

Ex-Ante Evaluation
Middle East Division II, Middle East and Europe Department
Japan International Cooperation Agency

1. Name of the Project

Country: The Hashemite Kingdom of Jordan (Jordan)

Project: Business Environment, Employment and Fiscal Sustainability Reform
Development Policy Loan

Loan Agreement: November 28, 2018

2. Background and Necessity of the Project

(1) Current State and Issues of the Economic Sector in Jordan

Since the Syrian Crisis began in March 2011, an increasing number of Syrians have fled to the Hashemite Kingdom of Jordan (hereinafter referred to as “Jordan”). The number of Syrian refugees registered with the United Nations High Commissioner for Refugees (UNHCR) in Jordan has reached around 670 thousand (as of October 2018), accounting for approximately 7% of the total population of Jordan (9,455 thousand; World Bank 2016). Around 80% of the Syrian refugees are living in host communities outside of refugee camps. The influx of these refugees has created a significant impact on the society and economy of Jordan. In addition, with the unemployment rate remaining high at 18.3% in 2017 (World Bank), Jordan has shared serious concerns about unemployment with other Middle Eastern countries since the Arab Spring.

In the 2000s, before the Syrian Crisis, Jordan enjoyed high economic growth; in particular, after 2004, the annual GDP growth rate remained firm in the 7-8% range. However, the economy slowed down, first due to the financial crisis triggered by the bankruptcy of Lehman Brothers in 2008 and then due to high tensions in neighboring countries, such as Syria and Iraq, as well as oil price hikes. The GDP growth rate has remained low in the 2.0% range since 2011, dropping down to 2.0% in 2016 and 2017 (IMF). Meanwhile, the public finances worsened due to the increasing need to provide public services to refugees, and the budget deficit rose to over 10% of GDP in 2013. However, as a result of financial reforms, the situation has been gradually improving since 2015, with the budget deficit projected to decrease to 2.5% of GDP in 2017 (IMF). While the public debt swelled from 60% of GDP in 2008 to 95.6% in 2017, the Government of Jordan continues working in collaboration with international organizations to reduce the debt (IMF).

Against this backdrop, in order to maintain the country's economic and social stability and achieve self-sufficient development, the Government of Jordan needs to take measures to improve the business environment to activate the private sector to facilitate economic growth, create more flexible and integrated labor markets to solve employment problems including unemployment, and enhance public debt management to improve fiscal sustainability.

The Government of Jordan released the Jordan 2025, a 10-year social and economic development program, in 2015. The Business Environment, Employment and Fiscal Sustainability Reform Development Policy Loan (hereinafter referred to as "this Program") is expected to facilitate the reforms as aimed by the Jordan 2025.

(2) Development Policies for the Economic Sector in Jordan and the Priority of the Project

Japan's Country Development Cooperation Policy for the Hashemite Kingdom of Jordan (July 2017) identifies "support for self-reliant and sustainable economic growth" as a priority area, in which this Program falls under the assistance program of "support for development policy planning and implementation that contribute to the adjustment of the financial management" under the development issue of "strengthening infrastructure for economic growth."

(3) Other Donors' Activities

In the public financial sector, the World Bank provided Development Policy Loans in February 2012 and April 2014 to enhance the macroeconomic and fiscal framework, improve the financial sector policies, develop the business environment, and strengthen the social safety net. The World Bank also provided a Development Policy Loan in October 2015 to support water and energy sector reforms. Moreover, the World Bank Board of Directors approved a Development Policy Loan of 500 million USD in June 2018 to improve the business environment, employment, and fiscal sustainability.

The International Monetary Fund (IMF) introduced a new Stand-by Arrangement (SBA) in August 2012 to stabilize the macroeconomy, reduce disparities, and eliminate growth inhibitors. To follow up this program, the IMF Board of Directors also approved an Extended Fund Facility (EFF) of 723 million USD in August 2016.

The US Government committed in March 2018 to provide assistance valued at 6,300 million USD over the five years from 2018 to 2022. The Governments of

Saudi Arabia, the United Arab Emirates, and Kuwait also committed to provide assistance worth 2,500 million USD in total over the five years from 2018 to 2022. Moreover, Germany, the EU, and the UK committed to provide 100 million USD, 50 million Euro, and 75 million Euro, respectively, as budget support for 2018. Thus, the international community is collaborating to alleviate the impact of the prolonged Syrian Crisis on the society and economy of Jordan.

3. Project Description

(1) Project Objectives: By assisting the Government of Jordan with its business environment, employment, and fiscal sustainability reforms, this Program aims to revitalize the economy, facilitate job creation, and enhance financial discipline and public debt management, thereby contributing to the social and economic stability of the country.

(2) Project Site / Target Area: The entire Kingdom of Jordan

(3) Project Components: This Program will assist the Government of Jordan with its policy reforms structured around Pillars (a) to (c) below to ensure the continuity of the reforms and facilitate dialogue with the Government of Japan. The Policy Matrix is provided in Appendix (the policy actions marked with an asterisk (*) are specifically set forth by JICA).

(a) Reduce business costs and improve market accessibility

(b) Create more flexible and integrated labor markets and provide better and more efficient social assistance

(c) Improve fiscal sustainability and take more informed decisions regarding risk

(4) Estimated Project Cost (Loan Agreement): 300 million USD

(5) Schedule: This Program is to start budget support in January 2018. The policy actions are planned to be accomplished by the end of October 2018, the end of October 2019, and the end of October 2020. After these accomplishments are confirmed, the loan will be disbursed. This Program will be deemed complete when the final disbursement is made (planned in December 2020).

(6) Project Implementation Structure

1) Borrower: The Government of the Hashemite Kingdom of Jordan

2) Guarantor: None

3) Executing Agency: The Ministry of Planning and International Cooperation

4) Operation and Maintenance Agency: The Ministry of Planning and

International Cooperation will monitor and report on the progress and achievement of policy actions carried out by relevant ministries and other government agencies.

(7) Collaboration and Division of Roles with Other Projects and Donors

- 1) Japan's Assistance Activities: In the industrial human resources development sector, JICA is implementing the Project for Strengthening the Capacity for Career Counseling for the Youth (2017-2019). Based on the results of training of career counselors and other activities implemented through the project, career education will be provided to the youth, as specified in the Policy Matrix of this Program. Thus, the two projects are expected to work synergistically.
- 2) Other Donors' Assistance Activities: The Policy Matrix of this Program was created in collaboration with the World Bank, and the progress of these policy actions will be monitored in cooperation with the World bank.

(8) Environmental and Social Consideration / Poverty Reduction / Social Development

1) Environmental and Social Consideration

i) Category C

- ii) Reason for Categorization: It is because this Program is likely to have no adverse impact on the environment as specified in the JICA Guidelines for Environmental and Social Considerations (published in April 2010).

2) Cross-Cutting Issues: None in particular

3) Gender Classification: GI (S) (Gender Informed (Significant))

Activities / Reason for Classification: It is because the Policy Matrix of this Program includes a policy action aimed at increasing formal, private, part-time workers to facilitate female employment.

(9) Other Important Issues: The progress of policy actions will be monitored along with the progress of support provided by other donor agencies in the relevant fields specified in the Policy Matrix.

4. Targeted Outcomes

(1) Quantitative Effects: See Appendix.

(2) Qualitative Effects: Economic revitalization, trade promotion, employment facilitation, and financial sustainability improvement

(3) Internal Rate of Return: It is not calculated because this is a programmatic

loan.

5. Prerequisites and External Factors

(1) Prerequisites: Each tranche will be disbursed on condition that the IMF program progresses as planned.

(2) External Factors: There will be no significant changes in the reform policies of the Government of Jordan.

6. Lessons Learned from Past Projects

The ex-post evaluation of the Development Policy Loans (I-IV) in the Republic of Indonesia (evaluated in 2009) drew a lesson that it is necessary to facilitate coordination between Development Policy Loans and Technical Cooperation because they are complementary with each other and expected to generate synergistic effects throughout the various stages of the reform process.

In light of the above-mentioned lesson, it is considered necessary to link policy-level reform issues with field-level reforms in this Program; therefore, thematic training programs related to business environment, employment, and fiscal sustainability reforms will be organized in parallel with this Program. In the employment sector, the on-going Project for Strengthening the Capacity for Career Counseling for the Youth is expected to generate synergistic effects with this Program.

7. Evaluation Results

This Program, expected to contribute to the business environment, employment, and fiscal sustainability reforms of Jordan, conforms to the development issues and policies of the country as well as the assistance policies of Japan and JICA. This Program is also expected to contribute to SDG 8 to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” and SDG 9 to “build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.” Therefore, it is highly necessary to implement this Program.

8. Plan for Future Evaluation

(1) Indicators to Be Used

Per 4. (1) - (3)

(2) Timing

Ex-post evaluation: 2 years after project completion

Policy Matrix

Policy area and purpose	Prior Action			Baseline	Target
	2018 (I)	2019 (II)	2020 (III)		
1. Reducing business costs and improving market accessibility					
<u>1.1 Business inspection and licensing</u>	The Borrower has enacted the Monitoring and Inspection Law, to reduce the burden on businesses by improving the inspections and monitoring framework.	(a) MoITS implements reforms to the business inspection and monitoring framework by Council of Ministers' approval of the Bylaws of the Monitoring and Inspection Law (b) The Borrower reduced the burden on businesses by implementing business regulatory reform measures such as streamlining key sectoral license(s).		Aggregate business compliance costs (based on IFC's Compliance Cost Saving Model): Baseline: TBD by December 2018 (for 2017)	30 % reduction in 2021
<u>1.2 Export</u>	The Borrower's ability to serve Jordanian exporters has been improved by: (a) the Central Bank's and the JLGC's agreement expanding the resources available for reinsurance and strengthening JLGC's financial capacity to deliver trade insurance products; and (b) restructuring JLGC's Board to include	The Borrower's Council of Ministers approved a Plan and implemented actions to reform and improve Jordan's National Quality Infrastructure institutions to eliminate internal conflicts of interest, increase transparency and predictability of the process for adopting mandatory requirements, and provide a full range of		Guaranteed exports as a percentage of total exports 2017: 1.09% Cost of proving compliance with the requirements of foreign markets. Baseline: TBD by June 2019 (for 2017)	Guaranteed export 2.40% in 2021 Cost of proving compliance 10% reduction in 2021

	independent directors.	NQI services to Jordanian customers - conformity assessment, metrology, surveillance.			
<u>1.3 Cargo transportation</u>		The Borrower implemented actions that reduce market distortion and defines an incentive mechanism to reduce, renew or consolidate the truck fleet to enhance the efficiency of cargo transport for containers on the Aqaba - Amman corridor.		Cost of cargo transport for containers on the Amman - Aqaba corridor US\$408 in 2017	US\$368 in 2021
<u>1.4 Insolvency law</u>	The Borrower has enacted the Insolvency Law introducing business insolvency procedures.	(a) The Borrower adopted the Bylaws for Insolvency, approved by the Council of Ministers. (b)The Borrower adopted the Bylaws, approved by the Council of Ministers, for the Secured Transaction Law.		Strength of Insolvency Framework Index of the Doing Business indicator 2017: 5 Strength of Legal Rights Index of the Doing Business indicator: 2017: 0	Insolvency: 2021: 10 Secured Transactions: 2021: 6
<u>1.5 Electricity tariffs and subsidies</u>	(a) The Borrower, through the MEMR, has adopted indicators, targets and a timeline to address grid - subsidy for self - generation and reduce cross -	The Borrower rebalanced electricity tariffs to address grid - subsidy for selfgeneration and to reduce the cross - subsidy burden, consistent with the		· Tariff Cross Subsidy Index 25.5% in 2016 · Index of Grid - Subsidy for Self - Generation: greater than 90% in 2016t	Tariff Cross Subsidy Index: less than 21% in 2021 · Index of Grid - Subsidy for Self - Generation: Zero in 2021

	subsidies, and (b) EMRC has taken initial actions consistent with them.	targeted values of the indices for Grid - Subsidy for Self - Generation and the Tariff Cross - Subsidy Index in the roadmap.			
<u>1.6 SMEs promotion</u> To establish regulatory framework on SMEs and improve service delivery to SMEs	(a) SMEs committee to formulate draft definition of SMEs is established. (b) MoITS completes a comprehensive list of SMEs support programmes and relevant resources.	(a) The definition of SMEs is approved through a Decree by Prime Ministry. (b) MoITS establishes SMEs support portal.	(a) Conduct a diagnostic study to assess the gaps in SME ecosystem. (b) MoITS conducts awareness campaign of the portal.	No portal service for SME support in 2018	Access to SME portal: TBD by March 2019
<u>1.7 Standards and conformity</u> To improve Jordan's quality infrastructure to support exports	Forming the national committee from the stakeholder agencies that will draft the National Quality Policy and the draft Quality Infrastructure Strategy.	First draft of the National Quality Policy is produced and the final draft of the Quality Infrastructure Strategy submitted by the national committee to MOPIC/Prime Ministry.	Final National Quality Policy and the final draft of the Quality Infrastructure Strategy is approved by Prime Ministry.	The number of qualified products for export: TBD by March 2019 (2018)	TBD by March 2019
<u>1.8 Trade facilitation</u> To facilitate National Single Window	CD reviews feedback from all stakeholders about pilot project in Aqaba.	Steps are taken in preparation for full operation including finance and administration.	Full operation in Aqaba.	Pilot project is launched in Aqaba.	Full operation of the National Single Window in Aqaba.

<p><u>1.9 Exporter competitiveness</u></p> <p>Export Coaching for Industrial SME's to promote SMEs export</p>	<p>MoITS and related organizations implement export coaching programme (coaching/training to be provided for 10 companies).</p>	<p>25 coaches are qualified (Coaching/training for export are provided to at least 60 companies).</p>	<p>Export coaching service is established in a sustainable manner (provide coaching/training to at least 60 companies regularly).</p>	<p>No export coaching programmes for industrial SMEs.</p>	<p>60 companies receive coaching/training sessions every year</p>
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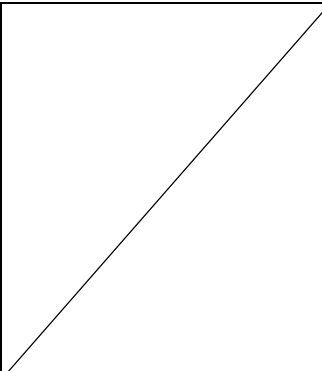
Policy area and purpose	Prior Action			Baseline	Target
	2018	2019	2020		2022
2. Creating more flexible and integrated labor markets and providing better and more efficient social assistance					
<p><u>2.1 Employment</u></p>	<p>The Borrower's Council of Ministers has instructed the Ministry of Labor to carry out a review of the legal framework to identify causes of segmentation in the labor market.</p>	<p>(a) The Borrower's Ministry of Labor reduced the number of sectors with quotas which limit foreign employment. (b) Based on the results of the review of the legal framework, amendments to the legal framework adopted to reduce labor segmentation.</p>	/	<p>Growth of formal, private, full - time employment 3.1% in 2014 - 2016 (annual average)</p>	<p>3.3% in 2021</p>
<p><u>2.2 Flexible work</u></p>	<p>The Borrower, through the Ministry of Labor, has issued Instructions on flexible work with minimum wage rates by unit of hours.</p>	<p>The Borrower amended Social Security Law of 2014 for compulsory employer and part - time employee contributions to Social</p>	/	<p>Average annual growth of formal, private, part - time workers: Women: 31.6% in 2014-2016 Youth: 0.0% in 2014 -</p>	<p>Women: 35.0% in 2018-2019 Youth: 10.0% in 2017 - 2019</p>

		Security.		2016	
<u>2.3</u> <u>Increased economic opportunities and reduction in cost of permits</u>	The Borrower, through the Ministry of Labor, has: (a) allowed the Jordanian General Federation of Trade Unions to provide work permits for Syrian workers working in the construction sector and removed the requirement of Syrian workers to show a profession practice certificate as a prerequisite to obtain the work permit; and (b) waived fees for Syrian workers to obtain work permits for 2018.	<p>The Borrower's Ministry of Labor issued a decree introducing flexible work permits for Syrians to work in the manufacturing and the services sectors (in occupations that are already open to Syrians).</p> <p>(b) The Borrower issued a waiver to fees for work permits for Syrian workers for 2019.</p>		<p>Number of manufacturing and services work permits issued to Syrian workers from January 1 to December 31 of each year: 16,516 in 2017</p> <p>Cost of work permits for Syrian workers: JD 300 – JD 370 (without waiver) in 2017</p>	<p>Number of work permits: 18,435 in 2019</p> <p>Cost of work permits: Zero JD (with waiver) in 2018 and 2019</p>
<u>2.4</u> <u>National Aid Fund</u>	The Borrower, through the Council of Ministers, has approved plan to improve and expand the coverage of the National Aid Fund (NAF) cash transfer program to cover at least 85,000 additional households between 2019 and 2021.	The NAF Board approved the graduation strategy for NAF beneficiaries.		<p>Coverage: Number of households covered by NAF Baseline 2017: 93,000 total households</p>	<p>25,000 additional households in 2019 30,000 additional households in 2020 30,000 additional households in 2021 178,000 total households in 2021</p>

<p><u>2.5 TVET sector Reform</u></p> <p>To establish Technical and Vocational Skills Development Commission (TVSDC) Law</p>	<p>Final draft of Technical and Vocational Skills Development Commission (TVSDC) Law is sent to Cabinet in order to alleviate the fragmentation of councils in TVET sector and to enhance the involvement of private sector.</p>	<p>Final draft of the TVSDC Law is approved by Cabinet and submitted to Lower House.</p>	<p>As the law has been enacted, bylaws or Regulations to be approved by TVSDC and start the implementation of the bylaws/regulations.</p>	<p>(a) Number of coordination body for TVET: three councils under MoE, MoHESR, and MoL(2018) (b) The representation of private sector in E-TVET council: 7(2018)</p>	<p>(a) one (TVSDC) (2022) (b) more than 7 (2022)</p>
<p><u>2.6 Career Counseling</u></p> <p>To institutionalize Career Counseling trainings in EOs and CGOs</p>	<p>MoL and KAFD draft an action plan for enhancing career counseling in EOs and CGOs, which aligns to the ongoing JICA's technical assistance as well as the National Strategy for Vocational Guidance and Counselling.</p>	<p>(a) MoL approves the action plan for enhancing career counseling in EOs and CGOs; (b) MoL and KAFD implement training courses for career counselors in EOs and CGOs according to the action plan.</p>	<p>MoL and KAFD develop an evaluation report on training courses for career counseling in order to review the number of EOs/CGOs providing career counseling services and the impact of their services.</p>	<p>Ratio of new staff who receives career counseling training: 0%</p>	<p>100%</p>
<p><u>2.7 Career Counseling</u></p> <p>To outreach secondary school students in career counseling to facilitate the job matching</p>	<p>MoE plans career guidance trainings for Educational Counselors in remote areas.</p>	<p>MoE Initiates the trainings for career guidance for Educational Counselors in public schools, especially in remote areas.</p>	<p>MoE implements training for career guidance for most of the Educational Counselors in public schools, especially in remote areas.</p>	<p>Percentage of grade 9 and 10 students receiving career guidance: 50% (2016/7)</p>	<p>100%</p>
<p><u>2.8 Job</u></p>	<p>MoHESR prepares a</p>	<p>MoHESR holds</p>	<p>MoHESR reviews</p>	<p>Number of majors</p>	<p>22</p>

<u>matching</u> To encourage internships for young jobseekers	comprehensive review report on current internship programmes in universities.	workshops/conferences for internship programmes and develop a suggestion to programmes.	feedback from all stakeholders and assesses internship programmes.	which set internship programme as part of graduation requirements is 18	
<u>2.9 Reform of higher education</u> To match the contents of higher education with the needs of the labor market	MoHESR prepares a comprehensive review report on current guideline for programmes which are jointly implemented by universities and private sector.	MoHESR upgrades current guideline for programmes which are jointly implemented by universities and private sector.	The upgraded guideline is introduced to all universities/colleges to encourage the involvement of private sector in higher education.	Unemployment figure among university graduates: 23.4% (2017)	Less than 23.4%

Policy area	Prior Action			Baseline	Target
	2018	2019	2020		
3. Improving fiscal sustainability and taking more informed decisions regarding risk					
<u>3.1 Revenue mobilization</u>	The Borrower's Council of Ministers has reduced exemptions and increased preferential rates in the general sales tax and the special sales tax consistent with the 2018 Budget Law.	The Borrower raised domestic tax revenues in the 2019 Budget Law through implementation of income tax reform following national consultation and further reduction of tax exemptions and preferential rates in the General Sales Tax and Special Sales taxes		Impact of 2018 - 2020 revenue measures in JD: Zero in 2017	About JD 1,280 million in 2020

<u>3.2 PIM - PPP:</u>	The Borrower's Council of Ministers has endorsed MoPIC's proposal for the Jordan 2018 Public Investment Management – Public - Private Partnership Governance Framework.	The Borrower issued a debt management strategy that includes policies related to the monitoring and management of contingent liabilities, including those related to the electricity and water sectors, and PPPs.		Use of NRDP None (NRDP does not exist) in 2017 Debt management: Inclusion of contingent liabilities and risk assessment in Debt Management Strategy No in 2017	NRDP All new PIP and PPP projects registered in the NRDP in 2019 Debt management: Yes in 2020
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<Important Notes>

- Disbursement will be made only when prior action or triggers are fully complied and IMF program is on-track, unless otherwise agreed between JICA and MOPIC.
- In case the World Bank decides to provide new Development Policy Finance, covering 2020, triggers for the third year may be adjusted according to the agreed matrix for new DPF, which JICA will participate in discussion.

Abbreviations

CBJ (Central Bank of Jordan), ABJ (Association of Banks in Jordan), JLG (Jordan Loan Guarantee Corporation), JEDCO (Jordan Enterprise Development Corporation), MoITS (Ministry of Industry, Trade and Supplies), MOPIC (Ministry of Planning and International Cooperation), DEF (Development and Employment Fund, under MoL), JCC (Jordan Chamber of Commerce), JCI (Jordan Chamber of Industry), JIC (Jordan Investment Commission), MoL (Ministry of Labor), E-TVET Council (The Jordan National Employment-Technical and Vocational Education and Training), VTC (Vocational Training Corporation, under MoL), JSMO (Jordan Standards and Metrology Organization), CD (Custom Department, Ministry of Finance), MoF (Ministry of Finance), GBD (General Budget Department, Ministry of Finance), KAFD (King Abdullah II Fund For Development), CGO (Career Guidance Office), EO (Employment Office, under MoL), RSS (Royal Scientific Society), JFDA (Jordan Food & Drug Administration), DoS (Department of Statistics), SSC (Social Security Corporation), VTI (Vocational Training Institution), PIM (Public Investment Management), NRDP (National Registry of Development Projects), NAF (National Aid Fund), TVSCE (Technical and Vocational Skills Development Commission)