are still a major component of the balance of payments and a significant source of government revenue, will be important if sustainable growth is to be achieved. The loss of the oil grant from Iraq in 2003 and the drastic reduction of the Saudi oil grant in early 2005 highlights

the importance of current efforts to shore up the fiscal position through expanding the domestic revenue base and containing current expenditure. One of the most important challenges to the Jordanian economy in the medium term is to maintain economic competitiveness despite the planned removal of fuel subsidies due to loss of the oil grant.

Employment creation and poverty reduction will also continue to be equally important challenges for policy makers over the medium term, given the high rate of population growth and the rapid expansion of the labor force. With the support of donors and multilateral institutions, the GOJ has moved forward with its Social and Economic Transformation Program (SETP), of which the main objective is to enhance social and economic development in order to improve the quality of life and living standards. The program sets time-bound projects that aim to improve basic social services such as health care, education, water and rural development. Nevertheless, long-term economic growth is dependent on economic competitiveness where Jordan's performance to date is mixed.

Although a surge in imports and lower foreign grants has pushed the current account into deficit during 2004, the underlying position remains sound. Merchandise exports have continued to grow at a rapid pace and there had been a recovery in tourism prior to the November 9, 2005 hotel bombings in Amman. The trade deficit widened from \$2.58 billion in 2003 to \$4.18 billion in 2004, an increase of almost 60 percent, in comparison with an increase of 15 percent in 2003. A record current account surplus of 11 percent of GDP was recorded in 2003, but this was mainly due to the exceptionally high level of official transfers.

The fastest growing major export category was once again clothing which rose 48 percent due to continued strong growth in exports from the QIZs, which produce garments that are exported duty free to the United States. Clothing exports have grown exponentially in the past 4-5 years, rising from \$49 million in 1999 to \$1 billion in 2004. As a result, the United States has now become Jordan's main trading partner, accounting for 31 percent of all exports. This compares with less than 1 percent in 1999. Traditionally, Iraq had been Jordan's main export destination, even during the years of U.N. sanctions. Exports to Iraq have increased by \$190 million in 2004, accounting for 15 percent of total 2004 exports.

The tourism sector, which was hit hard in recent years, first by the outbreak of the conflict between the Israelis and Palestinians, then by the September 11 attacks in New York, and finally in 2003 by the war in Iraq, started to recover in 2004. By 2005 the tourism sector had shown a robust increase in both number of tourist and receipts. The balance on services, income and transfers was also supported in 2004 by lower interest payments and a steady increase of expatriate workers remittances.

## **Financial and Capital Markets**

The stock market rose sharply after the end of the Iraq war. In 2004, the Amman Stock Exchange (ASE) witnessed its highest level since its establishment in 1978. Trading volume has registered a rise of \$2.75 billion, or 106 percent, to reach \$5.35 billion in 2004 against \$2.6 billion in 2003, driven mainly by trading in banking and financial companies. Although stronger economic activity and a steady decline in interest rates have boosted corporate earnings, the 2003-2005 rally in the market has pushed up the average P/E ratio to over 31. This is high by historic standards, which suggests that solid earnings growth will need to be maintained to support current valuations.

Although the number of listed companies has risen from 161 at the end of 2003 to 190 at the end of March 2005, a few large corporations still dominate the market. The ten largest companies make up approximately two-thirds of total market capitalization, with Arab Bank alone accounting for nearly 32 percent. As a result, the movement in the ASE index is greatly influenced by a relatively small number of stocks. All sectors performed well in 2004 and 2005, particularly the insurance, industrial and banking sectors. The services sector benefited from an improvement in tourism and construction.

## **Economic Competitiveness**

Official unemployment figures indicate that in recent years 12-14% of the population is unemployed with a large gender differentiation (female unemployment is at 28% of women seeking work). Many reasons account for this including the low minimum wage (JD 95/month), the high safety net (JD 155/month for a household of five), a work force ill-prepared for modern jobs, be they blue or white collar, and culture and attitudes (the so-called "Culture of Shame") concerning certain types of employment. Further, with easy accessibility to more skilled foreign workers who are willing to work long, hard hours for all types of jobs, there is little incentive for employers to invest in upgrading the skill levels of Jordanians.

Viewed historically as the employer of choice, Jordan's public sector can no longer afford to absorb the 50,000 or more new entrants into the labor market each year. The onus falls to the private sector which is ill-equipped to absorb these numbers. Businesses, in many cases, are still family-owned and run and do not employ modern management techniques or even have the types of specialized functions or departments (human resources, quality control, R&D, etc) or established career paths that would act as incentives to workers to increase their productivity.



And, labor productivity growth in Jordan remains appallingly low at 0.4 percent per annum compared to other Lower Income Middle East and North African countries (LI-MENA) at 1.6 percent.

While there has been a growth in micro-enterprises through a wide variety of government and donor-funded programs, they risk not remaining viable and not taking the next step of growing into small businesses that can generate increased employment unless these businesses can produce higher quality products that are in demand in the market. Small and Medium Enterprises (SMEs) also need to grow and become nimble enough to change products and enhance quality as global market demand changes.

Competitiveness at the national level is measured as national productivity with both the public and private sector assuming different yet interrelated roles in creating a competitive economy. There is a distinct disparity in competitive levels in various sectors. Certain sectors in Jordan are becoming more competitive globally and there are successful companies beginning to export world-wide. For instance, the ICT sector has been judged the most competitive in the Arab World. But, as noted earlier, the WEF indicators show a drop in Jordan's competitiveness ranking. This can be attributed to many of the factors described in Section A and clearly there is a need for deepening the reform effort on the Government of Jordan's (GOJ) side. For example, Jordan's minimum paid-up capital requirement for registering a business is the fourth highest in the world as a percentage of per capita income!

Jordan also suffers from a lack of a "competitive mindset". A competitive mindset is one that welcomes the concept of competition and cooperation at the same time, competently identifies the needs and desires of clients, develops innovative products and production processes, utilizes strategic thinking to attain an advanced position on a global scale, and adopts advanced regulatory standards in monitoring and assessing the performance of institutions. Nurturing such a mindset will be crucial to enhanced competitiveness and requires a cultural transformation.

The GOJ has developed its own strategy for increased competitiveness derived from a national vision of creating a modern economy based on knowledge transfer and successful global integration. The country has a large pool of Jordanians succeeding in business outside the country, in the Gulf and elsewhere, some of whom will bring their skills and capital back to Jordan when the business climate improves. The GOJ has made attempts to serve as a catalyst by encouraging companies to raise their standards and move to higher levels of competitive performance.

One of the initiatives of the GOJ has been the establishment of the Jordan National Competitiveness Team (JNCT) in 1997 at the Ministry of Planning. The JNCT's mission is to build the competitiveness of Jordan. It focuses primarily on the accomplishment of three interrelated and complementary objectives. These are 1) transferring data into knowledge; 2) developing and ensuring a sustainable mechanism for change to enhance productivity; and 3) improving the competitive advantage of the domestic economy, as well as creating a competitive mindset amongst Jordanians.

Despite all the current efforts to build the competitive advantage of Jordan, achieving world-class competitiveness is a long-term goal attained through a lengthy process that requires substantial and continuous efforts to invest in upgrading the national business environment and in enhancing company strategies and operations. The benefits of increased competitiveness cannot be reaped in the form of sustainable prosperity and improved living standards unless all stake holders (i.e. public, private and civil society) are involved in this process of economic development and continuous learning.

### **Public Sector Institutions**

As noted earlier, the top echelons of the GOJ are headed by Western-educated, reform-minded technocrats who, to a great extent, share King Abdullah's vision for transforming the economy and are willing to take the necessary steps to speed up the process. But many years of an economy dominated by state-owned enterprises cannot be discarded over night and the bulk of the mid and junior civil servants do not yet see the merit of change and many are out right hostile to it. As a result, actually effectuating change remains difficult and will require a concerted effort to accomplish. Achieving these second tier reforms, despite entrenched interests, is the challenge that will determine whether Jordan can really raise its employment rates and become competitive on a sustainable basis across the economy.

Furthermore, vested interests who have profited from the age old system of "wasta" or influence to move ahead economically and politically will likely object to the proposed reforms and many have the political influence to hinder the process. Not everyone believes in the benefits from a modern economy where economic decisions are made by market forces, government serves as an impartial and transparent regulator and the rule of law is the norm.

The GOJ has established a Ministry to guide the public sector reform process but in recent months, commitment to this agenda appears to have waned. It is anticipated that momentum

will be restored as the National Agenda process moves forward, but this is certainly an area where outside assistance would be productive.

Additionally, the Aqaba Special Economic Zone (ASEZ) was launched in 2001 as a duty-free, low tax multi-sectoral development zone encompassing the entire Jordanian coastline (27 km), the sea-ports of Jordan, an international airport and the historical city of Aqaba with a current population of 86,000 people. It encompasses an area of 375 Km<sup>2</sup> and offers global investment opportunities in a world-class business environment ranging from tourism to recreational services, from professional services to multi-modal logistics, from value-added industries to light manufacturing. The low tax and low regulation ASEZ is considered a model of a government-provided framework for private sector-led economic growth that should be emulated elsewhere in the Kingdom.

### **C. OVERVIEW OF USAID/JORDAN'S PROGRAMS**

Despite regional instability, Jordan has achieved positive economic growth for the last several years, demonstrating the economy's strength relative to external shocks. USG Assistance since 1998 has been instrumental in creating the conditions for that economic progress. Now, emerging as a competitive player in the global marketplace lies at the center of Jordan's long-term economic growth strategy. Already a regional leader in terms of government commitment to economic reform, Jordan seeks to emulate the success of other small, outward-oriented nations. Recent strong GDP growth has been a culmination of many factors, not least of which was continued coordination between GOJ policy makers and USAID/Jordan to achieve broad-based economic and social sector reforms. Among specific recent efforts, the governments of Jordan and the United States are working to initiate new trade liberalization measures to complement recent trade agreements with the United States and the European Union. They have also worked together to: modify Jordan's taxation structure and initiate pilots for customs and tariff changes; privatize several large and politically sensitive state owned enterprises; adopt new investment and securities laws and amendments to the companies law; be more responsive to citizens through restructuring, rationalization, and information technology modernization; and rein in loose fiscal and monetary practices.

The past few years have seen a dramatic increase in the capacity and desire of private Jordanian businesses to support the government's efforts to achieve sectoral reforms that balance decreasing government involvement in the market with a more independent and growing private sector. However, there remains much work to do to increase sustainable economic opportunities and facilitate fairer distribution of gains to all Jordanians. Fortunately for Jordan's prospects for economic growth, there is significant public and private enthusiasm for maintaining the current momentum of reforms, including furthering financial and capital markets

reform, commercial law development, support for micro, small, and medium-sized enterprises, public sector restructuring, and information management improvements. In this effort, the private sector must continue to grow as a leading player in transforming local and international investments into productive services and industries.

### **The AMIR Program**

AMIR Program website is [WWW.AMIR-JORDAN.ORG](http://WWW.AMIR-JORDAN.ORG). AMIR reports will be provided to interested bidders on a CD.

Since 1998 the flagship assistance program implemented by USAID's Office of Economic Opportunities has been the AMIR Program. In its various forms, it has played a pioneering role for USAID's field missions by providing a flexible mechanism to respond to host government requests for support to meet ambitious economic reform goals. Following are a few examples of successful activities carried out by the AMIR Program.

- **Information and Communication Technology**

As part of a larger strategy to promote the growth of Jordan's IT industry, the AMIR Program helped Jordan implement e-government to accelerate administrative reform and automation, and streamline government services. To promote telecommunications in Jordan, the AMIR Program worked with the Telecommunications Regulatory Commission (TRC) to build its capacity and enforce telecom regulations to support the emerging competitive environment. The AMIR Program also provided a grant to implement and manage the NetCorps Jordan program. NetCorps Jordan is a program designed to involve Jordan's youth in the socioeconomic development of the country through ICT. Based on the global [NetCorps program](#), Jordan's program recruits and trains young people in a blend of technology and business courses and places them in Knowledge Stations, small and medium businesses and schools to assist Jordanians across the country integrate ICT into their daily lives.

- **Policy Support**

### **World Trade Organization**

To help Jordan take full advantage of the benefits of trade and liberalization, the AMIR Program continues to assist the government in implementing and complying with WTO agreements. The program is working with the Ministry of Industry and Trade on negotiations, enforcement of intellectual property rights, and has helped strengthen the Trade Agreements Unit and create a Plant Variety Protection Office at the Ministry of Agriculture. Through technical assistance and training, the AMIR Program helped modernize and automate Jordan's customs systems. It also provided policy support to introduce a risk based system to dilute the obstacles to trade posed by the pre-shipment inspection regime called DAMAN currently being implemented by the Jordan Institute for Standards and Metrology (JISM). DAMAN is expected to be phased out in the coming couple of years and more robust risk based systems need to be implemented.

### ***Jordan-U.S. Free Trade Agreement***

The FTA offers Jordan the opportunity to boost private sector-led economic growth through increased U.S. trade and investment. According to U.S. International Trade Center statistics, Jordanian exports under the FTA in 2005 are estimated to approach \$200 million, representing close to a thousand percent increase over 2004. The AMIR Program helped Jordan take full advantage of the agreement's enormous potential through the TIJARA Coalition, a public-private initiative that is accelerating implementation of the FTA.

### **Jordan Authority for Enterprise Development**

The National Agenda has formally endorsed the Jordan Authority for Enterprise Development (JAED) reform program, which seeks to re-invent Jordan's investment promotion and enterprise development effort. This endorsement was the culmination of years of the AMIR Program's efforts working with numerous public and private stakeholders. This work began with Jordan Vision 2020, an AMIR-supported initiative, which first benchmarked Jordan against Ireland and suggested a number of strategies that the JAED reform will now realize. The JAED reform package will re-engineer Jordan's diverse investment promotion, enterprise development, and export promotion activities according to international best practice to attract foreign investment and help Jordan's producers and service providers compete on the global market.

The AMIR Program reviewed existing legislation and proposed new laws to pave the way for JAED's creation, which were passed in June 2003, and supported the involvement of international technical assistance to develop a strategy based on international best practices and Jordanian realities. The program also provided IT assistance to create the groundwork for investment information systems for a new wide area network connecting entities dealing with investment. The AMIR Program continues to provide a variety of technical assistance in institutional development, strategic planning, and capacity building.

- **Customs Reform**

To create a more efficient, market-oriented customs regime that is capable of effectively managing increased traffic resulting from WTO membership and other trade agreements and to attract investors, expand trade, and increase national revenues, the AMIR Program assisted the Jordanian Customs Department in updating customs regulations and upgrading trade enforcement capabilities. Legal advisors from the program reviewed Jordan's Customs Code and assisted the Customs Department in drafting amendments to bring it into compliance with WTO requirements on customs valuation, enforcement of intellectual property rights, and the establishment of a rulings procedure through which importers can receive binding advice from Customs in advance of their importations. The program then trained customs officers in customs valuation, trademark and copyright law, and the operation of a binding rulings program, and also offered training to brokers and importers on customs controls in general.

Since 9/11 customs administrations around the world have adopted a more security conscious posture. Jordan Customs has been very active in this regard with the development of its Border Management Task Force (BMTF) which combines all GOJ agencies in one task force to discuss how to better coordinate the movement of people and goods across Jordan's borders. Additionally the Golden List Program has rewarded a limited group of pilot Jordanian companies which meet stringent Jordanian customs' standards for supply chain security by streamlining their custom procedures.

- **Financial Markets Development**

The AMIR Program's efforts to modernize Jordan's capital markets have fundamentally transformed the Jordan Securities Commission (JSC), the Amman Stock Exchange (ASE), and the Securities Depository Center (SDC) into world-class institutions with high standards of efficiency and security. To promote internationally recognized best practices, the AMIR Program prepared a comprehensive revision of the existing Securities Law to create a new Securities Law in 2002. Other legislation was reviewed and the by-laws of the JSC, ASE, and SDC were revised with guidance from the U. S. Securities and Exchange Commission (SEC). The AMIR Program established training programs to update the skills and professionalism of market participants. The AMIR Program continues to support the development of strategies to reduce market risk, such as diversifying investment products and introducing new financial instruments to help generate additional investment capital.

## **Development of Aqaba**

USAID has supported the development of the Aqaba Special Economic Zone (ASEZ), which is emerging as a model for numerous economic development reforms for the rest of Jordan. The multi-component program includes: institutional development and training of the ASEZ Authority (ASEZA); development of regulatory, customs and revenue systems; planning, infrastructure and private provision of services; investment promotion and facilitation; and business and economic studies and support. This approach is producing important results within the focus areas of the Economic Opportunities Strategic Objective, and can serve as a model of good governance and economic reform throughout Jordan.

In January 2004, the Aqaba Development Corporation (ADC) was created to be the central development company for the ASEZ. The idea was to separate the development functions from the regulatory functions. ADC is managed as a private sector, for-profit company with ownership split 50–50 between the Government of Jordan and ASEZA. ADC now has full ownership of all the ports in Aqaba, the city's international airport and strategic parcels of land as well as the development rights for these assets, and key infrastructure and utilities have been transferred to ADC. ADC's objectives are to develop and manage these strategic assets of the zone to unlock and leverage value from this asset base.

A key priority for ADC is to ensure that the 2001–2020 Master Plan for the zone is realized in a systematic way which maximizes the potential of Aqaba as a leading Red Sea business, logistics and leisure hub. Being constituted as a private company with a board of Directors representing the public and private sectors, ADC's approach to development in the ASEZ reflects commercial best practice.

## **Tourism**

Tourism is Jordan's largest productive sector and the second largest net contributor to foreign exchange, surpassed only by worker remittances. It is also an important employer of Jordanians and is an industry whose growth is labor-intensive. Additionally, no sector distributes economic benefits throughout the country as much as tourism does, due to the movement of economic activity by tourists in the various governorates and the diverse purchasing habits of visitors that benefit major investors as well as micro-entrepreneurs. The National Tourism Strategy (NTS) set ambitious goals in terms of tourist arrivals, extended length of stay and increased spending per tourist. This has emerged from recognition of the power of tourism to transform the economy, rapidly increase employment, enterprise growth and incomes, and generate needed revenue for the government.

During the past three years, USAID has produced a clear direction for the future development of the industry that is shared by both the public and private sectors. Equally significant is the level of trust and true partnership that have recently emerged between the Ministry of Tourism and Antiquities (MOTA) and the private sector. Active work groups have been developed and they are currently implementing the four pillars of the NTS: Product Development and Competitiveness; Marketing; Human Resource Development; and, Institutional and Regulatory Reform.

USAID's recently awarded tourism program (Siyaha) is working to promote Jordan's competitiveness as an international tourism destination by establishing the proper institutional and regulatory framework that enables private-sector driven investment and development, and stimulates tourism growth while preserving national tourism assets and the overall environment. The program will also design a robust financial framework to encourage private investment, catalyze the development of comprehensive products and services across the tourism value chain, increase awareness among Jordanians about the importance of the sector in the economy, and position the industry as an employer of choice.

### **Business Development Services and Association Development**

USAID/Jordan has been actively engaged in building micro-finance institutions and providing business development services (BDS) to a range of entrepreneurs in Jordan over the last several years. Furthermore, a number of private sector associations have been created, nurtured and helped to become sustainable entities representing member interests. Since 1998, USAID has invested over \$40 million towards building a microfinance industry essentially from scratch. USAID's introduction of best practices, intensive training programs, and network and incentive systems has since then built an industry of four fully sustainable microfinance institutions (MFIs) with 31 branches across the country. MFI's continue to take part in a comprehensive, ongoing training program, which attracts participants from throughout the Middle East and North Africa, as well as Jordan.

USAID's business development services, through the recently ended Jordan United States Business Partnership Program (JUSBP) and through AMIR, aim to increase competitiveness, market outreach, sales and earnings, and employment in Jordanian private-sector firms, particularly small and medium-sized enterprises (SMEs). With USAID support, Jordan's continued integration into the global trade and investment network has resulted in marked expansion across the board. The number of companies registered in the Kingdom increased 19 percent after the 2003/04 slump and was further reinforced by an associated 42.5% jump in



capital registered by those new companies. Jordan experienced an 11% increase in foreign and domestic investment. Contributing significantly to this progress were USAID-supported advances in business registration, standardized procedures, and firm-level assistance that facilitated trade and investment.

Firm-level assistance is key to the growth that Jordan has experienced in the past few years, as it provides a forum for small and medium-sized firms to learn about international trade opportunities, meeting the demands of a dynamic and diversified labor force, better integration into backward and forward local and regional linkages, and policymaking that facilitates free market development. Expert volunteers have delivered a wide range of firm-level assistance to SMEs, including linkages between potential Jordanian exporters and U.S. importers, and public-private partnerships. Firm-level assistance contributed to over 42% of FTA trade. Assistance, previously provided through JUSBP, will now come from the Business Development Center (BDC), a Jordanian entity created to continue this work.

In addition, the USAID-supported NGO: Women's Access to Entrepreneurial Development and Training "WAEDAT" (Arabic for "Women with Potential") provides business development services to women-owned microenterprises, and the Turath program assists artisans and handicraft producers to grow their establishments through new business training, networking, and marketing channels.

USAID has also worked with over a dozen business associations in Jordan, to make them better public policy advocates and more efficient managers of their technology, finances, products, networks, and human resources. For example, members of the Jordan Olive Products Association and the Jordan Fruits & Vegetables Association, (local entrepreneurs and processors), have increased their exports to the United States and other countries by 30 percent over the last two years. Such institutional efforts have also made Jordan's regulatory bodies more responsive, and the private sector more participatory. The various USAID business development programs have reinforced Jordan's ability to withstand economic shocks by enhancing firm competitiveness, integrating rural development into national development, and strengthening representative and advocacy bodies for all sectors.

### **Preparing a More Competent Work Force**

To ensure that a better prepared work force exists in Jordan, EO has supported the Economic Opportunities for Jordanian Youth Program (INJAZ) over the last 7 years. The INJAZ Program works directly with students, 14-24 years old, providing leadership and entrepreneurial training

modeled on the U.S.'s Junior Achievement program. The project strengthens the capacity of young people and focuses on key issues pertaining to the contribution of youth to Jordanian society. INJAZ will graduate 40,000 students this year, with the help of 1,400 volunteer businesspeople who devote an hour every week over 10 weeks to teach INJAZ courses across the country in twenty universities and about one hundred high schools. To link job seekers with potential employers, INJAZ sponsors annual job fairs where businesses from across the nation participate. Counseling in curriculum vitae writing, interview techniques, and so forth are also part of these job fairs.

### **The Royal Society for the Conservation of Nature**

USAID/Jordan is providing funding to the Royal Society for the Conservation of Nature to expand eco-tourism infrastructure in Jordan. Two eco-lodges were constructed: one in Wadi Feynan, at the western edge of the Dana Nature Reserve, and the other in Azraq, at the Eastern Desert of Jordan. Moreover, nature-based socio-economic businesses were created around different nature reserves of Jordan, which resulted in job and income generation for the local residents. For example, the RSCN is now the 2<sup>nd</sup> largest employer in Azraq (the GOJ is No. 1 employer). Additionally, the USAID funded "Wild Jordan" center in Amman is the 'centerpiece' of the RSCN's socio-economic program where a large architecturally exciting facility serves as a sales venue for a variety of nature products being made by people living in and around Jordan's nature reserves. Wild Jordan also boasts a restaurant and frequently used work shop facilities.

### **Antiquities Preservation**

The American Center for Oriental Research (ACOR) is a private not-for-profit academic institution dedicated to promoting research and publications in the fields of archeology, anthropology, history, languages, biblical studies, Arabic, Islamic studies and other aspects of Near Eastern studies. Since its founding in 1968, ACOR has served as a liaison between Jordanian academic and governmental institutions, particularly the Department of Antiquities, and for international scholars working in Jordan. ACOR provides advice, coordination, equipment, research, library and living facilities as well as meeting space for scholars. ACOR is committed to research which focuses on all phases of Jordan's past and to the preservation of sites which are of particular significance to the varied cultural heritage. ACOR is committed to research which focuses on all phases of Jordan's past and to the preservation of sites which are of particular significance to the varied cultural heritage.

USAID/Jordan provided ACOR with an endowment, the revenue of which is used to excavate and restore different historical and archaeological sites in Jordan such as the Byzantine church

at Petra and the creation of an archaeological park in Madaba. These projects help to increase tourism, which is important to the Jordanian economy.

### **Broader USAID portfolio**

USAID/Jordan has a comprehensive portfolio working in a range of sectors that will be instrumental in helping to achieve broad-based economic growth. As a result of USAID's family planning programs, fertility rates are dropping although not quickly enough to reduce the number of new labor entrants in the next couple of decades. Health care in urban areas is good especially for those who can afford it; in fact Jordan is a medical tourism destination. In rural areas and smaller towns, public coverage is more unreliable and there is much room for improvement. There are few private health care providers. USAID/Jordan has invested a lot in improving water and waste water management in the country and will continue to do so for the foreseeable future.

USAID is a key player reforming the entire national education sector. Assistance provided has ensured that the curriculum has been revised at all levels, schools are being rehabilitated, modernized and improved facilities provided. This includes providing computers and linking schools to the internet. USAID has been assisting with the government's early child care initiative - working to create 100 public kindergartens, field-test curriculum, and develop an accreditation system in the next year. USAID is working with the Ministry of Education on school-to-work programs and developing an IT curriculum stream for high school students. USAID helped the Ministry of Education develop the Education Reform for a Knowledge Economy (ERfKE) Initiative.

USAID's democracy and governance program also is helping to widen political space in the country necessary for business associations and other non-governmental organizations to effectively lobby government and advocate for change. Modernizing the case flow system and judicial training will improve rule of law and ensure that commercial disputes are handled more rapidly and in a fair and transparent manner. A strong legal system is fundamental to attracting increased investment so these activities are key to the success of EO's programs.

The Results Framework (RF) utilized by the Office of Economic Opportunities to describe its program is shown at the end of this section. SABEQ will be expected to contribute to all three Intermediate Results (IRs) shown in the RF. In addition, the following program components are used in describing the program in the Congressional Budget Justification and the Annual Report:

- Expand and Improve Access to Economic and Social Infrastructure;
- Improve Economic Policy and the Business Environment;
- Improve Private Sector Competitiveness;
- Increase Trade and Investment;
- Strengthen Civil Society;
- Strengthen Public Sector Executive Function;
- Strengthen the Financial Services Sector and Increase Access to Capital; and
- Support Democratic Local Government and Decentralization.

The Performance Management Plan (PMP) is currently being revised and will be available by spring 2006.

#### **D. LESSONS LEARNED (FROM EO PROGRAMS)**

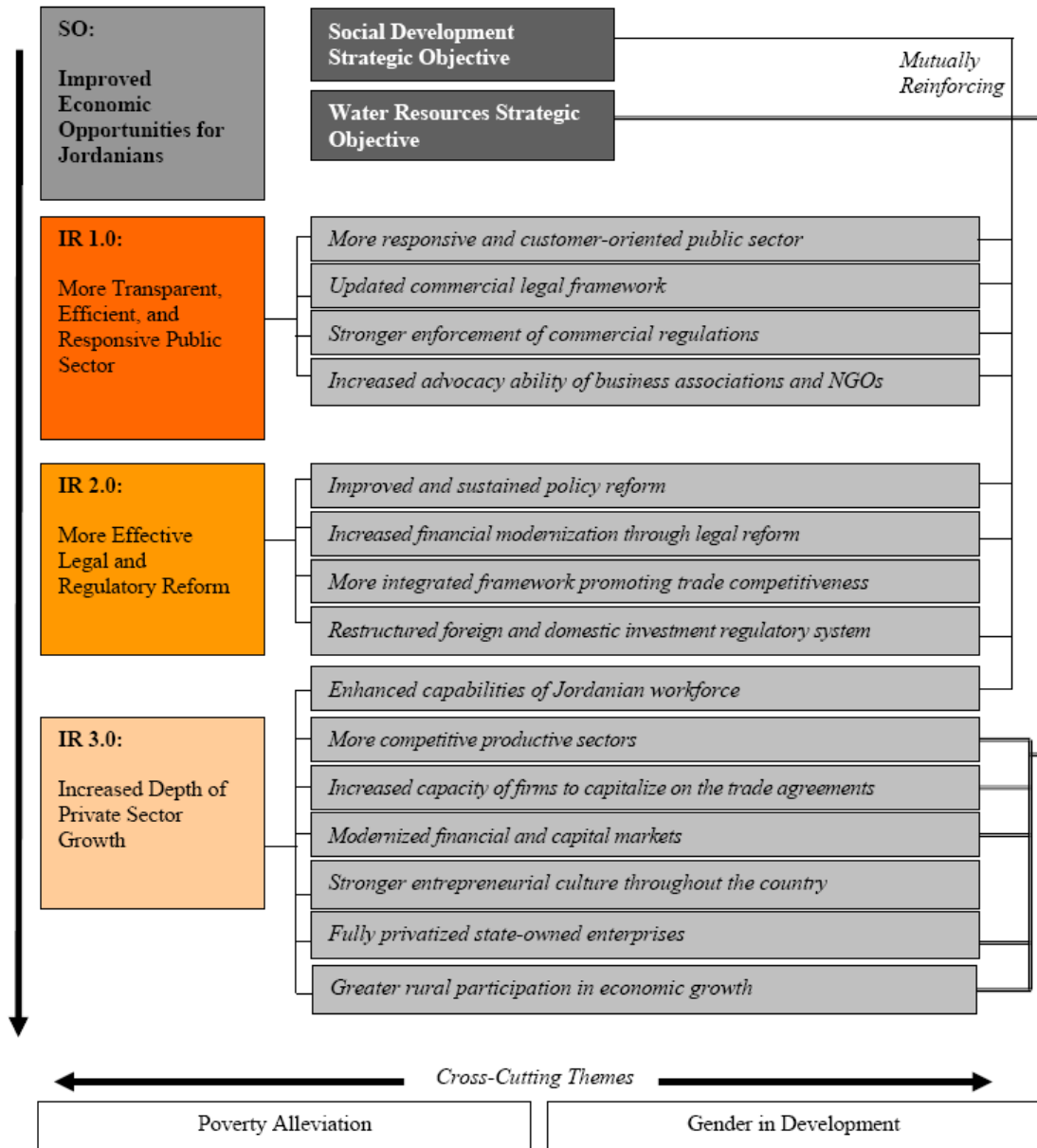
Over the past eight years of broad engagement by the EO Office with the GOJ in supporting economic reforms, there have been many lessons learned.

- It is of utmost importance to be responsive to GOJ requests for support as they develop given the political significance of the USAID program in Jordan. Given the fast pace of developments with GOJ and private sector counterparts, a program of this nature must be able to quickly provide consistently high quality technical assistance.
- USAID, as the primary provider of quality support to the GOJ and Jordanian private sector, must be engaged at all levels with all relevant players covering the economic development portfolio in Jordan. The perception of engagement is as important as the engagement itself. It is also essential that the assistance being provided be relevant to the context of the reforms that are being supported.
- Jordan is different. Any project implementer must be aware of this fact and be able to accommodate Jordanian specific requirements as they arise. While activities carried out in other countries might have similarities, the implementer will enjoy

greater access to decision makers and government officials than would normally be the case in a typical USAID project environment. This requires a special set of skills on the part of the contractor for the GOJ/USAID/Contractor relationship to be successful.

- There are many instances where activities have been initiated by USAID contractors working for the EO Office whereby, for whatever reason, these activities did not show the desired results within the time required. The contractor must be able to respond proactively to these situations in a manner that takes account of USAID's and the counterpart's requirements at that time.
- While it is important to always keep in mind that creating a strong competitive Jordan is the ultimate goal, it is critical that both USAID and the project implementation team remain flexible and creative and able to change tactics to achieve results and not simply stick to a pre-approved plan of action.
- Last, is the importance of good, timely communication between USAID and the project implementation team. For a program of the size and complexity of SABEQ, it is essential that USAID be apprised of all developments as they happen.

**Improved Economic Opportunities: Strategic Orientation**



## II. STATEMENT OF WORK

### A. OVERALL PROGRAM GOAL AND APPROACH

The recently released Jordan National Agenda (JNA) identifies 13 objectives of which four are of direct relevance to the Sustainable Achievement of Business Expansion and Quality (SABEQ). These are: “1) Jordan will develop a thriving economy, open to other regional and world markets; 2) The economy will absorb the growing inflow of Jordanian workers into the active population; 3) Jordan will have a financially stable, accountable and transparent Government administration, both centrally and locally; and 4) Jordan will enjoy a responsive, effective and well-run public sector.”

Some observers have suggested that the reform process in Jordan has stalled and the will to undertake the necessary systemic changes is lacking. The release of the National Agenda in early December that has been endorsed by the King suggests otherwise. Jordan has rightfully identified most of the key challenges facing the country and is proposing to accelerate the pace of reform. What is needed now is a reassessment of tactics or approaches to see what can be done to ensure that the required outcomes can be achieved. SABEQ therefore will build on lessons learned over the last several years but will also adopt new approaches as appropriate to the evolving situation.

Despite the significant level of economic reforms that have been carried out by the GOJ over the past several years, the in-depth reforms required to achieve the levels of efficiency to make Jordan truly globally competitive have not been achieved yet. To its credit, Jordan has embarked on a comprehensive public sector reform effort which should allow it to improve its service levels dramatically, but the required “change management” is still not taking place. Jordan’s ability to compete with regional economies like Dubai and emerging Qatar and Bahrain as well as global economies like Singapore and Ireland are dependent on substantial changes being made by both the public and private sectors.

### **Why Work with the Public Sector?**

As stated in the preamble of the World Bank's expression of interest for implementation of the GOJ's Public Sector Reform activity: *"Jordan's public administration has traditionally been regarded as one of the best in the region. It has a reasonably well-functioning civil service, and a strong nucleus of committed high-level civil servants. International comparisons on issues of governance reveal that Jordan ranks near the top of the list among the MENA countries in terms of overall governance effectiveness as well as individual categories such as 'voice and accountability', 'regulatory quality', and the rule of law.*

*However, these assets are underutilized due to the institutional liabilities of the system: regulatory rigidity, an abundance of red tape, weak policy coordination and programming capacity, and absence of a service culture, resulting in indifferent and ponderous service delivery and sub optimal resource allocation and use.*

*For example, household and firm surveys reveal that procedures for closing a business and firing workers are more cumbersome than in the rest of the region, that Jordan remains significantly less friendly to business and does worse on regulatory and corruption issues than many upper middle income countries it is seeking to emulate, such as Chile and Malaysia. It has also been evident that the quality of public service delivery and business regulation did not improve as significantly as expected in the past several years.*

*This situation is at odds with the ambitious development vision of the Kingdom which seeks to transform Jordan from a lower-middle income country into a dynamic knowledge economy. The economic quantum leap entailed by this vision requires a corresponding upgrading in the provision of public services, specifically in the field of human resources development, and in the area of regulation and policy making in support of private sector development."*

### **Why Work with the Private Sector?**

Jordan Vision 2020 is a comprehensive growth strategy for Jordan that aims to double the GDP per capita by 2020. Key elements of this strategy include advancing technology, promoting foreign direct investment, generating exports, and building a strong private sector. The current phase of the initiative, JV2020, focuses on developing sector-specific sub-strategies that enhance the overall national strategy and contribute to achieving Jordan's growth targets. Each sector is championed by one association, which will mobilize industry representatives and coordinate the development of a common vision for that sector's growth.



As noted previously, while there are some companies that are competing on the global scene, such as Petra Engineering, Siyam Radiators and others, most Jordanian businesses are small to medium-sized, family-owned and do not operate according to international best practices. This impedes their ability to grow, to retain employees and to market their products internationally. Furthermore, businesses are not used to cooperating and their associations do not function as service providers for business or as advocates for the sector.

### **Why Work with Both Together?**

Making Jordan competitive and creating large numbers of jobs will require a sea change in the attitude and performance of both the public and private sector. Given the massive nature of this task, the contractor will work closely with various ongoing public sector reform (PSR) related activities in the Kingdom to leverage whatever assistance is being offered the GOJ during the lifetime of the project. Programs in other countries and parts of the world have shown that one of the more effective ways to pressure government to make reforms is when there is a constant dialogue between the public and private sector by representatives of the sector and not just “well-connected business people”. Therefore, enabling and strengthening these interactions will be an important objective of the program. Furthermore, private investors are more likely to keep abreast of changing investment climates around the world and vote with their feet if a country does not keep up (i.e. Qualifying Industrial Zone [QIZ] owners).

### **Approach:**

To achieve these objectives and to address the issues identified in the previous section, SABEQ will work with both the public and private sectors to achieve two principle goals: 1) increasing the number of jobs available to Jordanians and 2) enhancing the competitiveness of Jordanian firms (ranging from micro through small, medium and large).

The SABEQ Program will have four main components as described below as well as cross-cutting activities and themes:

- Financial Integrity, Oversight, and Broadened Capital Markets;
  
- Expanded Trade and Investment;

- Removal of GOJ Constraints to Achieving Private Sector Competitiveness;
  
- Enhanced Productivity (Improved People/Improved Product).

A grants program will allow the contractor to provide funds to various organizations for internal strengthening/institution building as well as to support activities of deserving organizations that may have difficulty accessing funding otherwise. Each of the components will have a public outreach element whereby average Jordanians are provided information on how the various programs affect and improve their lives. A strong monitoring and evaluation and impact assessment unit will be created that will establish baselines, targets and measure results.

Many developing nations are discovering that being competitive in the global market-place requires safe-guarding the environment and/or using modern pollution prevention technologies, operating according to international labor standards (fair wage, etc.) and showing that there is no discrimination between male and female employees. In addition to being sensitive to the potential gender impacts of all activities and making efforts to promote women entrepreneurs and employees, SABEQ will also need to focus on environmental issues and whatever other issues the socially-conscious global consumer demands.

The design of SABEQ builds on the lessons learned through the implementation of USAID/Jordan's economic opportunities program during the period 1997-2005. Designed as a five-year program SABEQ will continue to play the economic growth "flagship" role of the ongoing AMIR Program. Nevertheless, there are significant changes in the expectations of the program and how it has been designed. SABEQ will address a wide range of economic growth, private sector development and public sector reform issues. Each component will include both public sector and private sector activities as well as interventions to bring the two together to expedite the reforms needed in the country. The program will interface with a diverse group of public, private and non-governmental (NGO) institutions and organizations. The primary Government of Jordan counterpart for the program will be the Ministry of Planning and International cooperation (MOPIC). There are numerous other government (Ministries of Industry and Trade, Information and Communication Technologies, Labor, Social Development, Higher Education, Central Bank of Jordan [CBB], among others), private sector and NGO partners who will be directly or indirectly involved with the program.

To achieve competitiveness, a systemic approach is required: developing whole markets for services, to maximize scale and outreach. Value Chains are excellent means to do so, as they examine the full range of activities required to bring a product or service from its conception to its end use in the local, regional and the global markets. The contractor is expected to target Jordan's most competitive sectors and provide a range of assistance to the related value chains, as well as working on a parallel basis to tackle any policy, legal or regulatory reform required.

Anticipated tasks and services to be accomplished by the contractor include:

- Technical assistance;
- Training;
- Strategic planning;
- Sector analyses and feasibility studies and policy briefs;
- Program support grants;
- Grants for S&T, R&D or product development/new design
- Public awareness and advocacy services;
- Study Tours;
- Public/Private Forums;
- Information and communications technology (ICT) solutions, including management information systems (MIS);
- Procurement of commodities and equipment;
- Program results monitoring, reporting and coordination.

Gender: A thorough gender assessment has not been undertaken for the proposed program. It is very clear that economic development activities have a differential impact on men and women and this needs to be taken into considerations as the implementation details for the program are developed. The contractor will be expected to review existing literature on gender and undertake appropriate field research in Jordan to identify the likely differential impact on men and women of the different program components. This study will be undertaken at the beginning of the program and these findings will subsequently be incorporated into the detailed design of all activities. Previous economic growth programs in Jordan have been able to target

women where appropriate and this may be the case for SABEQ as well. Efforts will be made to recruit women if new positions are created in government, to promote them and to ensure they receive equal access to training opportunities. USAID's overall requirement that data collection be disaggregated by gender, where feasible, will be adhered to by the contractor.

**Environment:** Much of the assistance provided under the program is likely to have no environmental impact. Nevertheless, depending on which sectors are selected for detailed support, there could be potentially adverse impacts. The contractor will be required to conform to all applicable USAID regulations including undertaking appropriate analyses and necessary mitigation measures. It will be especially important for Jordanian decision-makers to have a better understanding of short-term benefits versus longer term negative environmental impacts of certain investment decisions. In addition, Jordan must become compliant with the various international treaties to which it is signatory.

The contractor shall design and manage an integrated economic growth program and take advantage of opportunities for synergy and linkages among all the program components. While all USAID's portfolio in Jordan can be considered supportive of SABEQ, certain activities provide excellent opportunities to develop strong synergies. For instance, SABEQ may be able to help the tourism project SIYAHA with improved product design or marketing of handicrafts. The BDC offers services to SMEs in the SABEQ priority sectors and coordination and cooperation between the two projects will be required. Lessons learned from the AZEM program on streamlining government functions in Aqaba could be incorporated into SABEQ. Potential linkages with USAID's Education program should be explored to increase the competency of Jordan's future labor force.

There may be activities that SABEQ undertakes that can be complimentary to other judicial and municipal reform activities or help strengthen civil society. Water is probably the nation's most controversial resource, yet the nation's industrialists and manufacturers have remained peripheral to supply and pricing debates. SABEQ needs to facilitate such engagement and coordinate with USAID's water program. Lastly, many First World buyers prefer goods produced in an environmentally friendly manner. Therefore, industry should use resources sustainably, adopt pollution prevention techniques and so forth, all of which SABEQ can facilitate. Further, Jordan is still not compliant with all the Environmental requirements of many international treaties and they may need TA to become so.

## **B. Financial Integrity, Oversight, and Broadened Capital Markets**

The objective of the Financial Integrity, Oversight and Broadened Capital Markets Component is 1) to strengthen the Central Bank of Jordan's (CBJ) capacity to provide financial oversight over the banking system in Jordan, 2) to assist the CBJ to establish a strong Financial Intelligence Unit (FIU) that is in conformance with international best practice as determined by the international Financial Action Task Force (FATF); 3) to provide incentives and assistance to the commercial banking sector to increase the level of credit available to Small and Medium Enterprises (SMEs); and 4) to establish a secondary bond market in Jordan. Assistance in the micro-enterprise sector will be considered as appropriate to meet objectives of this contract.

## **Background**

Central Bank of Jordan: Bank Supervisory Role: The Central Bank of Jordan (CBJ) has taken significant strides in recent months to tighten banking supervision in the country. Banking oversight has been tightened over the past few years with the restructuring of a bank that had faced financial distress for over a decade. In light of the Office of the Controller of the Currency's (OCC) fines imposed on Arab Bank Plc. During 2005, it has also become clear to CBJ and the Jordanian banking community that better procedures are required for oversight of money transfers in the region.

Money Laundering and Anti-terrorism: Since 9/11 the importance of prevention of money laundering activities has increased significantly, especially in the Middle East. Historically money transfers were relatively unregulated globally and regionally. Recent history indicates that this laissez-faire approach to financial supervision is dangerous. As such, and in recognition of the vital importance of taking action to combat the financing of terrorism, the Financial Action Task Force (FATF) has agreed to the following nine recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts. The CBJ has signaled its willingness to adopt these recommendations and has requested assistance to do so.

*I. Ratification and implementation of UN instruments:* Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism. Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

*II. Criminalizing the financing of terrorism and associated money laundering*

Each country should criminalize the financing of terrorism, terrorist acts and terrorist organizations. Countries should ensure that such offences are designated as money laundering predicate offences.

*III. Freezing and confiscating terrorist assets:* Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organizations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts. Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations.

*IV. Reporting suspicious transactions related to terrorism:* If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organizations, they should be required to report promptly their suspicions to the competent authorities.

*V. International co-operation:* Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organizations. Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organizations, and should have procedures in place to extradite, where possible, such individuals.

*VI. Alternative remittance:* Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

*VII. Wire transfers:* Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information

should remain with the transfer or related message through the payment chain. Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information

*VIII. Non-profit organizations:* Countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organizations are particularly vulnerable, and countries should ensure that they cannot be misused by terrorist organizations posing as legitimate entities; to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

*IX. Cash couriers:* Countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration system or other disclosure obligation. Countries should ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing or money laundering, or that are falsely declared or disclosed. Countries should ensure that effective, proportionate and dissuasive sanctions are available to deal with persons who make false declaration(s) or disclosure(s). In cases where the currency or bearer negotiable instruments are related to terrorist financing or money laundering, countries should also adopt measures, including legislative ones.

Banks and Financial Markets: Jordan, like many developing countries, is suffering from the “missing middle”. Low-volume of lending to SME’s in Jordan is not primarily due to a lack of funds in the banking sector. Banks in Jordan generally lend only a modest portion of their total deposits to SME’s, while a large percentage of their deposits remain in liquid assets such as cash positions, inter-bank loans, central bank debt or short-term government securities. For example, U.S. banks keep roughly 6% of their total deposits in liquid assets and the bulk of their capital is used for non-sovereign loans. By contrast, many banks in Jordan maintain 50% or more of their total deposits in liquid assets and provide minimal credit to the private sector. The liquidity within the banking system in Jordan amounts to a significant percentage of GDP. This represents a massive failure of the financial system to allocate capital to its most productive uses.

There are a number of reasons for the failure of banks in Jordan to lend a higher percentage of deposits to SME’s and entrepreneurs. Due to heightened macroeconomic risk and volatility, it is prudent for banks in Jordan to keep a high percentage of deposits in liquid assets. The likelihood of a run on the bank or an economic crisis that triggers a wave of defaults is greater

and banks sensibly maintain substantial liquid assets so that they can withstand a sizable withdrawal of deposits and maintain solvency during periods of economic turmoil. The CBJ also imposes higher reserve requirements due to this heightened macroeconomic risk and volatility. Nevertheless, banks often maintain reserves well in excess of the required amounts.

Other reasons why banks in Jordan maintain excess reserves and do not lend more to SME's are outlined below. First, the legal and judicial environment is lacking. It is very arduous to enforce contracts in Jordan. The process is time-consuming and costly and the outcome is not always assured. As a result, lenders are not confident they can get repaid if the borrower defaults. To help ensure that the borrower will repay, lenders impose very high collateral requirements which borrowers often cannot satisfy. Second, the government runs large deficits which drives up interest rates and crowds-out local investment. Banks are able to make a good profit taking in deposits and using them to purchase government securities, so they are less inclined to search for lending opportunities with entrepreneurs and private firms. Third, banks have great difficulty ascertaining which borrowers are good credit risks due to a high degree of asymmetric information. Banks do not know nearly as much about a borrower's operations and likelihood of repayment as the borrower knows. Banks lack reliable information and data about borrowers. There is an absence of accurate financial statements and financial records that can demonstrate that a borrower has been earning enough revenue to repay a loan. There is no credit bureau that provides lenders with the credit history of prospective borrowers and whether they have repaid prior debts. Fourth, bankers lack experience lending to SME's and this hinders financial intermediation. Many banks in Jordan have not developed adequate skills for analyzing credit risk in certain sectors and conducting cash-flow analysis.

A corporate bond market is also lacking in Jordan. Corporate bonds are issued periodically, but there is no significant secondary market for them, as banks choose to hold them to maturity due to the dearth of investment opportunities available in securities outside of ordinary share trading.

USAID's support has enable four micro-finance institutions to become sustainable. Nevertheless, much remains to expand this sector and prompt Jordanian banks to offer appropriate products for micro-entrepreneurs. Not least of all is a regulatory environment that precludes MFIs from holding member savings. To ensure that the sector continues to move toward sustainability may require legal reforms and changing the mind-set of commercial banks and public officials.

#### **Technical Approach:**



expected results listed below. The contractor is encouraged to be creative in developing the assistance required to meet these results. The contractor shall provide short- and long-term technical assistance (ST TA, LT TA), commodities, automation of systems or upgrading of computer as required, training, study tours and site visits to other model countries to observe best practices. The contractor shall provide back-up support to the GOJ if the U.S. Treasury Department assigns a staff person to work on the FIU program.

Support is required to help the CBJ in meeting FATF requirements for Anti-Money Laundering. Specifically, this assistance should focus on the strengthening of the CBJ's Financial Intelligence Unit (FIU). The implementation of this activity will take on greater significance with the passage of the Anti-Money Laundering Law currently awaiting ratification by the Jordanian Parliament. The contractor will work with the capital markets institutions, relevant GOJ institutions, parastatals and the private sector to facilitate the expansion of investment options in Jordanian securities. This will be accompanied by technical assistance to the Jordan Securities Commission, the Amman Stock Exchange and the Securities Depository Center to better regulate and implement the trading of securities in Jordan. TA to improve the environment for MFIs and perhaps judicious use of the Development Credit Authority mechanism is also needed.

**Illustrative Results:**

The Financial Intelligence Unit (FIU) at the Central Bank of Jordan (CBJ) will be fully operational by the end of year 2 with systems, procedures and staff capable of complying with the FATF guidelines.

Through the FIU's outreach program, other GOJ and non-governmental institutions that have a role in meeting the FATF guidelines will have the capacity in place to conform.

Policies, procedures and regulations required for full implementation of the Anti-Money Laundering Law (expected to pass Parliament in spring 2006) will be in place.

Any additional legislation needed for Jordan to become a model country in the area of financial integrity, money laundering and anti-terrorism will be passed.

At least two Jordanian banks will be Basle II compliant.

All supervision functions at the CBJ will be automated and staff trained.

The CBJ will have integrated all IT systems for its internal and external functions.

Debt management activities between the CBJ and the MoF will be coordinated.

Credit Bureau established and operational

Banks' SME lending portfolio will be at least 10% of the entire loan portfolio of the banks.

At least 10% of active securities trading on the secondary market will be fixed income securities.

Jordanian Microfinance Institutions will be actively borrowing from private banks to on-lend through their own branch networks.

MFI loans will equal at least 5% of total private sector loan portfolio of banks in Jordan

### **C. Expanded Trade and Investment**

The objective of the Expanded Trade and Investment Component is: 1) to reduce the trade deficit between Jordan and the rest of the world in general, 2) to even out the trade surplus with the United States; 3) to promote greater trade between Jordan and Israel, 4) to promote increased domestic and Foreign Direct investment in productive sectors; and 5) to rationalize the Government of Jordan's role as a facilitator and regulator of trade and investment.

Assistance at both the government level with agencies responsible for trade and investment i.e. those falling under the JAED structure, as well as with the private sector will be considered to meet the overall objectives of the Economic Opportunities Office.

### **Background**

Jordan's trade balance has been deteriorating over the past few years as a result of increased petroleum prices, expanded retail consumption and slower merchandise export growth as compared to imports. This has resulted in a surge in the current account deficit to \$1 billion by the first half of 2005. Additionally, countries in the Gulf have invested heavily in real estate development projects, which together with privatization, has boosted foreign direct investment (FDI). In the first half of 2005, inflows were \$448 million, an increase of 8.2 percent compared with the same period the year before. Portfolio equity has also surged and in the first nine months net investment by non-Jordanians rose to \$648 million. This suggests that for the year as a whole net equity investment (direct and portfolio combined) may be close to a record \$1.7 billion, which would be the equivalent of about 13 percent of GDP.

Despite the good news on investment during 2005 there is a concern that much of the FDI coming from the Gulf is being channeled into non-productive sectors such as construction. Jordan faces the daunting task of converting more of the increased levels of FDI into competitive sectors with high employment potential. There exists an array of such sectors such as ICT, pharmaceuticals, Dead Sea products, higher-end garments, among others, beyond the traditional mining sector.

Jordan has carried out many reforms over the past few years in trade and investment policy, but has not yet institutionalized these reforms. The National Agenda has detailed many of the requirements as part of the restructuring of the various current trade and investment organizations into the Jordan Authority for Enterprise Development (JAED), the Jordan Investment Board (JIB), the Jordan Investment Development Corporation (JEDCO) and the newly combined Jordan Industrial Estates Corporation/Free Zone Corporation (JIEC/FZC). It will take significant effort to implement these reforms properly. However, if Jordan is to achieve the levels of economic growth it needs to fully employ the growing labor force, at least JD2 billion of investment is needed annually according to the Jordan Vision 2020. Thus, Jordan has to adopt global standards in trade policy liberalization as well as establish a globally competitive investment environment.

The private sector has slowly been stepping up to the plate to engage in government policy-making and to take a more strategic look at what it takes to be competitive. In April 1999, 30 representatives from 16 of Jordan's private sector organizations participated in a conceptual meeting to launch Jordan Vision 2020, a planning initiative to achieve a unified private-sector strategy to guide Jordan's economic growth into the 21st century. These individuals were motivated by the realization that the private sector, not government is the true enabler of economic growth. This was the first time that the private sector involved itself in macroeconomic planning. The coalition expanded to twenty seven business associations in 2000. JV2020 Phase II takes JV2020 from macroeconomic strategy into implementation. Various business associations have been involved in creating sector strategies that aim at

translating the goals of JV 2020 into sustainable growth. The only way this is possible is through increasing exports and attracting investment. The methodology behind developing the sector strategies involves gathering pertinent information. From this information pool, sector focus group meetings, company surveys, and desk research, and from previous studies, the sector champions are able to assess the most pressing issues pertaining to the economy and the changes necessary to be advocated.

A conducive legal and regulatory environment may not be sufficient to increase investment to the levels needed. In addition, an improved, more efficient justice system is required. USAID's program for judicial reform will be important for the success of SABEQ.

### **Technical Approach:**

The contractor shall design and implement trade and investment activities to achieve the results listed below. The contractor shall to provide short- and long-term technical assistance (ST-TA, LT-TA), automation of systems or upgrading of computer as required, training, study tours and site visits to other model countries to observe best practices. Creativity in the design of this component is encouraged to speed up achievement of results.

The Ministry of Industry and Trade and its various divisions and subsidiaries require support to expand the development of liberal trade and investment policies and procedures. These include the Trade Agreements and Industrial Development Directorates in the Ministry of Industry and Trade as well as JAED, JIB, JEDCO, and the merged JIEC/FZC. Extensive TA and training will be required to support the implementation of the restructuring and improve the capacity of the staff in these institutions. The inherent protectionist tendencies of the GOJ need to be dealt with or Jordan will never be able to compete globally. Furthermore, the cost of doing business in Jordan remains way too high and is way too time consuming. An objective of SABEQ will be to move Jordan quickly toward global standards of simplicity for registering a business and meeting licensing requirements by eradicating unnecessary red tape.

Jordan's accession to the WTO in 2000 was a landmark and positive proof that the GOJ was willing to push through some major reforms and become a player on the world trade stage. Nevertheless, there are a range of subsidiary implementation actions that need to be taken to be wholly WTO compliant. Jordan seems to be dragging its feet in moving this process forward. The contractor will need to identify required actions and provide the necessary support to speed up implementation. In some cases, this may require policy briefs for Parliament or the public

where vested interests are at stake. Additionally, Jordan's trade with Israel has dropped in 2005 as a result of the gradual conversion of Jordanian garment manufacturers from the QIZ regime to the FTA regime. While this is an understandable development, there are many other products that can benefit from Israeli inputs such as IT, agricultural products, and many others. The contractor will support the GOJ in identifying opportunities for greater cross border trade with Israel and work with the private sector on their implementation.

The GOJ has streamlined and made more transparent its procurement procedures. Jordan is not, however a signatory to the Government Procurement Agreement (GPA). Its purpose is to open up government procurement to international competition. It is designed to make laws, regulations, procedures and practices regarding government procurement more transparent and to ensure they do not unduly favor domestic products or suppliers, or discriminate against foreign products or suppliers. Industries in signatory countries can bid on government contracts issued by member countries. Jordan had declared its intent to sign the GPA several years ago in a bid to be the first developing country to do so. However, negotiations for the multilateral GPA have been stalled in Geneva for several years although the current Minister of Trade and Industry and some private sector companies are in favor of moving it forward. Once the multilateral GPA is signed then Jordan can negotiate a bilateral GPA with the U.S. that would enable Jordanian firms to bid on potentially lucrative U.S. government tenders that they presently are losing out on due to the "Buy America" rules. Again, TA and an awareness campaign for the private sector, Cabinet and Parliament of the positive benefits of signing the GPA will be needed.

Jordan made many amendments to its IPR regime in the run up to WTO Accession and the FTA with the US. Much still has to be done with regard to bringing the implementation of the legislation to global standards. Jordan's enforcement of IPR laws and regulations has been lacking. Pirated products are still widely available in the public markets in Jordan. The National Library, which is entrusted with copyright enforcement, is overwhelmed by the volume of infringement prevalent in the market. They will require extensive support to overcome the insufficient resources allocated to them. Additionally, there are many trademark and patent violations occurring in Jordan. The Industrial Property Protection Directorate at the Ministry of Industry and Trade, which acts as Jordan's Patent Office, also requires much assistance to maintain proper records. The Jordan Institute of Standards and Metrology (JISM) has also been entrusted with enforcing patent violations and will require assistance in this regard. Finally, the Jordan Food and Drug Administration is facing new IPR issues regarding pharmaceuticals and will require assistance in this area.

On the private sector side, the JV2020 process will continue to need support since the concept of companies working collaboratively to promote their sector is still new to Jordan. The strategic plans being developed by various associations make use of international best practice and

conceptual tools for strategic planning. Moreover, the sector strategies aim at providing specific, measurable, achievable, resource oriented and time bound results. The next step will be to help associations implement these strategies effectively.

Within and outside Jordan, goods produced locally are considered to be of inferior quality with a limited number of exceptions. A “Buy Jordanian” campaign to raise awareness of the quality and diversity of Jordanian products could change this attitude. This would need to be coupled with support to develop higher productivity and standards for Jordanian products. There is also a lack of understanding of international best practices to impose safety and other standards on products sold in Jordan. This applies to the public and private sector organizations such as JISM as well as the Consumer Protection Society all of which are in need of technical assistance and training.

#### **Illustrative Results:**

- Increased trade between USA and Jordan under the FTA. The ongoing substitution of trade from QIZ to FTA will allow for achieving this expected result. The contractor is expected to help spur this substitution by focusing on non-traditional exports to the US.
- Increased trade between Israel and Jordan. There is great potential for expanded trade between Jordan and Israel. The contractor’s activities will help increase this trade by promoting *open* trade exchanges between the two countries.
- Increased domestic investment in productive sectors
- Increased foreign direct investment in productive sectors
- Jordan becomes a signatory to the WTO’s Agreement on Government Procurement (GPA).
- Bilateral GPA with USA signed.
- Rationalization of GOJ role as facilitator and regulator of trade and investment.
- Increased Exports to non-traditional markets.

#### **D. Removal of GOJ Constraints to Achieving Private Sector Competitiveness:**

The objective of the Removal of GOJ Constraints to Achieving Private Sector Competitiveness Component is to deepen and consolidate the reform process within the Government by reducing or eliminating all unnecessary bureaucracy and red-tape. This may require legislative and policy changes, capacity strengthening of public officials and assisting the private sector to more effectively interface with government. Responsiveness and improved service delivery will be measurable within the ministries assisted by the program as part of the National Agenda's efforts to improve the public sector. There is considerable overlap between the Trade and Investment component and this one and the contractor will need to take this into account when structuring its management team and when designing activities.

**Background:**

The past 10 years have witnessed dramatic change in the economic philosophies of many countries – including Jordan – with a broad consensus emerging about the positive role of private sector led growth. Yet while Jordan has implemented macroeconomic reforms and has created a legal framework for simplifying procedures for foreign direct investment (FDI); in many instances, the continued existence of red tape has been a major disappointment. One major reason for this has been the lack of focus on issues of governance, including administrative and procedural barriers to private sector development, conflicts between laws, inadequate or inappropriate regulations, and inefficient bureaucratic structures. In isolation, administrative and procedural constraints may seem to be mere nuisances, but taken as a whole they can become overwhelming, thereby deterring formalization of economic activity and raising the cost of doing business.

USAID has been working with the GOJ over the past few years to improve public sector services and the investment climate by identifying and removing critical constraints to business start-up and growth. Through the AMIR Program's investor roadmap activity, USAID carried out a diagnostic to analyze and document the procedures that govern investment in Jordan, detail the impediments observed, and craft specific recommendations for change. The Roadmap's initial analysis was based on feedback from the private sector, a comparison of procedures to international best practice, and any other relevant data. The second phase involved programming specific implementation activities designed to streamline bureaucracy and improve service delivery for investors.

As noted elsewhere, GOJ officials at the highest levels support an economic reform agenda and liberalization, but these attitudes have not necessarily filtered down to lower echelons. Almost all ministries have serious capacity constraints that make it difficult to rapidly remove the various government impediments to private sector competitiveness. There is an urgent need to reduce the number of laws and regulations and streamline procedures and processes. Development of

ways of doing business through greater use of ICTs is required. Government officials need to develop a “service” mentality and serve as “enablers” rather than as “nay sayers”. Government needs to improve its analytical capacity to assist the private sector and to measure improvements in the economy. There may be a need for ministries that did not work much together in the past to join forces to tackle structural problems.

At the same time, the private sector needs to develop more of a voice. To achieve this will require that businesses see each other not just as competitors but as allies in lobbying government for reform. Business and professional associations need to have a better understanding of the issues that affect them and how to put pressure on government to deregulate, simplify and facilitate investment.

### **Technical Approach:**

SABEQ will expand implementation of activities targeting removal of bureaucratic hurdles based on the type of problems to be addressed. For example, in some instances a procedure may require business process reengineering and the participation of several agencies in a facilitated change management intervention. In other cases, bylaws and legislation may be drafted or process guides are created. In still others technical assistance will lead to introducing e-government solutions or training government staff in technical areas such as implementation of risk-based systems or investment promotion. As such, SABEQ will be a catalyst for meaningful change.

The contractor will provide technical assistance, commodities and training to achieve the results identified below. The contractor is encouraged to be creative in developing the assistance required to meet these results. Some of the following activities may need to be undertaken: Business Process Reengineering; Jacob’s “Regulatory Guillotine; Civil servant training; introduction and expansion of E-government services; association strengthening; public-private forums; improving the analytical and data gathering capacity of government combined with development of policy briefs. Not all activities can be identified in advance and the contractor will need to be flexible enough to change course and work with different ministries as the need arises and new constraints are identified.

Business people in Jordan routinely say that things have gotten better than in years past, but equally as often cite excessive bureaucracy and regulatory deficiencies as hindering business. Areas of concern that have been expressed are described below and SABEQ will be expected to address them in order to achieve the results expected.



- A surprising number of entrepreneurs stated that basic, accurate, and current process information is still hard to find in Jordan. While some agencies are good at disseminating information, including through well designed websites, there is no single information center or web portal where the whole process of starting up and operating a business is laid bare, including sectoral licensing requirements. Government websites are not consistently updated, and one can find different procedural information on different sites, in part because some agencies do not seem to maintain and update their sites as often as they should. There are examples of greatly improved information dissemination, however. For example, there is a consensus among investors that the Qualified Industrial Zones (QIZ) procedures are clear and easy to comprehend, and staff within the MIT has been cited as capable at explaining how the program works.
- In addition, keeping track of changes in Jordan's laws and regulations is difficult. Further, government regulators infrequently explain procedures and requirements adequately and comprehensively. While many government workers are able to explain the procedures directly administered by their department, they are not good at offering guidance for related procedures or knowing about additional requirements, thus increasing the time and cost of becoming operational.
- Foreign investors and their local facilitators complain that too few forms and laws are available in languages other than Arabic. This can be problematic because investors are not comfortable signing forms in a language that they do not understand. This in turn increases the necessity that foreign investors rely on local facilitators, further pushing up costs.
- Improved information dissemination will not solve all problems. In some cases, agencies disagree with one another about how a multi-agency procedure should be implemented. In such instances, multi-agency process re-engineering may be required prior to introducing an e-government platform or producing an informational guide to ensure that regulators will agree on how a given process should be administered. In many cases additional internal training may be required to ensure that all regulators understand how to explain and administer a given procedure.
- Many business people and outsider observers (WEF, World Bank, etc.) feel that government regulation in Jordan is too intrusive, unnecessarily limiting the choice of the private sector. For example, minimum capital requirements prohibit some investors from

working in a given sector, and Civil Defense regulations are interpreted to specify what type of equipment a company may purchase. Some government officials concede that antiquated and overly intrusive legislation remains in force. Government needs to review legislation that is detrimental to doing business and ensure that it adapts to the needs of business and the citizenry.

- There remains significant distrust between the public sector and the private sector in Jordan. Government officials often talk about businesspeople deliberately attempting to circumvent the rules. There is a widespread perception within the private sector that the frontline civil servants lack sufficient instruction as to the limits of their authority and often exceed it for no valid reason. Many entrepreneurs state that mid and low-level civil servants interpret the laws and regulations with too much variance. Although discretionary decision-making is decreasing, it can still cause conflicts. Finally, when a business person faces a problem or requests additional guidance, many say that lower and mid-level public officials can be unresponsive.
- While mid-level civil servants are criticized by the private sector, the business community generally applauds the top decision-makers in government. Some observers suggest that positive changes made at the policy level do not filter down to the middle and junior-level civil servants. Investors suggest that cultural and management change within government agencies is required before the Jordanian government becomes truly facilitative of the private sector.
- In addition, routine decision-making power is overly concentrated in the hands of Ministers. Many decisions that could be made at the level of a Minister's deputies in accordance with clear and unambiguous guidelines require the personal approval of a Minister. This causes undue delays and leads to many decisions being made arbitrarily without reference to clear rules. Furthermore, personal relationships can make a big difference in the way an investor is treated while completing a given regulatory interaction. This perception seems to be especially strong among SMEs. Some public officials and facilitators also note that in instances where a businessperson and a civil servant will disagree about a procedure, many officials are afraid to be seen as being helpful to particular investors because of fears that they will be accused of favoritism or corruption.
- Investors, on the other hand, are prone to seeking favors and exemptions for themselves in order to be profitable, rather than banding together with competitors to demand an overhaul of the entire system and push for regulatory and procedural simplification that

would level the playing field and benefit everyone. Therein, the need to continue to provide support to Jordan 2020 and business associations so that they become more effective representatives of their members' interests. Jordan needs to establish regular and productive engagement between the public and private sectors so that the changes required take place.

- Customs remains a major impediment to improving competitiveness in Jordan. Rent-seeking still continues, there are inefficiencies due to antiquated procedures and incentive schemes that promote much higher inspection rates than are done with modern risk assessment methods. National customs and ASEZA customs still have not put in place an efficient system and investors complain bitterly about the delays both importing and exporting goods.
- Although there has been progress, there remains too much overlap among licensing authorities. In many cases, one agency will approve of a project while another one with a similar mandate will not. This overlap is particularly evident among agencies responsible for monitoring environmental and health issues, including the municipalities, Ministry of the Environment, and Ministries of Agriculture, Health, and Water and Irrigation.
- Finally, the Parliament, other government ministries and the public do not realize the benefits of a liberalized business environment. Efforts need to be made to inform and educate the public and other officials on the positive implications of reducing bureaucratic red tape.

#### **Illustrative Results:**

- Reduced cost of establishing businesses
- Speeded up and streamlined business licensing processes (reduced time and cost)
- Reduced number of laws/regulations related to doing business
- WEF Competitiveness Rank at 20 or better
- Increased number of foreign direct and local investors in productive sectors
- Collective private sector more effective at lobbying the government
- Reformed, efficient Customs

- Reduced time to move goods through the port in Aqaba.
- Public Perception of services offered by assisted ministries improved.

#### **E. Enhanced Productivity (Improved Product/Improved People)**

The objective of the Enhanced Productivity Component is to improve the ability of Jordan's private sector to be competitive in the global economy while increasing the number of jobs available for Jordanians. While the focus here is on the private sector, some assistance to government institutions that support the private sector may be provided such as to the revamped Jordan Enterprise Development Corporation (JEDCO), to Vocational Training Centers (VTCs), the Competitiveness Observatory, and others as appropriate. A limited number of sectors with high potential for job creation will be the focus of the component and value chain analyses will be used to identify the constraints and solutions required to make these sectors competitive. The objective is to model approaches that can be picked up by other sectors over the longer term such as adopting modern management practices, investing more in research and development, having strategic plans for improving products and for accessing new markets and so forth.

#### **Background:**

Jordan has one of the highest growth rates in working-age population (averaging over 4 percent a year from 1994 to 2000) in the MENA region. Job growth, although substantial (3¾ percent a year), has not kept up. Still, unemployment rates have fallen over the decade, from 19.7 percent in 1993 to 15.7 percent in 2005, because of migration of skilled labor to countries of the Gulf Cooperation Council and a decline in domestic labor market participation rates, particularly for men, which may have reflected the withdrawal of unemployed workers from the labor force in the face of inadequate job opportunities. Discouraged workers who have left the labor force are estimated at nearly four percent of the labor force. Low-productivity jobs appear to have led job growth, as reflected in the fact that labor productivity (output per employed person) fell during the 1990s and that nearly 6 percent of the workforce is reported to be underemployed.

The private sector is not highly competitive in Jordan due to many factors which include: 1) a fragmented investment support framework, 2) difficult access to financing, and 3) an unfavorable taxation structure. USAID's Fiscal Sector Reform Project will be improving the tax system and other components of SABEQ are expected to assist in the first two areas. Other factors limiting the competitiveness of Jordan's private sector are noted below. Expensive infrastructure, and low labor productivity are partially driven by the relatively low education level

of the workforce and lack of human resource management. The minimum wage is low and most compensation packages are inadequate to motivate laborers to work. The vocational training system is inadequate and needs a complete overhaul so that its graduates emerge with skills required by the private sector.

The evolution of labor productivity provides insight into the relationship between GDP and employment. Labor productivity (measured as GDP per person employed) grew relatively slowly in Jordan (1 percent a year on average) compared with other regions of the world. Low productivity growth, in turn, limits the potential for real wage growth (an increase in wages after accounting for inflation). Indeed, the evidence shows that real wages in the manufacturing sector declined in Jordan during the 1990s. The weak labor productivity growth appears to have resulted from both a slowdown in the rate of capital accumulation and weak growth in total factor productivity (productivity gains from a more efficient use of capital and labor and from technological progress).

The weakness of productivity growth during the 1990s is particularly striking in light of the gains made in educational achievement in Jordan. Although countries in the Middle East and North Africa still lag behind many developing countries in Asia and Latin America in terms of educational achievement, particularly with respect to women, they have made impressive strides since 1975. The average number of years of education completed by adults 15 years of age and older in Jordan more than doubled between 1975 and 2000, compared with an average increase of only about 50 percent for other developing countries. But, contrary to expectations, the return (in terms of productivity gains) on this investment in education appears to have been relatively low in Jordan. Part of the reason lies in a mismatch between the skills required in the modern job market and those provided by the education system. The attractiveness of public sector jobs has also contributed to this mismatch by encouraging students to specialize in fields that give them access to a government job but have limited appeal to potential private sector employers.

The continued strength of government job creation, where measured productivity gains tend to be lower, may also have been a reason for the slow growth of overall labor productivity. Indeed, Jordan has had a very low rate of labor productivity growth while maintaining a large share of government employment. The large public sector probably also affected GDP growth, as public employment had to be financed by higher taxes, cuts in other (more productive) spending, and larger deficits.

While FDI has started to pick up in Jordan, there is insufficient stimulus of the small and medium enterprise (SME) sector especially in developing greater backward and forward linkages between the growing number of large corporations in Jordan with SME's. Additionally, many Jordanian SME's are family owned enterprises driven by motivations other than profit maximization which may account for why this sector has historically underperformed. Many of the deficiencies identified in the above narrative are amplified by the inherent weaknesses evident in the SME sector. Lack of basic management skills, absence of a vibrant base of efficient and productive SME's, lack of investment into R&D, lack of interest in meeting global

standards for product design and packaging, and the lack of vision on the part of the family-centered owners of SME's in Jordan have been some of the reasons for the weak productivity figures for the country.

### **Technical Approach:**

This component will require the contractor to use a range of innovative approaches to stimulate the private sector. Technical assistance, training, commodities and trips to appropriate trade shows will be provided. A fund to support cutting-edge research or product development will be established. Global Development Alliances (GDA) where USAID will leverage private sector investments will be established. If appropriate, the Development Credit Authority (DCA) may also be used to improve the competitiveness of Jordanian firms.

Over the last several years a number of studies have been undertaken to identify sectors where Jordan is most likely to be competitive. This includes the "2004-2006 Export Strategy" conducted by the AMIR Program for the Jordan Authority for Enterprise Development (JAED) which identified products to be promoted and exported in different international markets. The National Agenda has identified specific sectors for short and medium term development while the Vision 2020 program has also made recommendations. The National Agenda recommends focusing on export-oriented industries that are most likely to drive economic growth. According to it, apparel and tourism (food and lodging) should continue to be promoted—the latter is being addressed by SIYAHA, USAID's tourism activity—while the potential in pharmaceuticals, minerals, primary metals and food and beverage can still be maximized. The National Agenda identifies furniture, leather and health care services for fast-track, short-term development but this remains to be verified. Therefore, these various studies and recommendations need to be reviewed in order to identify an accurate listing of the most competitive sectors that Jordan should concentrate on to reach the goals stipulated in the National Agenda without becoming too prescriptive. As part of the process, SABEQ needs to consider whether there are serious gains to be made from working in the agriculture sector either by moving into high value, low water use crops or through agro-processing. The contractor should consider whether a specific geographic area focus should be implemented for certain sectors. The bulk of the support should be directed to firms outside of Amman where unemployment and poverty are high and where disproportionately little foreign aid currently goes.

A limited number of sectors with high potential for job creation identified through the process above will then be the focus of the component. Value chain and other appropriate analyses will be used to identify the constraints and solutions required to make these sectors competitive. Firm-level assistance may be provided by the contractor or potentially it can be contracted out to appropriate Jordanian private sector institutions. While the JUMP Program at JEDCO is designed to provide enterprise development grants to SME's, including firm-level assistance, its

effectiveness could be enhanced. There could be GDA and DCA opportunities that could help enhance JUMP's activities.

To address the problem of an ill-prepared work force, the contractor needs to consider novel approaches to engaging the public and private sectors to improve the quality of vocational training currently provided in-country. This may be an area for unusual Global Development Alliances and lessons learned from the QIZs and other successful countries in MENA such as Tunisia may want to be considered. Clearly overhauling the entire Vocational Technical Corporation system is beyond the mandate of this program, but in the selected sectors the quality the workforce must be upgraded so that more Jordanians can find jobs.

One reason, Jordanian goods may not be competitive is a lack of understanding of demand in international markets, of styles and trends and the inability to frequently modify designs and product packaging as required by the fickle consumers of wealthy nations. Another problem is lack of quality control and understanding of the constantly changing standards and requirements for product safety and fair treatment of employees, etc. Under this component, SABEQ will need to provide TA to assist the private sector to meet these needs not just for key sectors that are the focus of the program but more broadly. It may be possible to facilitate linkages between U.S. and Jordanian universities and the private sector to begin to build this capacity in-country as well.

As noted in the National Agenda, firms in Jordan spend way too little on Research and Development (R&D) although this varies by sector. For instance, there are some pharmaceutical companies that conduct R&D but they lack funding to implement the results. Hence the need for venture capital partners to provide such funding. On the other hand, the garment and textile industry and the furniture sector need design centers equipped with equipment and designers to help them develop their products as noted above. Additional work in the area of R&D needs to be undertaken. SABEQ may consider assisting the proposed "National Commission for Scientific Research" if it appears to be a viable institution.

To encourage innovation and investment in R&D, USAID will consider matching funds put up by the private sector (both local and expatriate) in the form of GDAs. Novel linkages with research institutions in the U.S., Israel and Jordan will be established. Funds will be made available through SABEQ to actually undertake cutting edge research or product development. For instance, a particular GDA opportunity might exist to establish a Jordan Dinar denominated endowment focused on developing technology transfer opportunities between developed economies and Jordan, especially the US. Jordanian Universities could be drawn into this equation with potentially encouraging results. SABEQ will model and expand some of the approaches piloted under TRIDE which operates under the rubrics of the BIRD Foundation in Israel.

Jordan can be competitive in the global economy. For instance, Petra Engineering and Siyam Radiators focus almost exclusively on export markets and their products have solid reputations. Yet, for many people, Jordanian products continue to connote low value, shoddy quality and not the latest technologically. For winner industries that may or may not be the focus of SABEQ, a Buy Jordanian campaign may be an appropriate activity.

**Illustrative Results:**

- Increased investment in R&D
- Incremental capital-output ratio (ICOR) of 5.5 drops to be more in line with world standard..
- Increased facility in anticipating & taking advantage of the opportunities in the global economy--linkages between sectors, firms, markets and products.
- Increased number of Vocational Training Corporation (VTC) trainees with employable skills.
- Productivity measure improves.
- Increased number of local/international patents produced by Jordanians.
- Increased employment (more and better jobs): Employment in productive sectors will go up by 10,000 jobs.

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**IV. Performance Measurement and Monitoring****V. Coordination**

The contractor must coordinate its activities with other U.S. Government entities, international donors, and international organizations that are providing similar types of technical assistance, most importantly the EU and JICA. The Contractor should also meet regularly with the staff in the Prime Minister's office responsible for monitoring and evaluation of the JNA.





