



# OED REACH

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Based on the *Jordan Country Assistance Evaluation*.

## Jordan: Joint World Bank-Islamic Development Bank Country Assistance Evaluation

- Jordan's successful stabilization policies of the 1990s were accompanied by donor-supported economic reforms. Nevertheless, real per capita incomes stagnated and the poverty rate remained higher than in the late 1980s. Jordan made excellent progress in all other MDG areas, but at high cost and with considerable inefficiency.
- World Bank assistance during the 1990s supported stabilization and structural reform, but strong and sustainable growth in real output proved difficult to achieve. The Bank's increased focus on the social sectors was aligned with the MDGs, but the Bank did not forcefully address inefficiencies, despite analytical work that detailed how public expenditures could be reduced and better allocated. The outcome of the Bank's relatively small assistance program in the 1990s is rated moderately satisfactory.
- The Islamic Development Bank (IDB) assistance program contributed substantially to the development of key sectors: industry and mining, public utilities, and social services.
- The joint evaluation made common recommendations for future World Bank and IDB assistance: help the government restructure public spending and improve its efficiency and quality, and support a comprehensive water resource management strategy.

### Background

Jordan, a small lower-middle-income country, figures prominently in the geopolitics of the Middle East. Its open economy is based on few natural resources, and water availability ranks among the world's lowest. This weak economic base is supplemented by large but volatile worker remittances. Jordan's neighbors account for half its exports and a quarter of its imports. This ties its fortunes to those of the region, and the prolonged turmoil in the area has had a direct impact on Jordan's economy. Since the early 1990s, Jordan has launched stabilization and structural reform programs with substantial donor assistance. The country established macroeconomic stability, an impressive achievement given the large 1989 debt and the disruption caused by the 1991 Gulf War. But economic growth barely kept

pace with population growth during the 1990s, which led to stagnant real per capita incomes. Poverty remains at a higher level than in the late 1980s, and its persistence is of considerable concern. Unemployment remains high, although Jordan has made excellent progress in developing its human capital.

### World Bank Assistance During the 1990s

Bank assistance in the 1990s was relevant to Jordan's priorities, outlined in a series of five-year socioeconomic plans. Based on wide-ranging analytic and advisory activities (AAA), the Bank supported stabilization and structural reforms to foster growth. An increased focus was also brought to the social sectors, in keeping with the MDGs. The Bank has had a small but stable role in assistance to Jordan, with a share of net flows of about 7 percent, or

\$9 per capita yearly. Policy-based lending, in conjunction with various IMF programs, accounted for 63 percent of total lending and addressed trade, agriculture, energy, financial, private sector, and public sector reform. Investment loans generally supported human development and water projects. Collaboration with the IMF supported Jordan's effort to stabilize the economy. The Bank program, in particular, succeeded in promoting policy reforms. Substantial tariff, trade, and financial sector reforms, together with the removal of disincentives for investment and the privatization of public enterprises, were achieved.

Jordan has moved forward in almost all areas covered by the MDGs, and is likely to meet the target levels by 2015. But these gains have not been achieved efficiently. The Bank's program did not support a significant reduction in large public expenditures: the analytical work identified these as problematic, but the government was reluctant to address them. Other issues, including labor markets and poverty, should also have received greater attention, and progress in the water sector has been more modest than had been hoped.

Overall, the outcome of the Bank's assistance program in the 1990s is rated moderately satisfactory. Sustainability is tied to Jordan's vulnerability to adverse regional events, and the benefits of Bank assistance face considerable risks. The Bank's contribution to institutional development has, on average, been modest.

### **Islamic Development Bank Assistance**

Jordan is one of the largest recipients of Islamic Development Bank (IDB) assistance, with \$1.2 billion in project financing, trade financing, and special assistance since 1976. Project financing amounts to \$450 million and is concentrated in industry and mining (36%), public utilities (22%), and the social sectors (21%). Although IDB support was primarily targeted to industrial and mining development during the 1970s and 1980s—

in line with the priorities of the government—the emphasis gradually shifted to other areas such as water resources and human development. There was general consensus in Jordan on the relevance and efficacy of IDB's program. The Jordanian authorities commended IDB for its continued support, which facilitated the development of key sectors of the economy. For example, potash production—an activity that received significant financing from the IDB, along with the World Bank—has evolved into a strong and profitable enterprise. IDB's assistance helped fulfill the needs of 30,000 people for potable water and sewerage systems. The three power projects financed by IDB made a significant contribution to the improvement of electricity generation, distribution, and transmission. IDB also provided support for construction of schools and hospitals.

Despite these achievements, the results in terms of long-term policy reform have been below expectations. For example, the health sector is still facing problems of over-capacity, management inefficiency, and high costs. With IDB's support, along with other donors such as the World Bank, school enrolment in basic and secondary education increased by 23 percent during the 1990s, but there is still room for enhancing the quality and efficiency of the education provided.

### **Recommendations**

The review concluded that the Bank and IDB should:

- Help the authorities improve the efficiency and quality of expenditures, with special attention to rationalizing social expenditures that previous analytical work has identified as being poorly managed.
- Support, in collaboration with other donors, a comprehensive water resource management strategy to promote incentives for more efficient use of water, upgrade infrastructure, and facilitate efficient investments.

### **Management and Government Response**

Management agreed with OED's analysis and recommendations. The current CAS summarized well the main findings and recommendations of the evaluation. The government also agreed with the main conclusions and recommendations of the evaluation.



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