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JORDAN ECONOMIC GROWTH ASSESSMENT

BUSINESS ENVIRONMENTS FOR AGILE MARKETS (BEAM)

February 2012

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FOREWORD

The USAID/Jordan Economic Growth Office asked CARANA Corporation to undertake an Economic Growth Assessment under the BEAM (Business Enabling Environment for Agile Markets) Project. The assessment started on November 4, 2011, beginning with a literature review, which was followed up by two weeks of interviews in Jordan with over 65 stakeholders during the November-December 2011 period. A draft report was presented to the by the assessment team on January 18, 2012, and comments were received from the mission during the briefing and in written follow-up. This final report is submitted on February 7, 2012.

This assessment examines critical questions about Jordan's economic growth trajectory, and Jordan's major economic growth challenges and opportunities. This assessment will provide an input for the Mission's Country Development Cooperation Strategy (CDCS), which will guide its activities for the next five years.

The report was written by an assessment team that included Mr. Peter Boone, team leader, Dr. Yusuf Mansur, Senior Economist, Mr. Musa Hammudeh, SME Development Specialist, Ms. Katie Kenworthy, Research Analyst, Ms. Susan Somach, Gender Specialist, Dr. Chris Brown, Senior Economist, and Ms. Huda Hakki, Gender Specialist. It was prepared under the direction of Erin Endean, Chief of Party of the Business Environments for Agile Market (BEAM) Project, led by USAID's Bureau of Economic Growth and Trade.

The authors would like to thank USAID Jordan Economic Growth team—particularly Ms. Stephanie Wilcock—for all of their excellent guidance and technical support to assessment team.

EXECUTIVE SUMMARY

Jordan has an opportunity this year and beyond to improve its competitive position regionally and globally, leading to higher economic growth and increased job creation. Jordan's ability to compete internationally depends on its resolve to build a stronger, more employment-relevant educational foundation for its workforce, and to create a business environment more conducive to investment and economic growth.

ENVIABLE ASSETS

Jordan has several assets that are the envy of many other developing countries:

- Generally well-educated population, with strengths in math and science
- Relative political stability in an unstable region
- Openness to foreign investment
- Lower levels of corruption than many countries at a comparable level of development
- Strengths in several fundamental determinants of innovation, including the availability of state-of-the-art technologies and in firm-level capacity to absorb technologies
- Emerging competitive clusters in ICT, biomedical services, and tourism
- Natural resources in renewable energies including wind and solar
- Untapped potential of well-educated women who are not currently in the workforce.

LIABILITIES—WHERE JORDAN IS FALLING SHORT

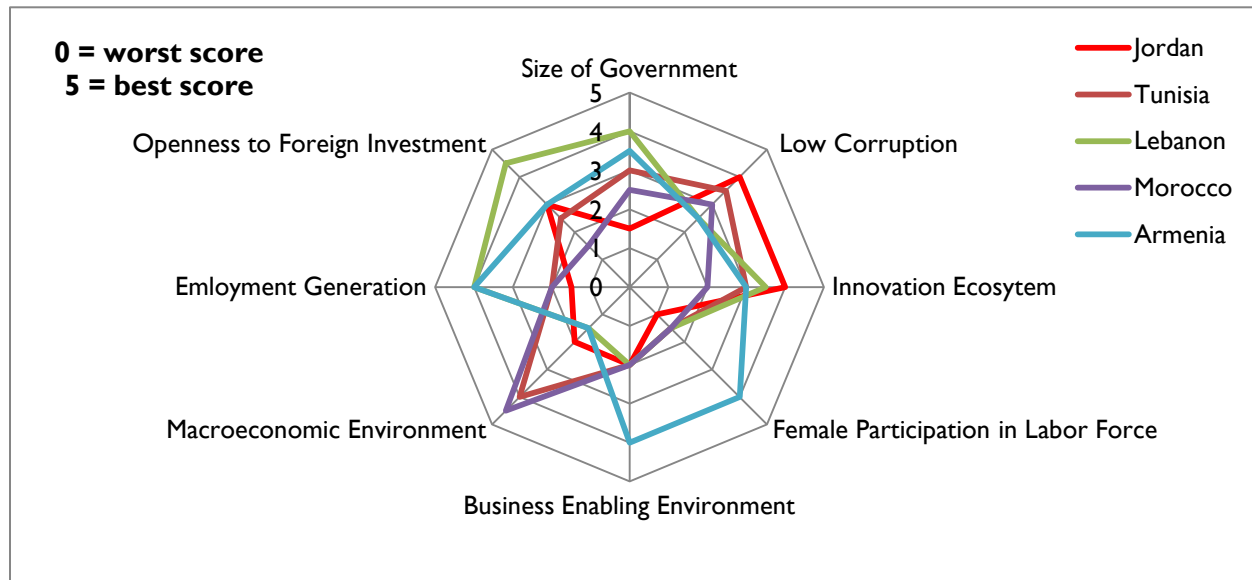
In spite of these assets, Jordan is falling short on a number of key determinants of economic competitiveness. It has, for example:

- Inadequate technical and higher education capacity to meet current needs of industry and the global economy
- Underutilized human capital of educated women not productively employed in the workforce
- Heavy public sector expenditures with overstaffing and underperforming ministries
- High turnover of key positions in government, especially in the aftermath of Arab Spring demonstrations
- Weak and falling rankings on key global indicators of business enabling environment and economic competitiveness
- An unemployment rate that has stayed persistently high even when the economy has been growing
- High dependency on imported oil and gas and vulnerability to supply disruptions, and pipeline repairs and energy imports have become a costly item negatively affecting the balance of payments
- Underexploited renewable energies including wind and solar.
- Limited fresh water resources, and limited adoption of major water conservation measures
- Recent increased social spending in response to Arab Spring demands has crowded out new productive investment options in education, infrastructure, water and renewable energy

Jordan's overall economic foundation is summarized in the spider web diagram below. The scale is measured from 0 (lowest) to 5 (highest) based on the assessment team's detailed benchmarking of

Jordan vis-à-vis its competitors and peers both in the region and outside the region.¹ As Figure 1 below demonstrates, Jordan ranks high in three competitiveness foundation factors: openness to foreign investment, innovation ecosystem, and levels of good governance (low corruption). However, Jordan is falling short in five key competitiveness factors, including: size of government; macroeconomic environment, business enabling environment, employment generation, and female participation in the workforce.

Figure 1 - Jordan's Economic Foundation Benchmarking



KEY OPPORTUNITIES FOR ACCELERATING JORDAN'S ECONOMIC GROWTH

Macroeconomic Framework

Currently the fiscal space for new public investments in critical areas is almost zero for the next few years (2012 and 2013). There is an important opportunity for the GOJ, possibly with assistance from the international donor community, to undertake budget efficiency realignment reforms. The emphasis of this initiative would be to realign budget priorities for the next several years, establishing gradually tighter controls on salaries and other consumption items in order to free up more fiscal space for new productive investments in education, infrastructure, water, and renewable energy.

¹ The reason that countries outside the Middle East region are included in the benchmark countries is that in certain key competitiveness indicators such as business enabling environment and gender participation in the workforce nearly all of the Middle East region countries scores are very low (90 or above). As such being strong compared with Middle East comparison countries in these categories can be very misleading and not representative of how competitive a country like Jordan will need to be in order to be truly competitive on a global scale.

Business Enabling Environment

The World Bank's Doing Business indicators show that the principal business enabling areas in which Jordan needs to improve are: getting construction permits; starting a business; registering property; protecting investors; enforcing contracts; and obtaining credit. Jordan, with assistance from international donors, has an opportunity to tackle these shortcomings in the coming years. This would have the salutary effect of raising Jordan's profile on widely reviewed international competitive scoring indexes. Much more importantly, however, it will help improve the business environment in specific areas that affect business formation and job creation in Jordan, both for men and for women.

For business environment reforms to take hold, Jordan must embrace a strong partnership between government and the investor community, both domestically and with respect to potential foreign investors. Focus must be provided via specific public-private working groups for each technical problem being tackled. Private sector participants can bring a great deal of value to this type of reform initiative, since they are motivated to ensure business-friendly reforms are fully achieved. In addition, private sector participants also can bring special skill sets to the process such as process re-engineering, efficiency benchmarking, and ICT solutions.

The Innovation Ecosystem

Jordanian startups' innovation capabilities are currently at very low levels, and academic and R&D institutions are not actively involved in industry-university collaborative R&D. Incentives to encourage innovations at both the university and company level remain very weak, and most of the universities do not have explicit royalty-sharing incentive schemes.

There is an opportunity to develop innovation incentives and collaboration systems at universities and research institutions modeled on best global practices. At the university level, this effort would be focused on defining the rules and incentives systems for encouraging innovation through their technology commercialization offices. At the private level, this effort would work on product development and R&D departments within companies involved in innovation activities. Innovation competitions can be developed in schools, at the industry association and network level, and at the national level.

Efforts to enable and enhance the R&D and innovation environment starting at early stages in schools and universities should also be planned and considered a top priority. This has also been emphasized in *The National Agenda* and *Vision 2020*, two very important strategic planning exercises that guide Jordan's public and private sector initiatives in the national competitiveness arena.

Sector and Value Chain Competitiveness

In order to catalyze growth that will have transformational impact, the GOJ and private sector and donors should work together to prioritize sectors and value chains with the greatest potential for economic growth and job creation, both in Amman, and in other regions throughout the country. These sectors will be counted on to be the growth engines for the Jordanian economy for the next several years.

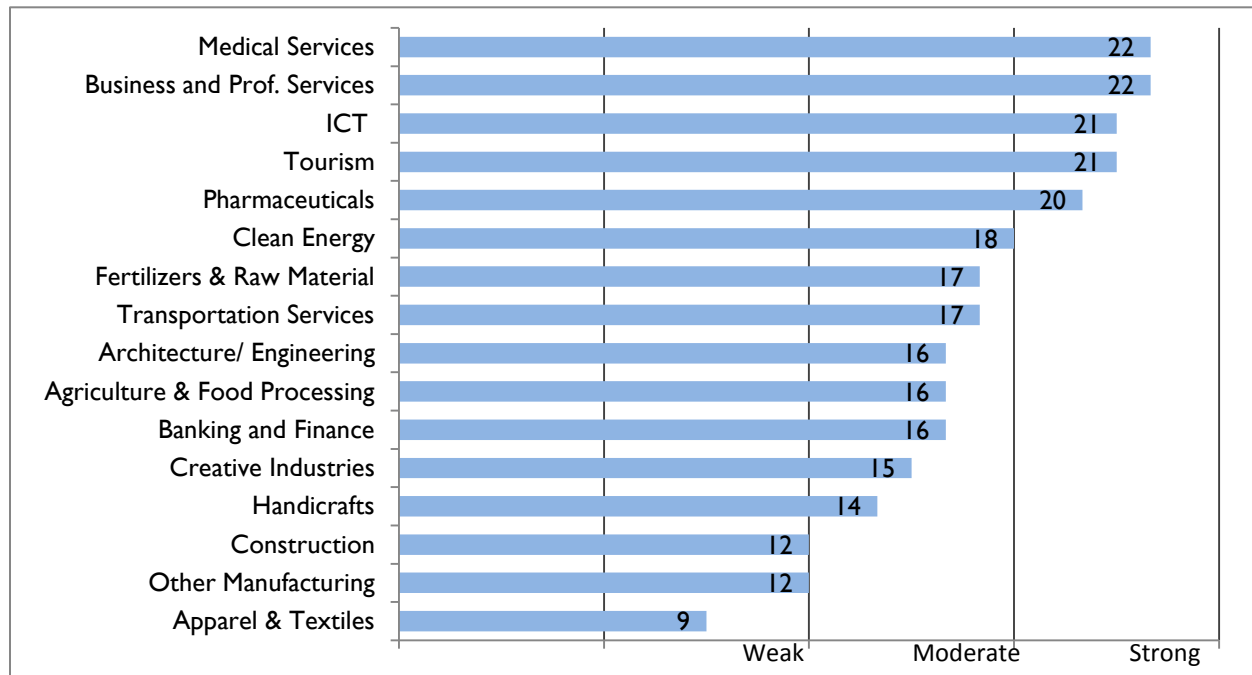
In order to identify value chains and sectors with the most potential, the assessment team evaluated and scored sixteen sectors using the following six criteria:

1. Opportunity to increase employment
2. Opportunity to increase exports

3. Export growth – past performance
4. Jordan's advantages and resources
5. Potential for female job creation
6. Impact on water use

Utilizing this scoring system for 16 sectors, the assessment team determined that the sectors demonstrating the greatest potential opportunities for economic growth and job creation are the top ten of the 16 sectors scored below. Full analyses of the top ten sectors can be found in Chapter V.

Figure 2 – Strategic Potential of Selected Sectors



Job Creation

Jordan's labor laws and policies thwart the hiring and firing of part-time or flex-time workers, to the detriment of workers seeking part-time opportunities as well as employers seeking part-time assistance. Key areas for attention are: hiring and firing of employees, laws restricting working hours, and laws restricting part-time employment and other flexible working arrangements. For example, call centers would benefit from 24-hour operations; and women who want more flexibility in workplace opportunities would benefit from removing the restrictions on working hours and certain job categories. There have been recent reforms for some accommodations for female workers (such as child care and government-subsidized, paid maternity leave) but enforcement of these regulations is weak. The laws, regulations and hiring practices need further attention and reform in order to accelerate job growth, particularly for women.

Special attention should be dedicated to increasing women's employment in key sectors that show the greatest potential for women, including: ICT, finance/banking, medical services, and education.

Detailed sector skills assessments in high-priority industries would help identify not only the careers in highest demand, but the specific skills employers are seeking. In addition, the private sector needs to participate in curriculum design, collaborating with universities and technical schools to ensure that skills

acquired are relevant and up to date. Sustainable linkages between businesses and universities are beneficial for both parties as well as for students. Jordanian universities and technical schools need to give high priority to making both women and men graduates very employable. This should be part of a national strategy for accelerating employment and economic growth.

I. PURPOSE AND METHODOLOGY

ASSESSMENT PURPOSE

The USAID/Jordan Economic Growth Office requested that CARANA Corporation undertake an Economic Growth Assessment under the BEAM (Business Enabling Environment for Agile Markets) Project. This assessment examines critical questions about Jordan's economic growth trajectory, and Jordan's major economic growth challenges and opportunities.

There were three main goals of this Jordan Economic Assessment:

- To conduct a broad-spectrum economic growth assessment for USAID/Jordan's EG office that synthesizes succinctly the significant research already published on Jordan's economy, highlighting obstacles to and opportunities for job creation in sectors of the economy with high growth potential.
- To provide an input for the Mission's Country Development Cooperation Strategy (CDCS), which will guide its activities for the next five years
- To inform USAID's discussions with the GOJ and other donors about economic growth and employment strategies for the country.

INFORMATION SOURCES AND ASSESSMENT WORK PLAN

The study team undertook four main tasks as part of our research methodology:

1. *Literature Review* – As our first research task, the CARANA assessment team undertook an extensive literature review that summarizes key findings related to the recent economic developments in Jordan. We present the principal sources of the literature review in ANNEX I of this report. The literature review informed our research questions. It included a review of major reports and competitiveness rankings by reputable development partners, including, among others: the World Economic Forum; the World Bank; International Finance Corporation; the International Trade Centre in Geneva; USAID; the Economist Intelligence Unit; and INSEAD Business School, among others. This literature review led to an initial set of working assumptions and research hypotheses.
2. *Stakeholder Interviews and Field Research*. The interview team conducted field research and interviews from November 27 to December 15, 2011. The field interviews allowed the assessment team to ground truth our research hypotheses and working hypotheses. The assessment team interviewed over 65 different stakeholders in Jordan (see ANNEX II). The key stakeholders interviewed included: current and past government officials and policymakers; Jordanian economists; industry organizations; private businesses; university professors and students; youth groups; USAID implementing partners; and other donors. The assessment team was careful to interview a broad range of stakeholders who are representative of the different perspectives on Jordan's economic challenges and opportunities, including: youth; women; rural and urban groups; banks; and large and small businesses.
3. *Organization of Three Focus Groups*. The assessment team conducted three focus groups in Amman Jordan: one each on Employment (December 5, 2011), Innovation (December 6, 2011); and Gender (December 14, 2011). These focus groups enabled the assessment team to: validate findings from the literature review and interviews; test hypotheses; and identify major opportunities and challenges confronting the Jordanian economy. In the focus groups, we also conducted a small

survey of the participants to rank order constraints, opportunities, sectors, and initiatives that offer the best prospects of accelerating job creation and economic growth in Jordan.

4. *Drafting and Presentation of Draft Assessment.* The assessment team briefed the Mission Director and others on their preliminary findings midway through the field work and incorporated comments and suggestions in preparing this draft economic assessment report to the Mission on January 11, 2012. The team presented the draft report to the Jordan Mission on January 18, 2012. After incorporating comments and feedback from the Mission, the assessment team delivered its final written report on February 7, 2012.

ANALYTICAL APPROACH/METHODOLOGY

The assessment team focused our technical research work on four major themes that are critical economic competitiveness foundation factors in Jordan, integrating gender considerations where most relevant within each thematic area:

- Macroeconomic Framework and Business Enabling Environment
- Innovation and Entrepreneurial Development
- Competitive Value Chains and Industry Clusters
- Employment and Job Creation

For each of the economic foundation factors assessed in this report, the assessment team presented a three-stage analytical approach including: *critical foundation factor assets*, *liabilities*, and *opportunities* for Jordan.

The assessment team utilized *three analytical tools* to carry out our analysis:

- *Benchmarking tool.* In this benchmarking exercise, we compare Jordan throughout the report with comparable economies, both within the region and outside the region, on key competitiveness factors. See Chapter II for explanation of benchmarking methodology.
- *Quantitative focus group scoring.* Focus group participants ranked constraints and opportunities, sectors, and initiatives that offer the best prospects for accelerating job creation and economic growth in Jordan.
- *A sector selection and scoring tool.* Using international trade data and market research data and analysis, the CARANA assessment team conducted a sector scoring exercise that utilizes quantitative scoring criteria to forecast which sectors provide the best export growth and job creation potential in Jordan.

II. JORDAN COUNTRY CONTEXT

OVERVIEW

Jordan's economic performance has long been defined by its relatively wealthy, powerful and politically unstable neighbors. Over recent decades, Jordan has repeatedly served both as a stable regional buffer (subsidized by generous aid from world powers and neighbors alike -- who share strategic interest in maintaining this buffer), and as a generator of employment and refuge for huge inflows of guest workers and other immigrants seeking economic opportunity and political stability.

The key challenge for Jordan going forward is to expand the private sector into competitive, growing, and employment-intensive industries that provide lasting jobs for Jordan's increasingly educated workforce, and which stimulate and encourage economic and political reforms for the country. This will require concerted planning and investment from a government that is responsive to substantial private sector inputs generated through an intensive and coordinated public-private dialogue and action planning initiative

BENCHMARKING APPROACH

Table I - A Snapshot of Jordan against Similar Regional and Global Neighbors²

Country	2010 Population	2010 GDP/capita	2010 gasoline at pump (\$/l)	2009 Fresh water/cap. (m3)	2010 Internet Users/100
Jordan	6.05	4,560	1.04	115	39
Armenia	3.09	3,031	1.08	2,223	37
Costa Rica	4.66	7,691	1.14	24,484	37
Egypt	81.12	2,698	0.48	23	27
Kazakhstan	16.3	9,136	0.71	4,736	33
Lebanon	4.23	9,227	1.13	1,144	31
Macedonia	2.06	4,460	1.52	2,625	52
Malaysia	28.4	8,373	0.59	20,752	55
Morocco	31.95	2,796	1.23	917	49
Syria	20.45	2,893	0.96	356	21
Thailand	69.1	4,608	1.41	3,268	21
Tunisia	10.55	4,199	0.94	402	37

Jordan, in spite of its relatively small population, has achieved a GDP per capita higher than that of Egypt, Syria, Morocco, and Tunisia – even higher than Armenia's or Macedonia's. Jordan's is only half the per capita GDP in neighboring Lebanon, however. Jordan's gasoline prices (an imperfect proxy for overall energy costs across the economy) are significantly higher than in neighboring Syria and Egypt, or than in Tunisia, but are still relatively low when compared to Lebanon or to countries outside the immediate region.³ Jordan is without a doubt, however, one of the driest countries on earth, and in this

² World Bank, World Development Indicators for 2010 (<http://data.worldbank.org/indicator/>).

³ If gasoline pump prices are a useful proxy for energy costs overall in the economy, then Jordan's global competitiveness may not in fact suffer from high energy costs as significantly as many Jordanians interviewed for

comparison of renewable fresh water availability per capita, is the driest by far, except for Egypt, with its overwhelming population pressure on the Nile River basin and delta systems. The proportion of internet users in Jordan is higher than in Egypt, Lebanon, Syria, Tunisia, Thailand, Malaysia, Costa Rica and Armenia, but lags behind Morocco's and Macedonia's.

JORDAN'S PRINCIPAL ECONOMIC CHALLENGES

Today Jordan faces at least four central challenges to realizing its full competitive potential and generating sustained and fulfilling employment for all its citizens, men and women alike. An assessment of Jordan's economic growth potential over the next five years must take these challenges into account.

- Jordan suffers from chronic **structural unemployment**, between 13 and 14 percent in the last decade, a rate that is largely unresponsive to upticks—or downturns—in economic growth. Reducing unemployment is especially urgent for the over 60 percent of youth who are presently unemployed. Special attention is needed as well to reduce unemployment among the 85 percent of Jordanian women (at all age groups) who are currently not participating in the labor force.
- Jordan's **business climate and competitiveness have slid** steadily, some years precipitously. Some of this slide is due to simple inertia on the government's part to follow through on basic reforms enacted since 2000, as well as the Jordanian authorities' apparent lack of interest in tracking—and then out-performing—the reforms that competitor countries are putting into place.
- In response to rising **popular expectations for democratic governance and transparency** throughout the Middle East and North Africa (the “Arab Spring”), government efforts to satisfy these demands with short-term cash transfers to key interest groups have absorbed tight public investment funds intended for longer-term infrastructure and education spending, while also undermining government leadership and diverting the attention of public officials from the steps that are needed to improve business and job opportunities for all Jordanians.
- Also in reaction to the Arab Spring, Jordan has seen a **higher than normal turnover of key positions in government** since the beginning of 2011. There have already been three Prime Ministers and numerous Cabinet reshuffles. These frequent changes hamper the GOJ's ability to set medium- or long-range goals, implement difficult but important economic reforms, or pursue strategies to attract foreign investment.

PARADOXES

The following five paradoxes, persisting for the last decade, sum up Jordan's economic growth challenges, spotlighting possible investment opportunities for both government and the private sector:

- **Liberal business climate in a conservative business culture:** Innovation and entrepreneurship suffer from weak business association/advocacy structures and a conservative, family-owned-operated business model. Traditional values have also hindered opportunities for entrepreneurship among women, and the creation of businesses to support women's employment.
- **High dependency on imported energy in a region of abundant fossil fuels:** Jordan's lack of energy resources and infrastructure will continue to undermine competitiveness. Jordan's trade deficit in energy products (natural gas, petroleum products, and electricity) reached a very high \$3.2 billion in 2010, creating serious balance of payment pressures.

this assessment may believe, but rather only in comparison to neighbors that subsidize the fuel or to its wealthy, oil-producing neighbors in the Gulf. Still, as in most non-oil-producing countries, Jordan cannot afford to lag behind in adapting, and rendering cost-effective, wind and solar power alternatives.

- **Persistently high unemployment despite strong economic growth:** Jordan is a country where prosperity fails to create jobs for Jordanians, male and female alike; rather it tends to stimulate more work for refugees and guest-workers.
- **Well-educated women but low participation in the workforce:** Jordan leads the MENA region both in rates of women educated and in female unemployment, a paradox that results in a partial loss of the educational investment made in women (other than what they pass on to their children) and a major loss of the potential for economic growth embodied in the vast numbers of well-educated women who are not participating in the labor market.
- **Tight fiscal situation but large public investment needs to support long-term growth:** With over 90 percent of the government's budget devoted to recurrent costs and current expenditures, the GOJ must redirect scarce budget resources to vital investments and reforms without triggering debilitating resistance from those who benefit from the *status quo*. The tight fiscal situation has been exacerbated by social spending increases in response to Arab Spring demands. While GOJ measures to increase enrollment in Jordan University and offer cash subsidies to all military personnel may reduce political pressures evident in the spring of 2011, these and other such measures have diverted precious public sector resources from more lasting reforms such as following through on decentralization, enacting transparency-enhancing and business-friendly policy reforms, and upgrading educational institutions.

IMPACT OF THE ARAB SPRING ON JORDAN'S ECONOMY

Since the Arab Spring began early in 2011; the GOJ has struggled to respond in numerous ways—although some of those responses could be considered short-term palliatives rather than lasting solutions. Table 2 below summarizes the economic effects traceable to the *Arab Spring*.

Table 2 - Arab Spring Impact on Jordan's Economic Indicators

Remittances	↓ Decreased by 13.5% January-July 2011/ compared with January-July 2010
Foreign Direct Investment	↓ Decreased by 15% first two quarters of 2011 vs. first two quarters of 2010
External and Domestic Debt	↑ Domestic debt increased by 5% or 349 JD million between July 2010 and July 2011; external debt increased by 557.2 m or 13.6% over the time period
Budget Deficit	↑ Current account deficit stands at JD -1151.4 million for the first two quarters of 2011, a 52.3% or JD 602.1 million increase on the same period of last year
Trade Deficit	↑ Rose by 15.4% for the period July 2009–July 2010, compared with the July 2010-July 2011 period
Tourism	↓ Number of visitors dropped by 13% from Jan-Sept in 2011 compared to the same period in 2010

The Arab Spring led to significant reductions in the Jordanian government's margin to maneuver or respond. Capital inflows (from remittances, FDI and aid) all declined in 2011, as did revenues from tourism. Meanwhile private capital value through the stock market has been declining, and the budget and trade deficits have climbed, as has unemployment.

In response to Jordanian special interest groups emboldened by the Arab Spring, the GOJ has tended to accommodate demands for increased privileges and benefits from government. The problem is that it not only diverts limited fiscal resources from long-range investment and restructuring, but it has the potential to actually reverse constructive structural reforms. For example, the GOJ has reversed its decentralization plan, which entailed lowering the number of municipalities. Instead, once unrest began and demands started to rise for municipalities, new ones were created and the original plan was *de facto* scrapped. (See ANNEX III “Background Note on Jordan’s Decentralization Efforts” for a more detailed discussion of the likely economic impact of Jordan’s decentralization plans and recent changes to the plans).

OPPORTUNITIES

Arab Spring Demands for Transparency Can Catalyze Business Environment Reforms

The assessment team’s interactions with stakeholders in Jordan suggest that Arab Spring demands for more accountability and better economic opportunities for Jordan’s citizens could be a good catalyst for the GOJ to move forward on responsive business environment reforms. Two possible initiatives could be developed in this reform arena:

- The GOJ could launch a comprehensive stakeholder consultation led by a high-profile public-private working group. The working group would enlist a broad constituency to support a short-term Jordan Competitiveness Job Action Plan. This action plan could withstand changes of government or cabinet reshuffles and provide political will for specific, practical reforms.
- Second, the GOJ could build upon recent overtures by the Monarch and top government officials to hold themselves more accountable to the public for their financial dealings. A national government efficiency and accountability effort, based on practical steps to increase efficiency and accountability in economic management and service delivery could transform the business climate in Jordan.

Job Creation Outside of Amman

While decentralization is a very sensitive domestic political matter, some specific opportunities to promote economic growth outside of Amman could have considerable success in Jordan, including:

- **Job creation activities in specific industries.** An effort to target specific industries with high potential outside of Amman could be very productive. For instance, tourism, and certain back-office operations, including data-entry and call center operations, show good potential to create sustainable jobs for educated Jordanian workers outside of Amman. The main preconditions for back-office operations are electricity and the internet availability.
- **Workforce development/business development services initiatives outside of Amman.** Another initiative outside of Amman would involve concerted efforts involving interested donors and NGOs to support the significant number of Jordanian business development services, vocational training, women’s and youth empowerment and community development organizations (CDOs) that have already demonstrated their capacity to help people living outside the capital to gain valuable job skills and develop micro- or small/medium enterprises.

III. MACROECONOMIC AND BUSINESS ENABLING ENVIRONMENT

OVERVIEW

There are three over-arching factors that shape the conditions under which Jordan can stimulate enterprise growth and job creation over the next five years. They are: trade balance trends; fiscal/budgetary constraints; and conditions for doing business (as reflected by Jordan's standings in the international competitiveness and business rankings). Over the last five or more years, Jordan has been:

- Missing opportunities to capitalize on the full benefits from its bold steps to integrate into global and regional trade regimes;
- Tying the government's hands with massive budget deficits and dependence on international aid; and
- Falling behind regional and global competitors in most business and competitiveness rankings.

This backdrop presents a mixture of positive and negative trends (assets and liabilities). They suggest specific opportunities that Jordan must seize upon in the coming years.

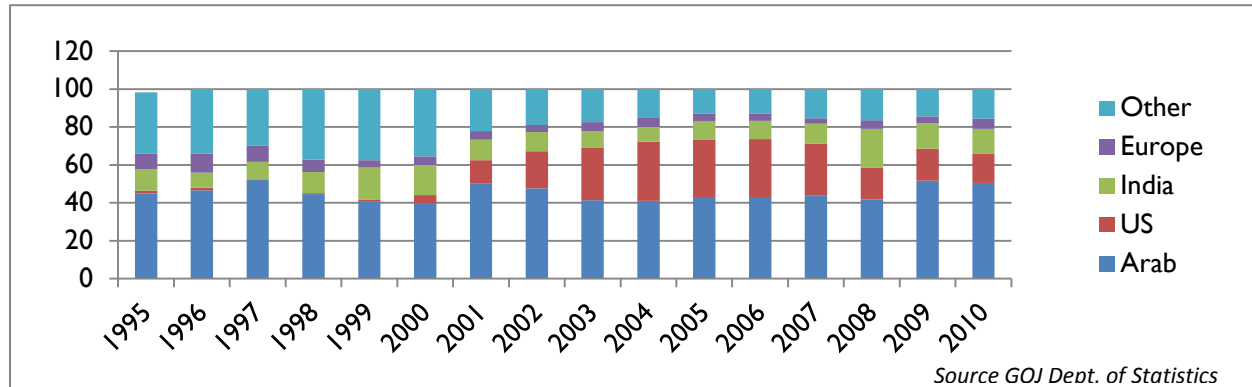
ASSETS

Free Trade Agreements. Jordan has made huge strides in the trade field over the last decade, joining the World Trade Organization (WTO); establishing a range of qualified industrial (QIZs) and free trade (FTZs) zones resulting in the rise of a significant, though fragile, garment assembly industry; and signing an across-the-board free trade agreement (FTA) with the United States, the full potential of which has yet to be realized. On the other hand, Jordan has derived relatively little export gains from all this trade liberalization, and there remain inefficiencies in the tariff structure and customs administration that impede the development of competitive industries that can take advantage of regional and global markets from a Jordanian platform.⁴

Jordan's export performance has been exceptional in a few industries with key export markets primarily being the Arab countries, followed by the United States (as shown in Figure 3 below). The US market is still an important one for Jordan, but it remains fairly narrow. Currently, exports to the US are mostly garment products. In the case of India the main export product is fertilizers. What is noticeable is the small participation of Europe as an export destination in light of the long-standing free trade agreement. The EU-Mediterranean Agreement holds unrealized export potential for Jordan.

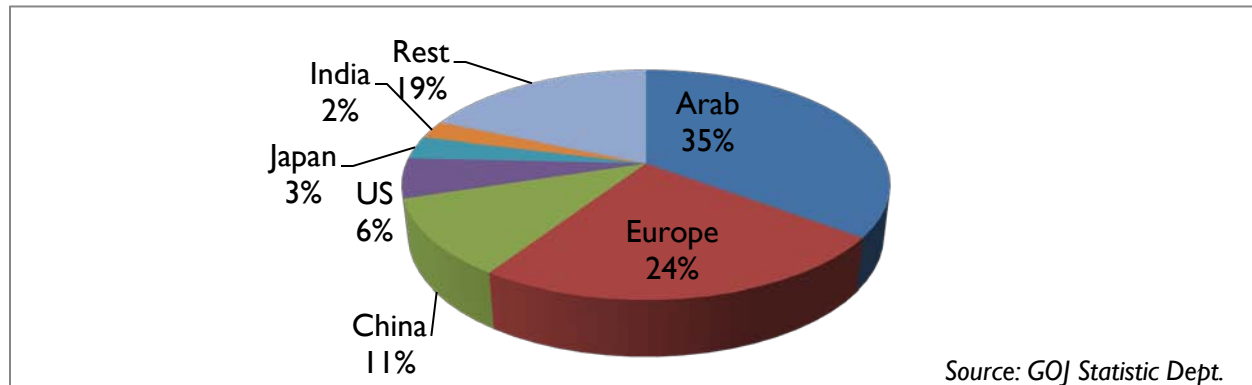
⁴ For an excellent overview of Jordan's trade reforms and challenges, see Sheri Pitigala et al, "Assessment of Trade Policy in Jordan and Recommendations for Reform," SABEQ, 21 February 2008.

Figure 3 - Destination of Jordanian Exports



Imports present a sharply different picture from exports. Europe is the primary import source, as shown in Figure 4, causing a huge trade deficit for Jordan with the EU. The most balanced trading region for Jordan is the Arab countries, with which Jordan generally runs a surplus, and which accounts for the largest share (over a third) of both exports and imports.

Figure 4 - Geographic Distribution of Jordan's Imports 2010



Over the last decade, Jordan has pursued a strategy of obtaining preferential market access for its exports. Through unilateral trade preference schemes (GSP) and free trade agreements, the country's exports enjoy full tariff preference in the major importing markets. Jordan acceded to the WTO in 2001, and it entered into preferential trade agreements with the EU, US, EFTA, Arab countries under GAFTA, Canada, Turkey and Singapore; these collectively which entailed broad reciprocal tariff elimination.

This web of trade preferences and free trade agreements represents a huge potential in markets in which Jordanian exporters can compete on equitable--sometimes preferential--terms, relative to exporters from countries lacking trade preferences or FTAs. But as the SABEQ trade study noted in 2008: "While such regional agreements can enhance market access, and complement Jordan's liberalization commitments under the WTO (and in unilateral reforms), the welfare outcomes are uncertain, depending on the scope of the agreements, in terms of the rules that govern preferential. These rules include: product/sector coverage rules of origin; complementary policy harmonization

measures; as well as the degree to which Jordan's producers and service providers are able to take advantage of those market access opportunities."⁵

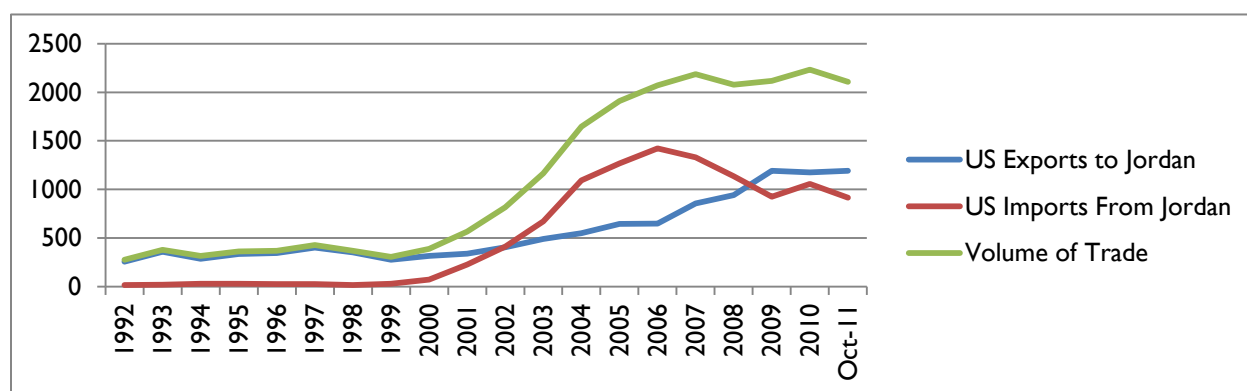
A brief scan of each of the three major regional export markets for Jordan (the United States, the EU and the Gulf states) suggests specific industries in which Jordan might increase its exports in the coming five years.

I. The US and the Jordan-US Free Trade Agreement (JUSFTA):

A 2008 University of Michigan review of the economic benefits of JUSFTA for Jordan drew the following pessimistic conclusion, which seems to have been borne out by the Jordan's experience through the global economic slow-down since then: "... the JUSFTA's economic provisions, which were hailed at the time of the agreement signing and are still favorably looked upon today, did not meaningfully contribute to Jordan's growth."⁶

Overall, Jordanian export performance with the US has been disappointing since its peak at just over \$1.4 billion in 2006 (see Figure 5 below). It has hovered at around \$1 billion since the global recession in 2008. Of the \$928 million in Jordanian exports to the US in 2010, 88 percent (\$815 million) was still in apparel. The next most important exports were pearls/stones/metals, and pharmaceutical products, each accounting for less than ten percent.⁷

Figure 5 - Jordan-US Trade 1992-2011 (\$ million)



Source: <http://www.census.gov/foreign-trade/balance/c5110.html>

Jordan's most promising industries for export to the US market under JUSFTA are ICT, pharmaceuticals and other services, notably tourism. ICT is hailed as poised to benefit from JUSFTA because of Jordan's TRIPS-plus rating on protection of intellectual property rights, although it is experiencing only modest growth, constrained in great part by rigidities in the local labor law, lack of venture capital and angel investment. Pharmaceuticals also benefit from relatively strong intellectual property and patent protection in Jordan, combined with at least 16 manufacturers successfully producing for local, regional and global markets. However, growth potential in the United States will also continue to be constrained

⁵ Pitigala et al, "Assessment of Trade Policy in Jordan and Recommendations for Reform," SABEQ, 21 February 2008, p. xv.

⁶ Marwa Al Nasa'a et al, "The Jordan-U.S. Free Trade Agreement: Eight Years Later," 21 March 2008, University of Michigan Gerald R. Ford school of Public Policy, p. 21.

⁷ <http://www.trademapp.org/>

by extremely high US safety and manufacturing practices standards. Services other than ICT, notably tourism, represent a third potential growth area for Jordanian expansion into the US market, barring any major geopolitical events or rise in local security concerns in the coming months and years.

2. The European Union and the EUROMED Agreement:

Jordan's trade with the EU countries (including the larger "EU 27" group) has fallen since 2008 from first to second place behind Saudi Arabia as Jordan's most important trading partner and source of imports.⁸ Exports to the EU countries, which in 2010 amounted to just over \$237 million (or less than a quarter of the nearly \$1 billion Jordan exported to the US that year) consisted primarily of pearls/stones/metals, chemicals/minerals, fertilizers and vegetables. Pharmaceuticals and machinery ranked a distant tenth and eleventh in exports to the EU in 2010.⁹ Although there remains considerable untapped potential to expand tourism and build up trade in Jordanian ICT services to European countries (for example, in converting European-designed software and computer games to the Arabic language), Jordanian fresh and processed food exporters also believe that further refinements in the rules of origin and other terms of the EUROMED Agreement could significantly enhance their competitiveness to penetrate EU food markets.

3. The Middle East and the GAFTA:

In 2005 the Arab League brought the Greater Arab Free Trade Area, or GAFTA, into force, and today it embraces 17 countries.¹⁰ GAFTA-specific trade statistics are not readily available, but Jordan's exports to the entire Middle East (including the 17 GAFTA countries) amounted to over \$3.2 billion in 2010, while it imported nearly twice that amount (\$5.9 billion) from those countries that year. Jordan's exports to the Middle East in 2010 included pharmaceutical products (over \$400 million) and vegetables (\$392 million). Jordan also exported between \$100 and \$200 million each of electrical/electronic equipment, paper/pulp, plastic, aluminum and machinery products that year. Jordan's exports to the Middle East countries have remained roughly the same (between \$3.2 and \$3.3 billion) since 2008. (Over half of Jordan's imports from Middle East countries in 2010 was for fuel and oil products, with plastics and metals a distant second and third, and they have hovered between \$5 and 6 billion per year from 2008-2010.)¹¹

Potential growth areas for Jordanian exports to the Gulf and greater Middle East include the two currently strong industries – pharmaceuticals and fresh or processed foods. However this region, arguably Jordan's natural market for most of its products and services, also presents export growth potential in a range of other industries, notably in ICT product development and services geared to Arabic-speakers, tourism aimed at the Arab market and medical services. (See Chapter V for more specific, industry-by-industry discussions of key competitor countries and other challenges to developing promising export markets.)

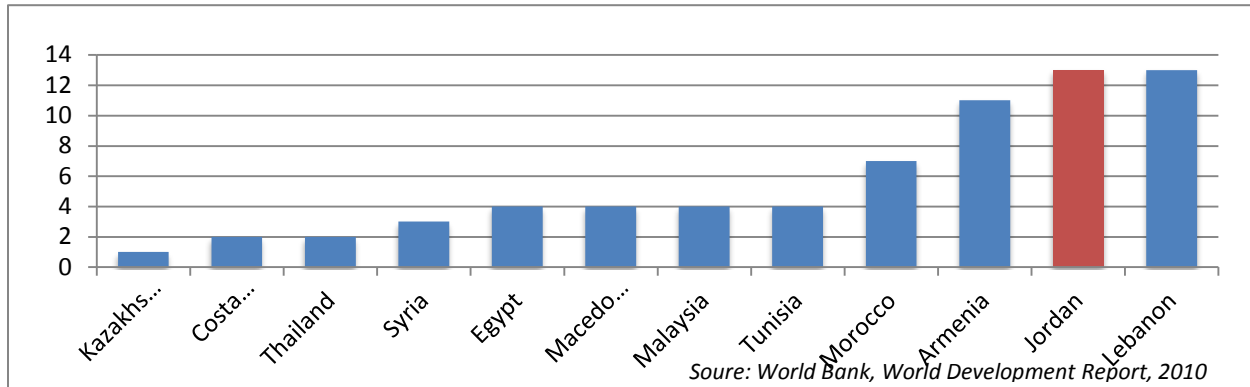
⁸ EU, "Trade: Jordan," 2012, (see <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/jordan/>).

⁹ See for example, Jordan-EU trade statistics at: http://www.trademap.org/tradestat/Bilateral_TS.aspx.

¹⁰ GAFTA includes Jordan, United Arab Emirates, Bahrain, Tunisia, Saudi Arabia, Syria, Iraq, Oman, Qatar, Kuwait, Lebanon, Egypt, Morocco, Sudan, Palestine, and Yemen. For a brief history of GAFTA, see UAE Ministry of Foreign Trade, "Great Arab Free Trade Area," at: http://moft.gov.ae/wto/index.php?option=com_content&view=article&id=57&Itemid=25&lang=en.

¹¹ See for example, Jordan-Middle East trade statistics at: http://www.trademap.org/light/Bilateral_TS.aspx.

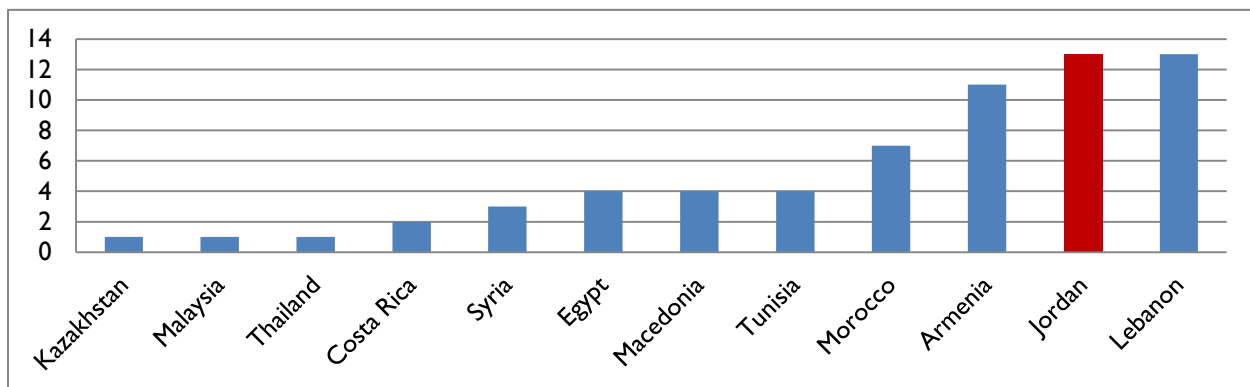
Figure 6 - FDI Inflows as % of GDP (2010)



High FDI Inflows. Jordan has demonstrated another significant economic growth asset in its rate of foreign direct investment (FDI) and remittances from Jordanians working in the Gulf and the West. Figure 6 shows FDI is strong: over 6 percent of GDP in 2010. Among its neighbors and selected global competitors, Jordan is surpassed only by Lebanon, whose FDI inflows in 2010 were over twice that of Jordan.

High Remittances. Remittances in 2010 accounted for 13 percent of Jordan's GDP—a level on par with Lebanon and just short of Jamaica (14 percent), a nation with a huge diaspora, larger than the population of Jamaicans residing on the island.¹² As a logical consequence of the massive migration of Palestinians into Jordan since the founding of Israel, the majority of Jordanians who migrated to the Gulf were of Palestinian origin. In an instructive comparison of the role that diasporas have played since independence in Lebanon and Jordan, an analysis published by the Center for Comparative Immigration Studies at the University of California, San Diego, concludes "The very structure of the Lebanese [political] system can in part be traced to the presence of the large diaspora communities; and in the case of Jordan it is difficult to imagine that the state would have remained stable without the departure of large numbers of Jordanians of Palestinian origin and without their remittances."¹³

Figure 7 - Jordan's Remittances Compared with Benchmark Countries (% of GDP, 2010)



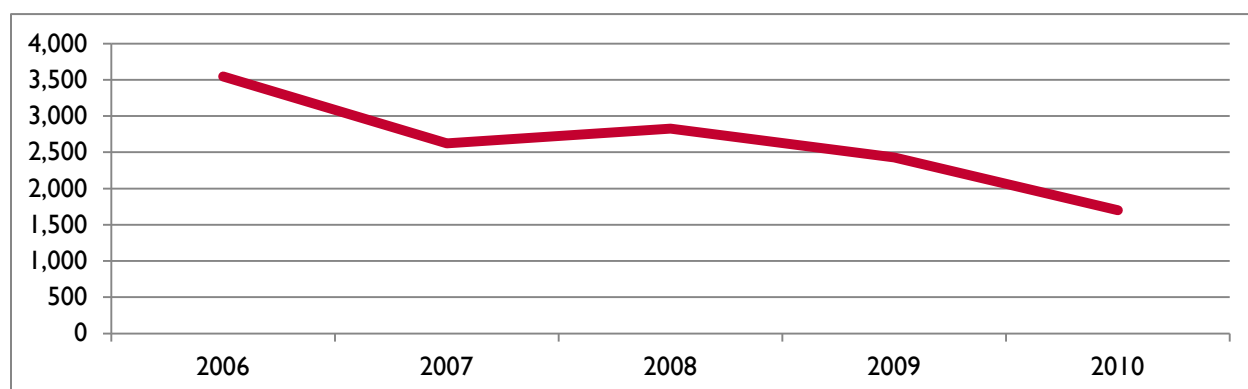
¹² World Bank, "World Development Indicators," 2011

¹³ Laurie Brand, "State, Citizenship, and Diaspora: The cases of Jordan and Lebanon," University of California, San Diego, Center for Comparative Immigration Studies, Working Paper 146, February 2007, p.p. 2, 10.

LIABILITIES

Challenges of High Remittances. Two of Jordan's assets—high rates of remittances and of foreign direct investment—also represent challenging liabilities. World Bank economists have observed that of the estimated 450,000 Jordanians working abroad and sending home remittances in 2006 (nearly double the number at the beginning of the decade), the majority tend to be among the most educated Jordanians.¹⁴ Studies have shown that in Jordan and in other countries with similarly large “brain drain,” the benefit of remittances accrues primarily to the wealthy, relatively better-educated families in the home country, while remittances put upward (inflationary) pressure on real exchange rates and encourage Jordanians in the domestic labor market to “opt out” of seeking employment. In Jordan, where the richest families derive 14 percent of their income from remittances and where the poorest rely on them for only three percent of theirs, “there may be cause for concern that the entire population must bear the negative consequences of remittances, whereas primarily the wealthy receive their benefits.”¹⁵

Figure 7 - Jordan Foreign Direct Investment Net Inflows (current US\$ million)



Recently Declining FDI Inflows. Regarding FDI inflows, it is unlikely that it will maintain anywhere near the levels that Jordan enjoyed during the 2000-2005 period. Since 2006, net FDI inflows have dropped from over \$3.5 billion to under \$2 billion, driven primarily by a decline in government privatization of public sector companies, combined with the global economic contraction that began in 2008 (see Figure 7).¹⁶ Now that the war in Iraq and the rising oil prices are no longer driving Arab investment funds towards Jordan, the need is more urgent than ever for the GOJ to analyze and address systematically the specific business environment factors that tend to render Jordan's investment climate less attractive than those of competitor countries around the world.¹⁷

Although FDI inflows are seen as positively stimulating the Jordanian economy, some consequences are troubling, such as the upward pressure that foreign investment has placed on the Amman real estate

¹⁴World Bank, “Hashemite Kingdom of Jordan: Resolving Jordan's Labor Market Paradox of Concurrent Economic Growth and High Unemployment,” Report No. 39201-JO, December 23, 2008, p. 53.

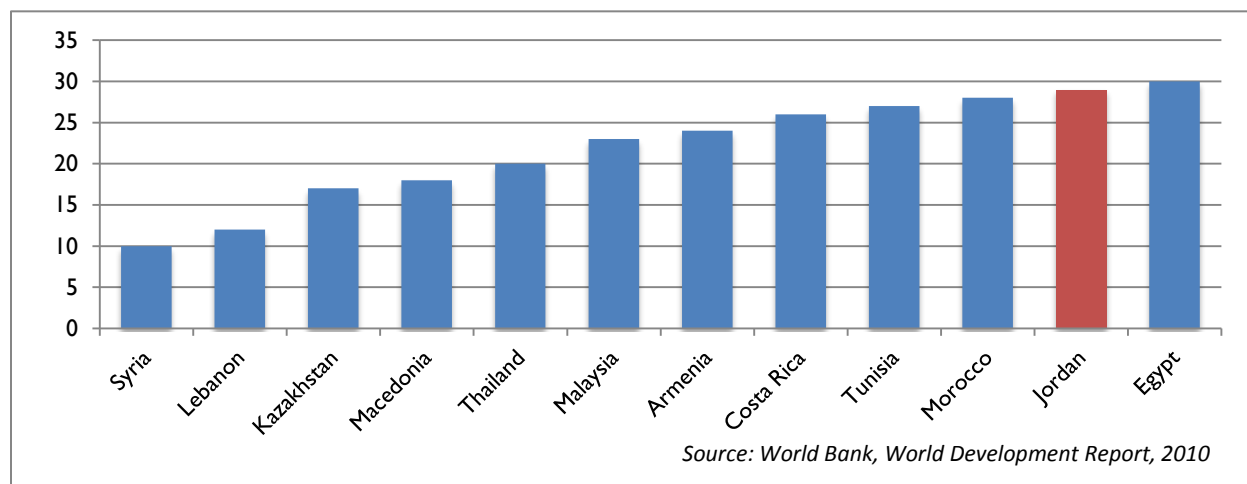
¹⁵ Ibid. p. 52.

¹⁶ Source: World Bank Global Development Indicators

¹⁷ See for example Yusuf Mansur, “Discussion Paper: Overcoming Barriers to Foreign Direct Investment in Jordan,” (part of a series of papers presented by the International Research Foundation of Oman and the Fraser Institute of Canada), June 2008.

market, and on the prices of labor and materials in the construction sector. While remittances have tended to flow into all areas of the Kingdom, the majority (90%) have gone to Amman Governorate. As such, FDI inflows exacerbated already pronounced regional disparities, as economic activity thrived within the capital, while little increased economic activity and job creation occurred in other governorates. It can be argued that the FDI inflows from wealthy Iraqis and wealthy GCC countries not only intensified the inflationary pressure in the Kingdom, mainly in Amman, but also increased income inequalities between the capital and other regions.¹⁸ Despite these downsides,¹⁹ overall high FDI benefits the Jordanian economy in terms of income growth, job creation and technology transfer.

Figure 8 - Jordan's High Government Expenditure (% GDP)



High Public Expenditures. Figure 8 places Jordan among countries with exceptionally high public sector spending as a proportion of GDP (at over 25 percent, higher than any of the selected comparator countries except Egypt). While this high government spending is considered a liability, it is also important to note that the size of government in the Jordanian economy has been dropping steadily in recent years, notably from 40 percent of GDP in 2009 to under 30 percent in 2010²⁰ “a transformation almost unheard of elsewhere in the world and one that must be heralded.”²¹ The challenge for 2012 and beyond will be to sustain such reductions (accomplished primarily through hiring freezes and payroll controls) in spite of the current political pressures that the GOJ is facing, without risking increased poverty. Women and their families are likely to be particularly affected by the loss of income and benefits from the public sector, since they already have fewer economic alternatives; women find it

¹⁸ It should be noted that current and past incentives offered by the Investment Law provide more attractive tax incentives for locating in less developed regions. However, such incentives have been viewed as ineffective in attracting investment outside of Amman. The incremental benefits from higher tax incentives are not perceived as sufficient to offset the perceived additional competitive liabilities associated with locating in those regions (e.g., limited access to markets, limited availability of skilled workers, inadequate infrastructure, etc.)

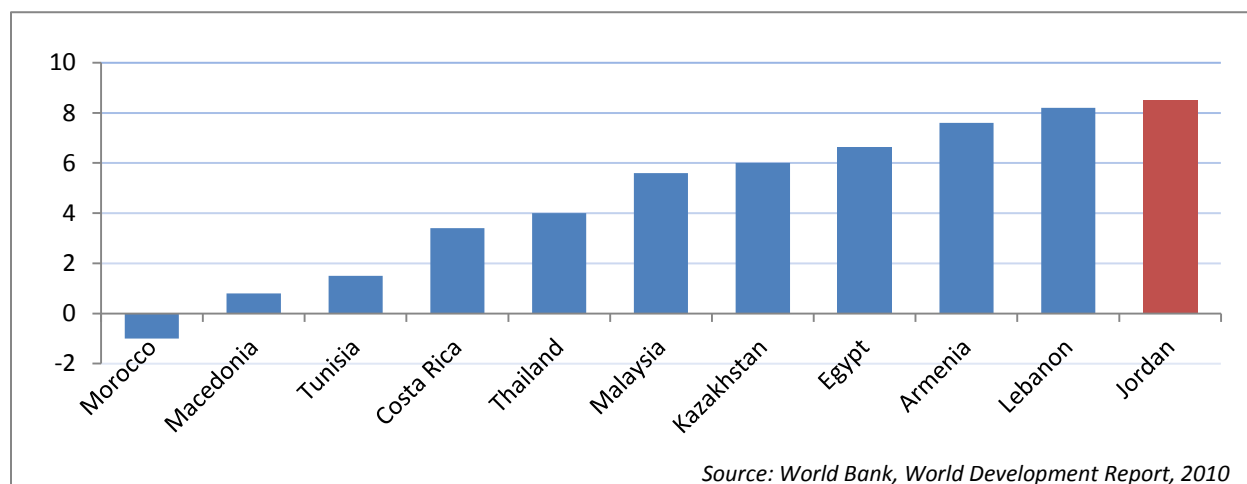
¹⁹ If the foreign investment boom in real estate in Amman continues unabated, there are a number of ways that the GOJ can manage it, including tighter zoning regulations or the slowing down in issuing of construction permits for commercial real estate development.

²⁰ These budget definitions are different from the World Bank government expenditure data but the downward trends are the same.

²¹ Mark Gallagher et al, “Jordan: Public Expenditure Perspectives,” USAID/Jordan Fiscal Reform II Project (DAI/Nathan Group, Inc.), December 2011 (final draft), p. 4.

more difficult to enter a less supportive and more discriminatory private sector job market and/or to start their own business.

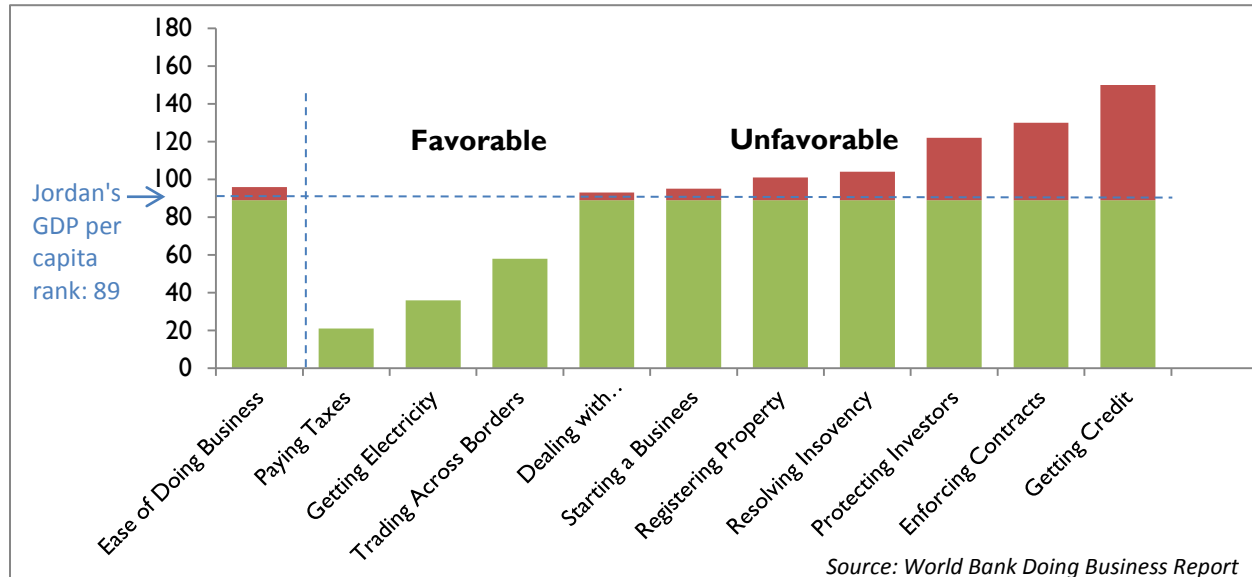
Figure 9 - Jordan's Burdensome Fiscal Deficit (% GDP, 2009)



High Budget Deficits. The high budget deficit is one of the most significant and growing problems facing the government of Jordan. The overall fiscal deficit, including grants, has averaged 5.2 percent of GDP during the period 2005–2010 (see Figure 9). Excluding budgetary grants, the fiscal deficit averaged 8.5 percent of GDP during the same period. These high fiscal deficits and the critical role of external grant funding for the government of Jordan in helping fill the deficit, highlight some the vulnerabilities Jordan faces if grants are reduced in any given year.

Poor and Declining Doing Business Rankings. The World Bank's Doing Business indicator series reveals some of the areas that merit particular attention to improve Jordan's competitive standing. The indicator is comprised of ten key factors that are broken out in Figure 10 below. It shows that Jordan compares relatively favorably to other comparator countries in the world (at approximately its level of GDP per capita) for its tax regime, the availability of electricity and its relative ease of trade across borders. It is more difficult than in most other countries at Jordan's income level, however, to get construction permits, start a business, register property, and resolve insolvency. Jordan is weakest in its income class when it comes to protecting investors, enforcing contracts and getting credit.

Figure 10 - Ease of Doing Business: Jordan 2012

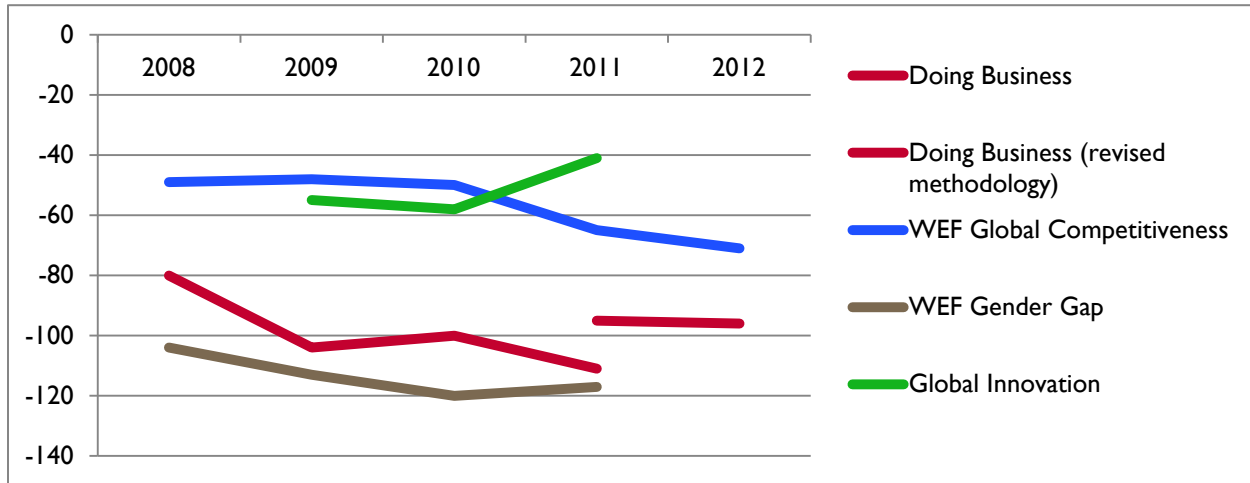


Jordan is simply not keeping up with its neighbors and global competitors when it comes to creating conditions in which regional and global businesses can thrive traces the trend in several key indicators between 2008 and 2012.²² The World Bank's Doing Business indicator trends consistently downward for Jordan, notwithstanding a methodological change in 2010 that interrupts the series. The WEF Competitiveness Indicator also trends steadily downward, accelerating its decline since 2010 (see Figure 11). The main index score that has been improving is the Global Innovation Index. The other encouraging sign for Jordan in its international standings is the slight improvement in the WEF's Gender Gap indicator from 120th to 117th in 2011. However, a closer examination of the four component elements of this indicator reveals a fundamental challenge for Jordan's male-dominated workforce and for women's overall economic empowerment in the Kingdom: Jordan scored 79th in the world on women's educational attainment,²³ but Jordanian women rank 127th in the world in economic participation. This paradox of relatively educated but unemployed women in the workforce is a key issue addressed in Chapter VI (Employment and Job Creation).

²²Sources: WEF, Global Competitiveness Report, 2011/2012, World Bank Doing Business Report, 2011. Note: rankings in the chart are converted to negative numbers for this chart in order to show that higher scores represent declines in international standing.

²³ Ricardo Hausmann et al, "The Global Gender Gap Report 2011," World Economic Forum 2011, pp. 6-13.

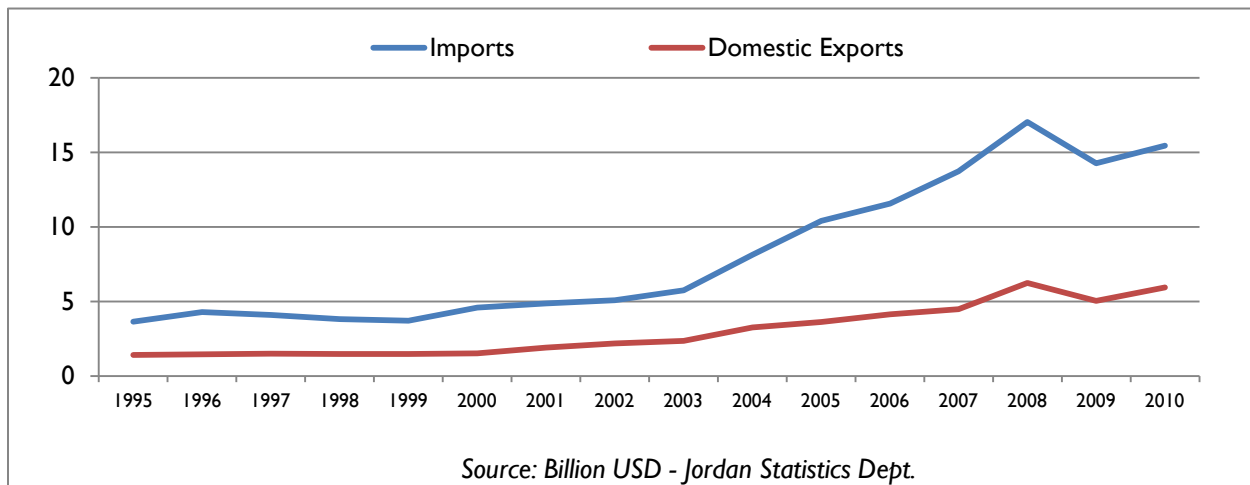
Figure 11 - Jordan Losing Ground on Global Business Rankings



This failure is arguably the most serious threat to job creation, to attracting FDI, and to broad-based economic growth over the next five years, but fortunately, it is also entirely within Jordanian means to rectify – given the political will and a galvanizing national agenda committed to encouraging and supporting women’s active participation in the labor force as employees and entrepreneurs.

Jordan’s Trade Deficit. Jordan’s overall trade deficit is one of its most significant liabilities. The trend is generally worsening, as Figure 12 indicates. The deficit remained fairly constant proportional to the value of trade until 2004, and it has basically been widening ever since.

Figure 12 - Jordan Commodity Trade



Jordan is energy dependent, and imports of fuels represented on average 21% of total imports during the period 2004-2010. Food imports also were significant, accounting for over 13 percent of total imports over the period. Furthermore, Jordanian manufacturers also depend upon heavily on imported intermediate goods, increasing the trade deficit.

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Even in one of the more successful recent export experiences, that of the garment industry, growth in Jordan's exports stimulated by the QIZs and the FTA and preferential access to the US market has produced disappointing results: relatively low-skilled jobs that have gone overwhelmingly to foreign workers. The garment industry, with the help of the US-Jordan-Israel supported QIZs²⁴. As 2011, there were 30,000 employees working in the export garment sector in Jordan. The cutting, sewing, trimming, ironing and packaging work this industry offers appeals overwhelmingly, however, to foreign laborers, who by 2011 had come to account for nearly 28,000 of those jobs, or over 78 percent of the total, with Jordanians accounting for the remaining 22 percent.²⁵ Moreover, since most QIZ products are exported, QIZs provided little, if any, indirect job-creation effect in the domestic economy.²⁶

Women comprise an estimated 70% of QIZ employees, and Jordanian women have benefited from increased working opportunities; for most of the Jordanian women working in the QIZ, this job is their first work experience and accounts for a significant source of family income.²⁷ Because Jordan did not impose a strict requirement for hiring of Jordanian workers, the job impact for Jordanians has been limited, and the issues of transportation, working hours and working conditions still require attention, especially for Jordanian women workers. However, job opportunities could be increased for Jordanians were the QIZs to limit work visas for foreign workers in certain categories of jobs.

Furthermore, while the QIZs remain in operation and are helpful for training and investment, the QIZ advantages have been somewhat weakened by the phasing out of global quotas on trade in apparel, effective January 1, 2005 under the WTO Agreement on Textiles and Clothing – quotas that had restrained exports from Jordan's competitors, especially China and India. Moreover, the United States' signing of a QIZ agreement with Egypt in 2004 and Egypt's cheaper land, energy and, most importantly, labor (Egyptian law requires that the percentage of foreign labor does not exceed 10% while in Jordan lacks such a stipulation) further eroded Jordan's competitive advantage, particularly in using the QIZ to assemble garments for export into the United States. More and more manufacturers have found that the QIZs impose requirements that are onerous relative to the benefits. The U.S.-Jordan FTA provides tariff-free entry into the United States without requiring Israeli minimum content (as is the case for QIZ production); Israeli content is viewed as being relatively expensive. In addition, the QIZs have provided Jordanians access to the garment importers in the US and have also enabled Jordanian firms to establish contacts and networks, which can be utilized to export under the terms of the relatively more liberal FTA terms.

²⁴ The United States proposed the concept of Qualifying Industrial Zones (QIZs) in Proclamation No. 6955 of November 1996. The QIZs are areas designated by the Jordanian and Israeli authorities and approved by the U.S. government. Products originating in the QIZs are granted duty-free and quota free access to the US market. (See for example: Jordan Enterprise Development Corporation, <http://www.agreements.jedco.gov.jo/qiz.html#7>.)

²⁵ "Companies in Qualifying Industrial Zones." Ministry of Labor Department of Information. 28 Feb 2011.

²⁶ Iqbal, Farouq and Razzaz, Susan. World Bank. "Job Growth without Unemployment Reduction: The Experience of Jordan." 10 Apr 2008

²⁷ USAID/Jordan Gender Assessment, 2007

However, expanding into the full range of FTA products for the US market, or diversifying and scaling up into the EU and Gulf markets in similar manner, poses considerable challenges for Jordanian exporters. Two areas for improvement stand out particularly at this time:

- While the Ministry of Industry and Trade (MIT) and other branches of the GOJ have become proficient in identifying unfair trade practices and using international channels to defend Jordanian exporters' interests, the nation presently lacks a set of overall export-promotion goals. Most importantly, as noted in the SABEQ trade study, "The Government of Jordan does not have a government-wide consultation policy and has not established standard methods of stakeholder consultation."²⁸ MIT had committed in 2008 to instituting such practices, but to date they have not taken hold in Jordan.
- Rules of origin (ROO) for primary and intermediate products, or in light manufacturing assembly, vary with each regional trade agreement, and are a considerable hindrance to many Jordanian exporters. Many entrepreneurs the Assessment Team interviewed complained of these complexities, and identified numerous specific examples of how those origin rules are especially harmful in preventing Jordanian exporters from sourcing primary products or inputs cost-competitively from neighboring countries for use in their products.²⁹ Fully exploiting the JUSFTA, or the EUROMED and other EU agreements, requires persistent and continuous review and adjustment of the ROO and other detailed terms and conditions that constitute "the devil in the details," inhibiting Jordanian enterprises from taking full advantage of these agreements.

Another significant liability holding back business investment and job creation in Jordan is the tight fiscal situation that denies the GOJ nearly any funds for capital investment. Compared to its neighbors and similar countries around the world, Figure 9 shows that Jordan's fiscal deficit accounts for a disproportionately high percentage of GDP – over eight percent in 2009 – rivaled only by Lebanon's, which is slightly lower.

Jordan's geopolitical importance and role as a regional buffer has brought mixed blessings to the management of public investment and expenditure. Generous grants from the Gulf States, the United States and others regularly fill government spending deficits, but this assistance, combined with recent political pressures in the region from the Arab Spring, have driven the government to the point where it spends over 90 percent of its budget on recurrent expenditures and has, with the exception of one or two high-profile public investment projects, "out-sourced" nearly all of its strategic and capital investment to foreign donors.

OPPORTUNITIES

Export Promotion Initiative

The GOJ, preferably as part of a broader "New Jordan Initiative," must develop specific export promotion and streamlining goals into a broader national economic agenda, and it must employ the full range of participatory and consultative mechanisms to do it. The unprecedented and powerful factor in this recommendation is for the GOJ to begin, at the highest levels of the government and down, operating at a level of transparency and inclusion heretofore rarely seen in Jordan. Ideally, the "New Jordan Initiative" would begin with Royal sponsorship of a structure of public-private working groups that would engage government, men and women private sector and civic leaders across the board in

²⁸ Pitigala et al, "Assessment of Trade Policy in Jordan and Recommendations for Reform," SABEQ, 21 February 2008, p. 90.

²⁹ Ibid. p. 102.

setting policy and regulatory priorities and goals. These goals would stretch from the one-year to the five-year time horizons.

To improve Jordan's trade standing, this process must include a working group dedicated explicitly to:

- Maximizing Jordan's exploitation of its many existing regional trade agreements;
- Removing any remaining administrative or regulatory barriers to exporters (as identified by the exporters themselves through the participatory process); and
- Championing selected export industry clusters through a full range of specific reform and promotion initiatives, again, deriving from the persuasive and competitively selected proposal of one or more of the several cluster-specific public-private working groups that would emerge from the overall "New Jordan Initiative."

Improve Jordan's Business Enabling Environment

A second critical opportunity for Jordan to seize in the coming years is to address, specifically and strategically, the component elements of the key international business ranking indicators that point to Jordan's most glaring weaknesses as an environment conducive to business formation and job creation, for men and for women. It is more difficult than in most other countries at Jordan's income level to get construction permits, start a business, register property, and resolve insolvency. Jordan is weakest in its income class when it comes to protecting investors, enforcing contracts and getting credit. These business enabling constraints need to be tackled urgently in order to propel Jordan to higher growth trajectory when it comes to enterprise formation and growth and job creation.

IV. ENTREPRENEURSHIP AND THE INNOVATION ECOSYSTEM

OVERVIEW

Innovation is the ability to take new ideas and translate them into commercial outcomes by using new processes, products or services in a way that is better and faster than the competition.³⁰ Innovation needs stakeholders and people being active within a *national innovation system (NIS)* and only these men and women – scientists, researchers, entrepreneurs and their employees, firms, investors, consumers and public authorities – can make a country or region more innovative and competitive. They act with a mindset and in a framework that either discourages or incites them to enter unknown territories—the *national innovation system*.

Jordan spends just 0.34% of GDP on R&D, and the income received from royalty payments is negligible. Entrepreneurship is thwarted by relatively high business start-up costs. Out of 110 countries ranked, Jordan has the 49th highest level of mobile phone ownership, but the 67th highest levels of internet bandwidth, and the 57th highest rates of secure internet servers, indicators that evidence underinvestment in the information infrastructure needed to match existing consumer and business demand, much less provide a hospitable foundation for growth and entrepreneurship.

According to the local experts interviewed by the assessment team, active cluster development strategies do not really exist in Jordan, although there are some promising industrial agglomerations in the pharmaceutical and ICT sector. So far, there is no written national innovation policy available. Nevertheless, members of the Jordanian private sector and government are well aware of the need for a strong innovation policy. Many experts from academia and industry in Jordan are involved in discussions about future technological developments and challenges, and R&D spending priorities.³¹

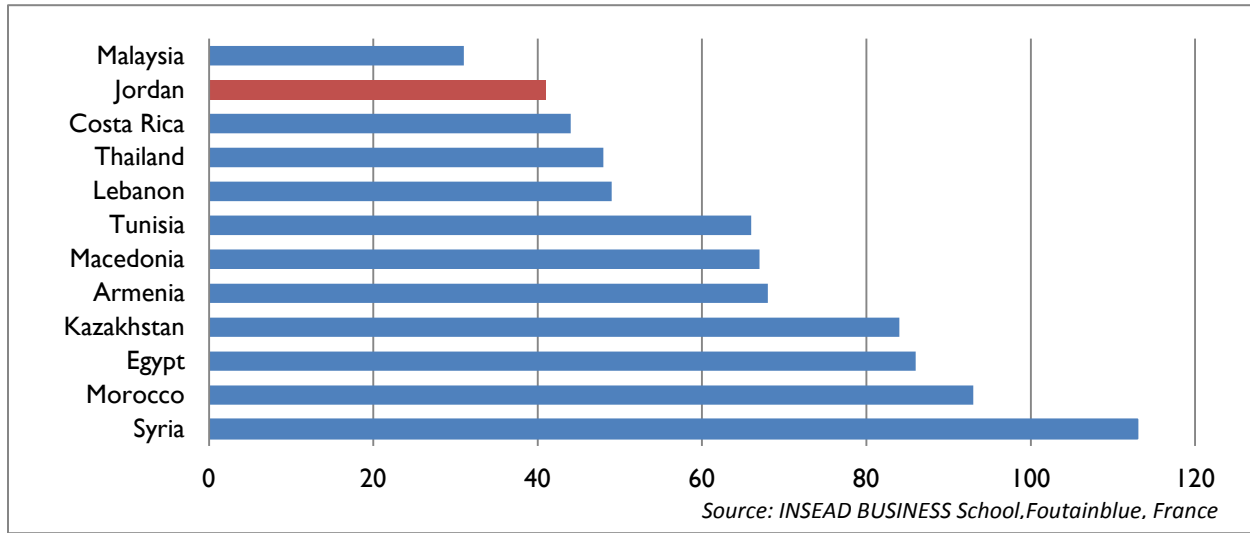
ASSETS

As Figure 13 below illustrates, Jordan scores well against its benchmark peers in innovation, and its innovation performance rankings have been improving significantly over the past few years.

³⁰ 'Creating a National Innovation Framework, Science Progress, Richard Nedis & Ethan Byler, April 2009.

³¹ Study on the National Innovation System in Jordan by Institute for Innovation and Technology (IIT) under funding from GTZ, December 2009. <http://www.iit-berlin.de/jordan.pdf>

Figure 13 - Global Innovation Index Rankings 2011 (out of 125)



Over the past 15 years, the Jordanian government has increased its commitment to science education and infrastructure, improved its intellectual property laws and the enforcement of those laws, and adopted a model for economic development and growth that relies on the private sector for job and wealth creation.

Commitment to a Knowledge Society. There is a high-level government commitment to the development of a “knowledge society” in Jordan. Stakeholders also recognize a need in both to develop social aspects of innovation -- entrepreneurship and creative thinking in Jordan. Jordan has in place several active public-private partnerships, including ones for IT, education, and entrepreneurship. There is a focus both in government and in the private sector on making the most of a limited level of natural resources.

Relatively Strong and Improving IPR Protection. Jordan has a relatively strong and improving IPR regime that is an overall asset for innovation industries such as pharmaceuticals, health care services, clinical trials research, and ICT/telecommunication. Jordan has introduced IPR laws consistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). These laws now protect trade secrets, plant varieties, and semiconductor chip designs in Jordan. Registration of copyrights, patents, and trademarks is required. Copyrights are registered at the National Library, and patents are registered with the Registrar of Patents and Trademarks, both part of Jordan's Ministry of Industry and Trade. Jordan has signed the Patent Cooperation Treaty and the protocol relating to the Madrid Agreement Concerning the Registration of Marks. Jordan has also acceded to the World Intellectual Property Organization (WIPO) treaties on copyrights (WCT) and performances and phonographs (WPPT). Jordan's pharmaceutical industry abides by the new TRIPS-consistent patent law. With the signing of the U.S.-Jordan FTA, Jordan committed to even stronger enforcement of intellectual property rights, particularly in the pharmaceutical sector.

These improvements notwithstanding, several areas still need strong protection if Jordan wants to be become a competitive location for innovative and creative industries such as software development, literature, music, and communications industries. Without IPR protection, inventors and creative designers will have little financial incentive to innovate.

Jordanian agencies responsible for IPR enforcement lack resources, and capacity and enforcement mechanisms and prosecution efforts still need to be strengthened, particularly with respect to *ex officio* authority to bring criminal cases. In addition, a sizeable portion of videos and software sold in the marketplace are still reportedly pirated. The Jordanian government continues to examine means to provide more comprehensive IPR protection, including more stringent enforcement of existing laws, introduction of better enforcement mechanisms, and the creation of an independent IP body.³²

Strong Education Foundation. Jordan demonstrates strong educational performance indicators, including math and science. It has a good network of universities, many of which are private. The country has a very large endowment of engineers (more than 80,000), who can contribute to the knowledge based economy. It has a vast network of 681 organizations involved in science and technology policy, research, or support (16% public, 84% private). Finally, Jordan boasts a large pool of bilingual English-Arabic speakers.

Access to Finance. Twenty-five commercial banks operate in Jordan, of which three are Islamic banks and nine are branches of foreign banks.³³ These banks operate through a network of 663 branches and 71 representative offices all over Jordan. In addition to the banking institutions, the financial sector in Jordan includes other institutions that exercise specific non-banking financial activities which include insuring clients' deposits, guaranteeing loans and export credit, and refinancing mortgage loans. For example, the Jordan Loan Guarantee Corporation (JLGC) provides loan guarantees. It also provides export credit guarantees through the Export Credit Guarantee Program. In 2010 the JLGC provided guarantees for 1108 export shipments with a combined value of JD 67.9 million and with a guaranteed value of JD 65.4 million.

MFIs³⁴ in Jordan have also experienced strong and steady growth with an annual average increase in outreach of 28% over the period 2005-2010, growing from 76,830 to 203,579 active clients. Some of this growth can be attributed to the entrance of new players into the market. Overall operational and financial performance of MFIs has been strong, with an average return on assets (ROA) of 7%, at par with the regional average for financially sustainable MFIs. Jordanian MFIs have a higher-than-average productivity rate of 278 loans/loan officer, outperforming their counterparts in the region. At the same time, portfolio quality remains high, with Portfolio at Risk (PAR) greater than 30 days of only 1.3 %.

Entrepreneurial Support Institutions. Overall, Jordan has no shortage of support institutions working on innovation and entrepreneurial development (see box below).

³² See USTR report on Jordan's IPR regime:

http://www.ustr.gov/sites/default/files/uploads/reports/2010/NTE/2010_NTE_Jordan_final.pdf

³³ Source : Central Bank of Jordan – <http://www.cbj.gov.jo/>

³⁴ Source: The National Microfinance Strategy of Jordan

http://www.mop.gov.jo/uploads/National_Strategy_for_Microfinance.pdf

JORDAN'S INSTITUTIONAL FRAMEWORK FOR INNOVATION AND ENTREPRENEURIAL DEVELOPMENT

- The Ministry of Higher Education and Scientific Research
- The Higher Council for Science and Technology (HCST)
- Ministry of Industry (Scientific Research and Vocational Fund, The Business Incubator System, and the Royal Scientific Society)
- Ministry of Planning (Industrial Research Fund)
- Higher Council for Science and Technology -IPark - Incubator member of JIC Network
- Queen Rania Center for Entrepreneurship – Training, Mentoring, and Funding
- Oasis 500 – Training, Mentoring, and Funding
- Jordan Forum for Business & Professional Women – Incubator member of JIC Network
- Al-Urdonia Lilibda Incubators (member of JIC Network)
- INJAZ - Training and Mentoring,
- Young Entrepreneur's Association, YEA
- Endeavor - Funding and Mentoring
- JEDCO – (JIC Network) National Innovation Centers
- NAFES- Funding for Technical Assistance
- Design Jordan – Design
- The Jordan Forum for Business and Professional Women Incubator
- Tatweer – Empretec - Training
- Ruwwad – Aramex Supported – Training
- Venture Capital (such as Abbraj Capital based in Dubai- UAE)
- Maydan – Incubator and Mentoring

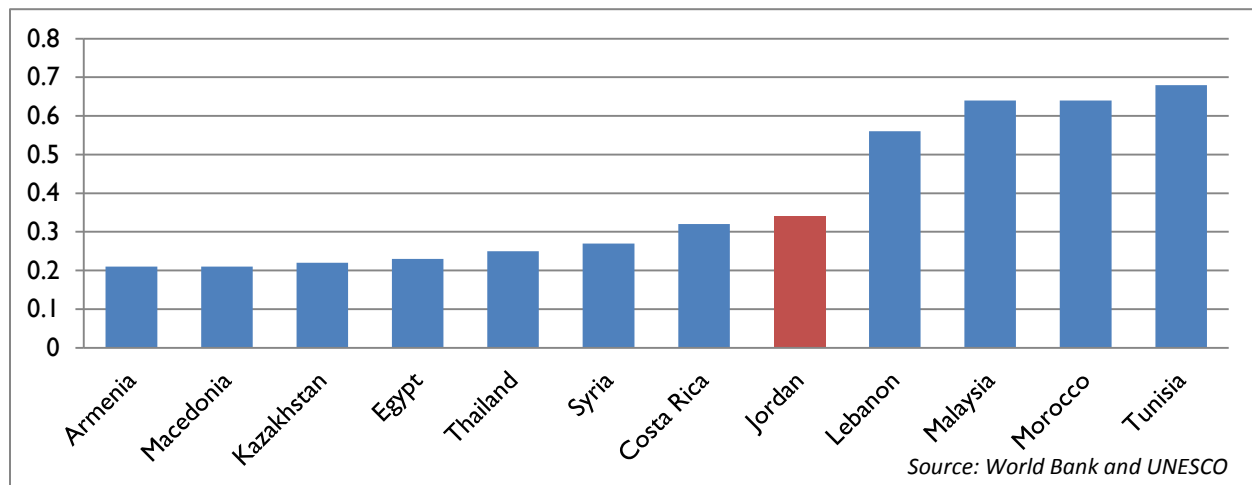
LIABILITIES

Although support for entrepreneurship development initiatives³⁵ in Jordan over the past decade has been a priority for both government and donor programs, most observers agree that there is a serious need for increased entrepreneurial focus and outreach in Jordan. Despite the various programs and institutions aimed at assisting and supporting SMEs and startups to become investment and market-ready, Jordanian's successful entrepreneurial endeavors have been limited.

Low R&D Investment. Jordan spends just 0.34% of GDP on R&D (see Figure 14 below), and private sector R&D spending is only about 5% of total R&D spending. University research is mostly theoretical. Start-ups' innovation capabilities are at very low levels, and academic and R&D institutions are not actively involved with the industry at the levels necessary to fertilize innovative technologies and processes on a large scale.

³⁵ See "Start your Business" at <http://www.jedco.gov.jo/>

Figure 14 - R&D Expenditures as % of GDP



Lack of Collaborative Networks. Small, mostly family-owned businesses comprise about 95% of the Jordanian private sector. Most owners reportedly run their businesses in a conservative manner and have a low appetite for risk. According to the World Bank³⁶ Jordanian scientific researchers often prefer to work alone rather than as part of teams. In addition, university-industry collaboration is not very well developed and few companies approach universities with their research problems. Few collaborative innovation networks exist. In Jordan there is also a serious lack of mid-level technicians or “knowledge technologists” who play a key role in innovation economies. Few developed innovation industry clusters and collaborative networks, although pharmaceutical, medical tourism, ICT clusters are emerging.

Weak Innovation Incentive System. The rewards and incentive system for companies, Incentives at both the university and company level remain very weak to encourage innovations and most of the universities do not have explicit royalty-sharing incentive schemes, and tenure and other career promotion decisions are not linked to research innovations. Few companies and university centers have introduced system for awards and incentives for innovation and technology commercialization.

Access to Finance. A number of sources, including the World Bank’s Doing Business Survey, cite access to credit as a serious constraint in the Jordanian economy—and this was confirmed by the assessment team interviews. In Jordan, 99% of firms are small and medium enterprises, accounting for 40% of value-added production and employing 70% of the country’s workers. As such, SMEs are vital to economic growth and job creation in Jordan. SMEs are widely expected to play a major role in Jordan’s growth, but can only do so with the ability to take out loans to expand their business and employ more workers.

One of the major constraints to risk-taking starts with Jordanian Banks, which have not developed their risk management operations and are viewed as being very conservative, often requiring burdensome level of collateral from borrowers. This is particularly challenging to SMEs entrepreneurs and start-ups who wish to start or grow their own businesses, and for women who often do not even have shared title to family property to use as collateral. This difficulty is exacerbated for firms working in services sectors (which accounts for nearly two in five women-owned businesses)³⁷, since services are intangible

³⁶ A Candid Review of Jordan’s Innovation Policy, Draft Report April 2010 by the World Bank

³⁷ See *Strengthening Access to Finance for Women-Owned SMEs in Developing Countries* October 2011, World Bank/IFC.

and banks do not have the necessary understanding of the sector to understand its outputs and the business potential and associated growth it could offer.

Currently key financial laws and regulations are in the process of being updated. For example, a new Secured Lending Law and enabling regulations will facilitate credit in Jordan by providing a legal framework allowing lenders to use movable assets as collateral for loans. In addition, the GOJ has recently passed a Private Credit Bureau Law and is in the process of issuing regulations that will provide the operational framework for establishing a credit bureau. Until these laws and regulations are fully enacted, however, Jordan's policy framework will still not be up to international best practices for enabling SME's access to finance.

MFIs in Jordan have maintained a strong gender focus with women accounting for 71% of all clients served helping women access small amounts of credit, many of these micro loans do not necessarily reflect a contribution to business sector capacity. Moreover, while there has been some differentiation in the market, namely in the area of insurance and Islamic lending products, by nature of the existing legal framework, the industry remains credit driven, leaving poor and low-income clients without the possibility of micro savings products. Deposit mobilization, as a source of self-financing, is not an option for MFIs under the current regulations. MFIs have so far been able to cover the cost of their debt funding through their pricing policies.

Women business owners have identified access to capital as the most important business issue, with only 9.2% of 444 women business owners surveyed indicating they received micro-finance loans and only 14.2% acquiring business/commercial bank loans. The remainder relied on other sources: 29.9% private resources (personal savings, friends and families), 27% earnings from their business, 14.2% taking out a personal bank loan, 2.9% vendor credits, 2.5% business lines of credit and 1.6% credit cards. Jordanian women do not typically have title to collateral (such as property), so they need a guarantor to secure a loan.³⁸

There also is very little early-stage risk capital and there is no venture capital law to clarify the legal structure of venture capital firms. The availability of risk capital, including angel and venture capital, is a key source of competitiveness for innovation activities and industries worldwide.

Overall, access to finance has been a major obstacle for SMEs, but steps to provide smoother access to finance—including the establishment of an SME fund with assistance from USAID and OPIC—are currently underway.

Relatively Weak Creative Industries Foundation. To be competitive in innovation industries such as ICT, Jordan must develop a strong cluster of related creative support service industries such as graphic design, advertising, film, media/communications, and music. Creative industries are an area in Jordan's innovation economy with significant potential for growth, but they have not yet reached their full potential. Assessment team interviewees suggested that there is currently little design capacity and a strong need for upgraded design schools in Jordan.

³⁸ See IFC Report (Ibid).

OPPORTUNITIES

Improve the Innovation Incentive and Reward Systems in Jordan

There is an opportunity to develop incentives systems at universities and research institutions modeled on best practices that are designed to encourage innovations and in particular industry-university collaborative R&D, such as, for example, royalty-sharing incentive schemes. At the university level, this effort would be focused on defining the rules and incentives systems for encouraging innovation through their technology commercialization offices. At the private level, this effort would work on product development and R&D departments within companies involved with innovation activities. Innovation competitions can be developed in schools, at the industry association and network level, and at the national level. Efforts to enable and enhance the R&D and innovation environment starting at early stages in schools and universities should also be planned for and considered as a top priority. This has also been emphasized in the National Agenda and Vision 2020, which guides Jordan's public and private sector initiatives in this arena.

Enable MFIs to Mobilize Deposits

Under current regulations, deposit mobilization is not an option as a source of self-financing for MFIs in Jordan. MFIs have so far been able to cover the cost of their debt funding through their lending interest rate pricing policies. As the market becomes more competitive, and interest rates decline, MFIs will need to look at ways to reduce their cost of capital either through savings mobilization or through equity investment. If MFIs were allowed evolve into deposit taking institutions, this would enable micro savings in Jordan to become a source of lending capital for the MFIs. In addition, this would introduce a much needed savings product for poor and low income clients.

Create Special Loan Products for SMEs

In many countries around the world³⁹, governments offer loan guarantees and subsidies to encourage commercial banks to offer special lending windows and guarantees for SMEs. There is an opportunity for the GOJ, with the possible assistance of donors, to offer loan guarantee programs to encourage commercial banks to do more cash-flow based lending to SMEs. SMEs typically have limited previous borrowing histories and often have limited chance of meeting the standard commercial bank collateral requirements for loans. DCA and other types of guarantees or interest rate subsidies encourage commercial banks to increase lending to SME borrowers. This targeted SME lending program could have a powerful impact on SME growth and job creation in Jordan.

SMEs also need financial coaching on how to approach banks and negotiate loans. Many SMEs could benefit from targeted BDS consulting and technical assistance in developing business plans and bankable business proposals. One approach—proven highly successful⁴⁰—would be to incentivize BDS financial intermediaries with a success fee contingent upon the borrower gaining access to a bank loan.

³⁹ See for example the US Small Business Administration loan programs at: <http://www.sba.gov/> or the EU SME programs at: <http://www.aecm.be>

⁴⁰ See <http://www.carana.com/about-us/news-archives-all/63-archives/421-macedonias-financial-platform-heats-up-business-competitiveness>

Encourage Growth of Potentially Break-out Micro and Small Businesses

The potential of the large number of micro and small businesses in Jordan could become an engine for economic growth. Women-owned businesses in particular tend to be smaller due in part to limited access to capital, lack of business/financial management skills, and the challenges of balancing work and family obligations. Opportunities exist to assist and mentor businesses that are well positioned for growth through BDS services coupled with loan guarantees and other measures to access finance.

Enhance Creative Industries

A key building block for strengthening creative industries is to upgrade design schools in Jordan. Graduates could provide creative inputs to a variety of other industries, working in graphic design, web design, advertising, labeling and packaging, set and costume design for film, and products design for industries such as food products, furniture, apparel, and high-end handicrafts.

The film industry in Jordan is nascent, but has potential to grow, and to help boost other sectors as well. The film cluster incorporates professionals in carpentry, costume design, painting, lighting, music, cosmetics, and large logistics firms that cater to foreign films set in Jordan. To support the nascent film cluster, as well as tourism, Jordan could host film festivals, and could encourage investment in theaters to view home-grown productions, and continue to promote itself as a set location for foreign films.

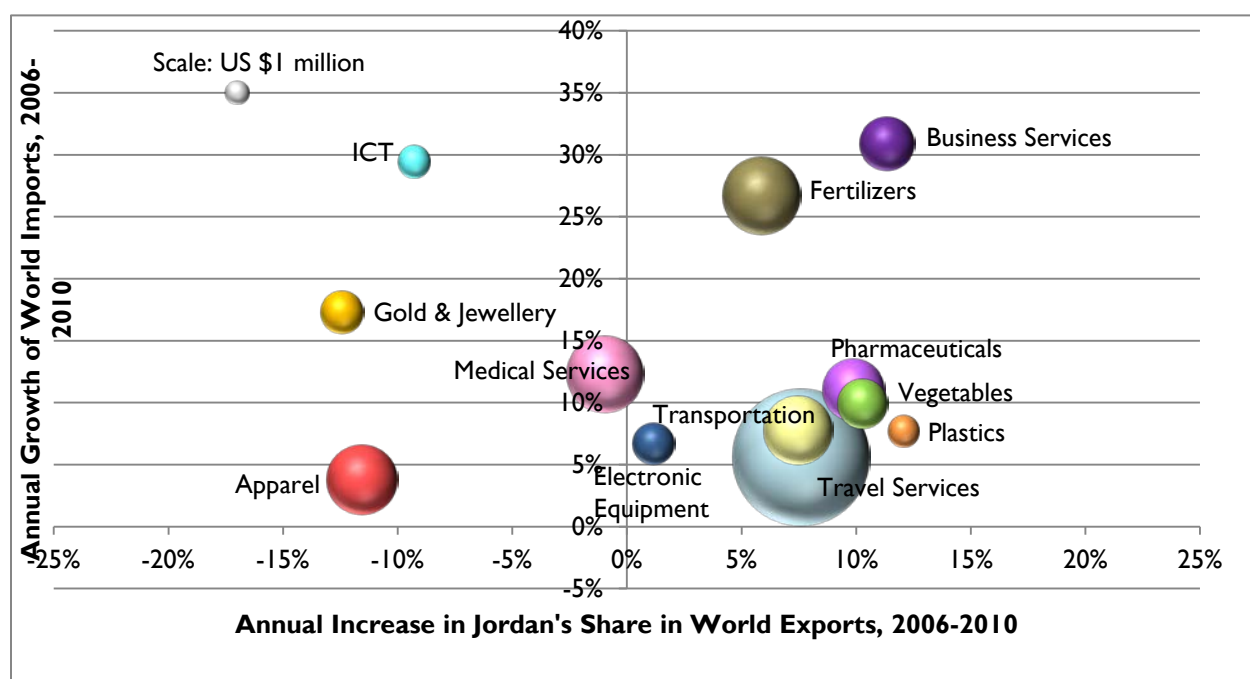
Stronger enforcement of IPR protection, particularly for software and music recordings, will also be needed to provide strong enough financial incentives for artists and other inventors to create innovative works, and gain a commensurate financial return within Jordan.

V. COMPETITIVE VALUE CHAINS AND EXPORT SECTORS

OVERVIEW

Jordan ranks 91st among the world's exporters, with 8% annual growth from 2006 to 2010; compared with average annual world import growth of 3% during the same period.⁴¹ Figure 15 below shows a dynamic analysis of Jordan's principal exports, both products and services. The vertical axis shows growth of world markets, while the horizontal axis shows the annual increase in Jordan's share of the world market. The top right quadrant represents the best opportunities – this is where Jordan is gaining market share in growing markets (see Business Services, for example). In the upper left quadrant, Jordan is not growing as quickly as world trade, but in sectors where growth in world trade is high, Jordan is still increasing export revenues (see ICT, for example). The size of the bubble represents Jordan's export revenue in each sector. Travel Services is not growing as quickly as others, but the size of sector makes it significant, and attractive from a targeting point of view.

Figure 15 – Jordanian Exports 2010, Dynamic Analysis by Product Group



SECTOR SCORING

To catalyze growth that will have transformational impact, the GOJ and donors should prioritize strategic investment in sectors and value chains with the greatest growth and impact potential. In order

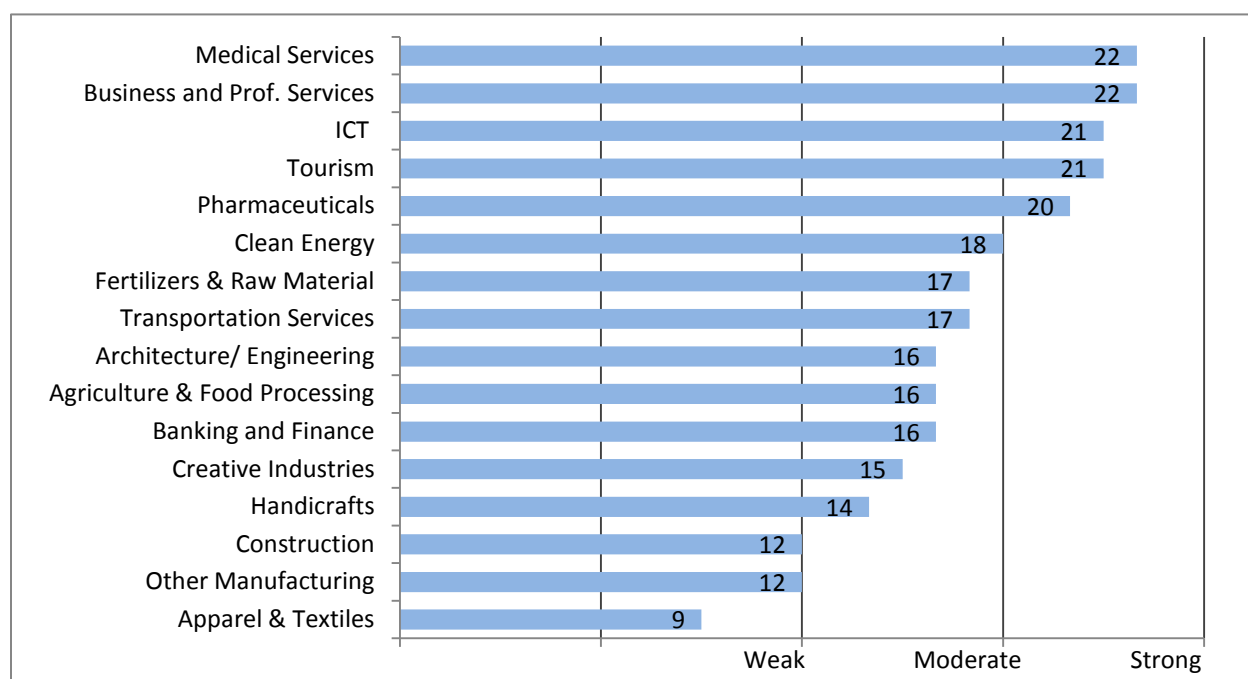
⁴¹ <http://www.trademap.org/>

to select value chains and sectors with the greatest potential, the assessment team evaluated and scored sixteen sectors using the following six criteria:

1. Opportunity to increase employment
2. Opportunity to increase exports
3. Export growth – past performance
4. Jordan's advantages and resources
5. Potential for female job creation
6. Impact on water use

Sectors received a score out of three possible points in each of the categories above. We applied double weight to the first two categories, for a total of 24 possible points. The highest scoring sectors represent the best development opportunities for Jordan, by taking into account not only economic growth, but key concerns such as unemployment, low female labor participation and the scarcity of water.

Figure 16 - Strategic Potential of Selected Sectors



Opportunity to increase employment. The assessment team analyzed the size and labor-intensiveness of industries as well as employment growth. Information from interviews about burgeoning industries and new employment opportunities were considered, in addition to current employment levels and past growth rates. The team weighed whether the primary source of labor was Jordanians or foreign; prevailing wage levels and any cultural barriers to employment in the sector were also taken into account.

Opportunity to increase exports. As Jordan is a small country, the domestic market generally does not provide the most significant opportunities for sales growth. The team looked at the country's current products and services as well as markets and segments being served. We reviewed current and potential markets and Jordan's position therein, taking into account performance of competitors. The team also considered potential for import substitution when a significant opportunity was present.

Export growth. As a proxy for past success in external markets, which have the most potential for growth, annual growth rates determined scores in this category. We used average annual export growth 2006-2010, or estimated where export statistics were unavailable. Negative growth (sectors in decline) = 0 points, Sectors not currently in the export market =1 point, 1-15% =2 points, 16% and more = 3 points. It is important to note that this is only a measure of performance for a limited period and that some sectors have been more affected by the global economic crisis than others.

Jordan's advantages and resources. The team scored Jordan's natural resources, unique assets, exceptional human capital pools, strategic location and other specific competitive advantages for success relevant to each sector.

Potential for female job creation. Reducing female unemployment and increasing women's participation in the labor market are priorities in Jordan. To determine this score, the team used current female employment data, wherever available, as well as information from interviews and a survey from a gender-based focus group.

Impact on water use. Scarcity of water is a major concern for Jordanians. This score reflects the extent to which sector growth will increase water usage; higher scores indicate lower impact for consistency of scoring. Data from the Ministry of Water and Irrigation and stakeholder interviews informed estimates.

A detailed scoring matrix can be found in ANNEX IV. In ANNEX V, alternative scoring scenarios are introduced, as well as detailed scoring on each indicator.

Data for scoring were taken from several sources, including:

- The Jordanian Department of Statistics, census and economic survey data
- The International Trade Centre's TradeMap tool
- The World Bank's databank
- The World Economic Forum's Competitiveness, Gender and Tourism reports
- The UN World Tourism Organization
- The Jordan Investment Board
- USAID reports on water, gender, and various sectors.
- Information obtained in interviews and focus group discussions.

In the remainder of this chapter, we present more detailed information on the competitive opportunities and challenges of expanding exports in each of the top 10 sectors.

Medical Services

KEY SEGMENTS & PRODUCTS

- Medical, Dental and Cosmetic Procedures
- Spas & Alternative Therapies
- Outsourcing
- Contract Research (CROs)

KEY MARKETS

- Regional (Saudi Arabia, the UAE, Algeria, Libya, Syria, and Iraq) – Medical procedures
- United States & Canada – Medical procedures and contract research
- Europe (Germany, UK, Scandinavian countries) – Medical procedures and Spa
- Russia - Medical procedures and spa

ASSETS

Medical tourism

- High quality of medical centers and facilities, including the King Hussein Cancer Center.
- Proactive government support: Jordan's health expenditure as a percentage of GDP (8.9) is the highest in the region.⁴²
- Strong reputation: Jordan is considered the top medical destination in the region and in the top 20 in the world.
- Over 22,000 physicians, 90% with international accreditation.
- The Dead Sea is a strong draw for spa, alternative therapy and recovery.
- Cost competitive with other medical destinations worldwide.

Clinical research

- Conducive regulatory framework: strong intellectual property law, human trials permitted.
- Qualified labor pool, approximately 85% female.

LIABILITIES

Medical tourism

- Lack of a medical malpractice law.
- Strong and growing competition in medical tourism.

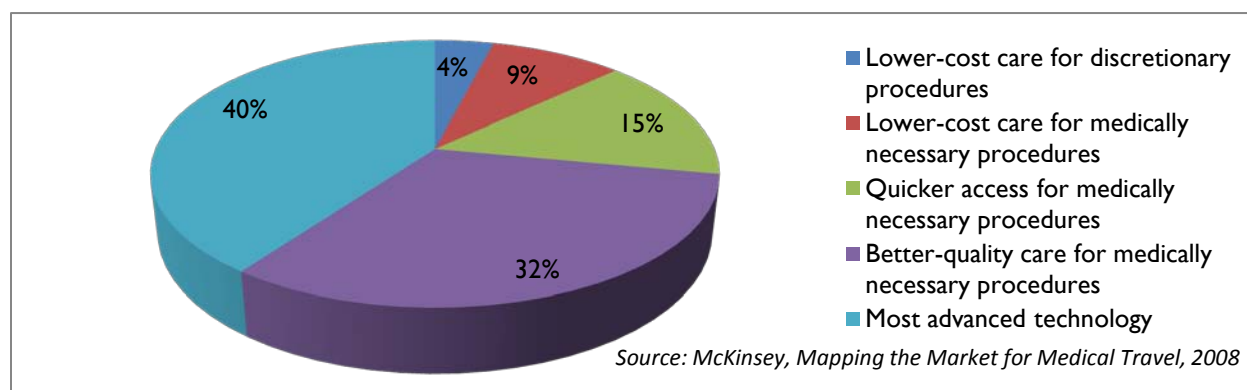
Clinical research

- Current contract research work is heavily in low-margin bioequivalence (generics)

Jordan competes in all of the market segments depicted in the chart below, except "Most advanced technology," which is dominated by the U.S. The fastest growing segment is "lower-cost for medically necessary procedures."

Jordan is a destination for this segment from the U.S., U.K. and Scandinavia.

Figure 17 - Quality Segments in Medical Traveler Market



⁴² World Health Organization, 2010

Opportunities:

- Carefully target medical procedures niches in which Jordan has distinct advantages.
- Certification program for Contract Research Associates (CRA) and Contract Research Coordinators (CRC) to boost sector capacity.
- Move from low margin bioequivalence work to higher margin therapeutic clinical trials.
- Increase cross-cluster strategies, cooperation and promotion between medical services cluster and tourism cluster.
- Targeted training of mid-level technicians including nurses, physical therapists, and fitness.

Conditions for success:

- Stronger regulations and inspections to support quality control are essential to the success of the medical services sector.
- Introduction of a medical malpractice law.
- Strong cross-cluster collaboration with tourism cluster including wellness spas.

Threats:⁴³

- Strong international and regional competition in clinical research market.
 - Although clinical trials have been moving from the U.S. to other parts of the world since 2002, the MENA region currently has less than 3% of global clinical trial market share. The U.S. is the world leader, with China and several European countries trailing.⁴⁴
 - Within the MENA region, the clinical research market is led by Israel, with 70% of the market, followed by Turkey and Iran with 19% and 9%, respectively. Jordan only does about 1% of studies in the region.⁴⁵
- Regional options are emerging in the medical tourism sector.
 - The segment with the most potential for growth globally – travelers seeking lower costs for medically necessary procedures – may soon have options closer to home. Jordan is currently serving this segment in the United States, UK, and Scandinavia.⁴⁶ Emerging destinations in Central America and Eastern Europe could prove a threat to these markets for Jordan.
- There is no definitive source for rankings on medical tourism, and criteria vary from cost and quality of medical services to other attractions and recuperation facilities. Countries that are included most consistently mentioned across multiple rankings are: India, Costa Rica, Thailand, Panama, Turkey, Malaysia and Singapore. Jordan did not appear on any top 10 lists found by the assessment team, but was in the top 20 of most of them.

⁴³ USAID/Jordan requested that the assessment team prepare a list of competitive threats for the top five sectors only. The team included threats for the top six.

⁴⁴ National Institute of Health, <http://clinicaltrials.gov>

⁴⁵ Ibid.

⁴⁶ USAID/Jordan, 2009. "Market Demand Assessment and Marketing Strategy for Medical Tourism"

Business and Professional Services

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none">• Management Consulting• Legal Services• Economic Consulting	<ul style="list-style-type: none">• Jordan• Gulf/MENA regional markets
ASSETS	LIABILITIES
<ul style="list-style-type: none">• Jordan has a reputation in the region for having highly competent and well-educated professionals in a range of fields including law, management, economics, and finance.• Jordan has a large pool of bilingual English-Arabic speakers,• Jordan has a large base of donor projects in Jordan upon which many firms are able to gain expertise and experience• The close proximity to the Gulf and good relations with those countries is an asset.	<ul style="list-style-type: none">• While numerous Jordanian individuals in business and professional services have found employment in the Gulf States, it is less common for business services companies to “package” their services as Jordan-based companies competing for business in the Gulf.• Only a few Jordanian business and professional services companies have branch offices in the Gulf and other MENA countries.

Opportunities:

- There is an opportunity for Jordan to promote exports of its services industry and to organize the business and professional services sector on a more formal basis.
- Leverage strengths in ICT capacity in Jordan to offer strategic management consulting services that integrate management consulting services with improve ICT practices. Lebanon currently offers integrated management and ICT consulting services in the Gulf region in this way.
- Encourage individual Jordanians working in this sector in the Gulf to form Jordanian companies that would offer business and professional services as companies headquartered in Jordanian. Some of these companies would need to establish branch offices in the Gulf countries.

Conditions for success

- An industry organization that groups together business and professional service companies in Jordan.
- Strategic linkages between Jordanian management consulting companies and ICT skills sets.
- Tax incentives or promotional services to attract Jordanians working abroad or foreign companies to establish business and professional service companies headquartered in Jordan.

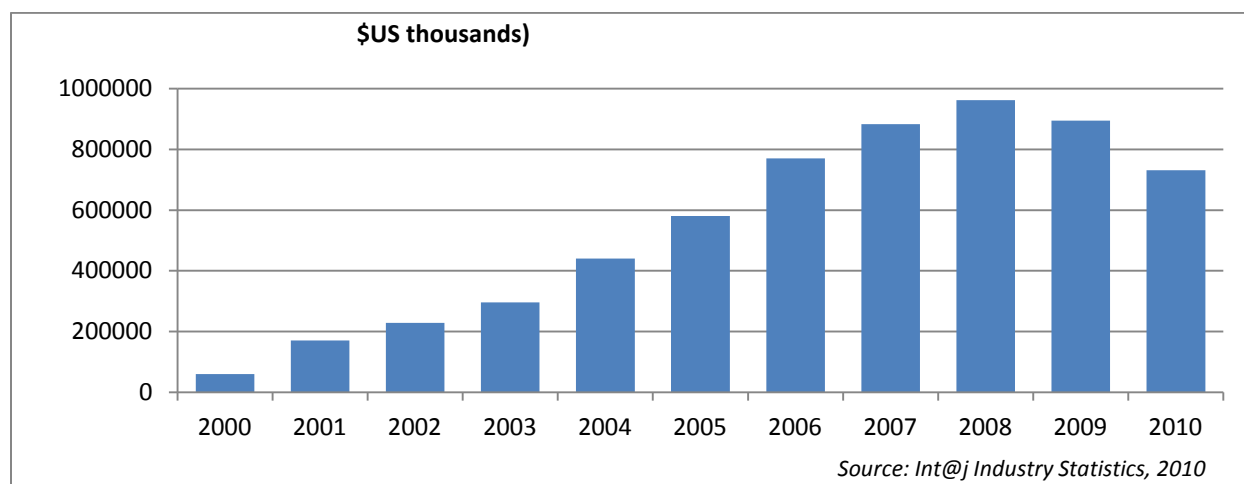
Threats

- In the Gulf market, Jordanian companies have observed that brand name recognition such as McKinsey, Booz Allen, and “big four” accounting firms is a powerful force in selection of service providers. Many Jordanian firms are talented, but have not yet established a strong international brand identity.
- Unlike ICT and Medical Services, the Government of Jordan has not yet established this as a top-level priority for sector promotion.
- Business and Professional Services is a broad sector, which is not as organically defined as other sectors; it is more diffuse. Sector collaboration and strategy is more challenging.

Information and Communications Technology

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none"> • Arabic Content • Business Process Outsourcing • Call Centers • Applications for Computer Games 	<ul style="list-style-type: none"> • Gulf/MENA region • United States • Europe
ASSETS	LIABILITIES
<ul style="list-style-type: none"> • ICT is the fastest growing sector in Jordan, with 19,000 in the ICT labor force and a growing pool of 6,000 ICT graduates per year. • A keen interest in innovation by the country's leadership and active public-private partnerships for ICT. • A large pool of bilingual English-Arabic speakers. • Jordan has an advantage for call centers in the region with a relatively neutral Arabic accent/dialect. 	<ul style="list-style-type: none"> • Need increased levels of start-up capital, including angel and venture capital. • Need a venture capital law providing a clear legal framework for the venture capital industry. • Labor law is not flexible and 24/7 operations with shift employees are needed to be successful in the call center segment, allowing for part-time workers.

Figure 18 – Total IT Revenue



Opportunities:

- **Digital Content:** Significant global opportunities exist in the development of technology applications, multi-media, games, animation, and software development.
- **Arabic Content:** Jordan is well positioned to serve as a central location for the design, integration, and dissemination of Arabic content throughout the Middle East region.
- **Outsourcing/Shared Services:** Jordan has already built a strong niche as a location for outsourcing/shared services operations, but significant opportunities remain for rapid and sustained job creation in this area including: HR outsourcing; finance and administration; procurement; and IT system outsourcing.
- **Call Centers:** The demand for call center support services are growing both in Jordan and in the Middle East and globally (including US and Canada). Most of the call center segments that Jordan can compete best in are Arabic speaking.

- **Women:** There are numerous opportunities for women to work in the ICT sector including software development, quality control, and call center and customer support jobs, among others.

Conditions for success:

- Increased networking and industry-university collaboration on innovation and new technologies.
- Clear regulatory framework for venture capital industry.
- Stronger collaborative industry marketing at international trade shows and exhibits.

Threats:

- In addition to launching *Dubai Media City* and *Dubai Internet City*, the United Arab Emirates recently launched a new *Media Content Creation Zone* to support media content creators in the Middle East and North Africa. The new Abu Dhabi-based zone aims to employ Arab media professionals in film, broadcast, digital and publishing. CNN, BBC, the Financial Times, Thomson Reuters Foundation, and Thomson Foundation are among the partners of the zone.⁴⁷
- Qatar has initiated efforts to develop Arabic web content. Microsoft is working on translation technology that would make the Arabic language more accessible to Internet users as part of *Qatar's Supreme Council for Information and Communication Technology's Initiative* to develop more websites with Arabic content.⁴⁸
- Egypt has emerged an attractive investment destination for ICT and is making major strides to become a leading global outsourcing and call center hub. It has recently attracted foreign investment from several multinational companies such as *Wipro*, *Stream Teleperformance* and *Vodafone*. It has a very large pool of relatively low-cost ICT workers. The industry signed a major deal in 2010 with *IBM*, which invested in 1,500 full-time equivalents (FTEs) in global delivery centers that employed high-level IT consultants.
- The ICT sector in Lebanon has many advantages, including access to bank financing and venture capital, a skilled workforce, associations with management consulting practices, links to established advertising firms, media content providers and web portals. Software developers are considered among the best in the Middle East. Mobile telecom penetration has reached 28% of the population with a high average usage of 399 minutes per month, compared to 142 in Jordan, and 125 in Egypt. Software development has grown steadily in the past few years with strong expertise in banking, insurance, hospital and healthcare packages and offer installation and customization.

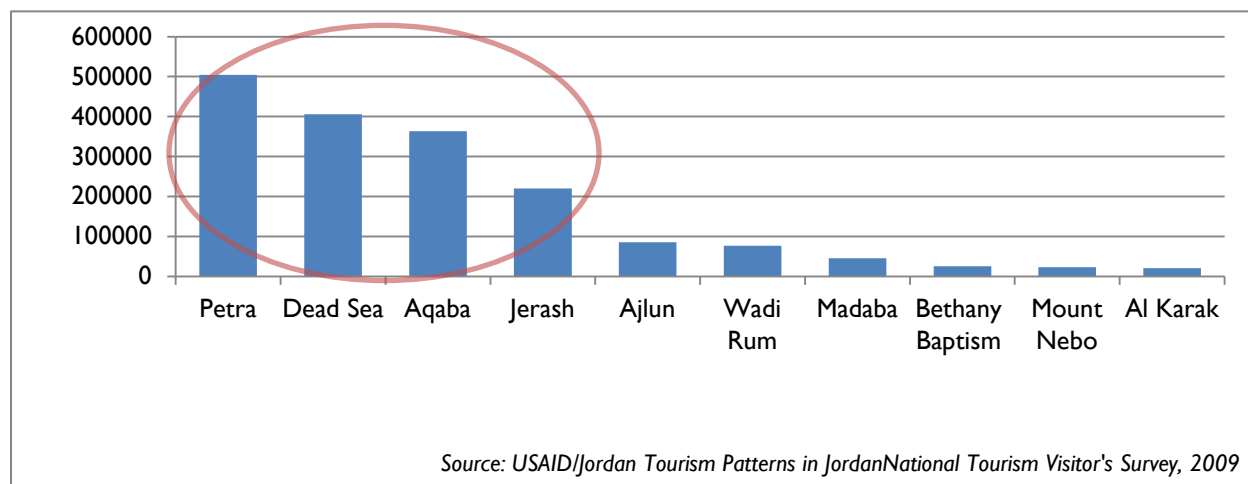
⁴⁷ See Keach Hagey, "Capital launches media zone to nurture young Arab talent," *The National*, October 13, 2008, <http://www.thenational.ae/article/20081012/BUSINESS/13341341/1119/NEWS>.

⁴⁸ Chris V. Panganiban, "Technology to promote Arabic online," *The Peninsula*, April 19, 2009, http://www.thepeninsulaqatar.com/Display_news.asp?section=local_news&mon...

Tourism

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none"> • Archaeological & Cultural Tourism • Religious Tourism • Health and Wellness Tourism • Ecological & Adventure Tourism • Business Meetings & Conferences • City Life 	<ul style="list-style-type: none"> • Europe • Gulf States
ASSETS	LIABILITIES
<ul style="list-style-type: none"> • Unique cultural and archeological sites, including Petra and Jerash. • Impressive natural assets, such as the Dead Sea and Wadi Rum. • High government prioritization of tourism, ranks 10th in world, based on expenditure as a percentage of GDP.⁴⁹ • Rapid growth of visitors from Gulf States. 	<ul style="list-style-type: none"> • High operating costs for hotels, including labor and electricity, which reduces Jordan's product competitiveness vis-à-vis neighboring countries. • Reduced funding for national marketing campaigns, which have been successful in the past. • Primarily foreign workforce.

Figure 19 - Tourists' Favorite Sites



Opportunities:

- Encourage overnight visitors and multi-day trips with increase in value added services and activities offered near the top attractions, rather than spreading investments across all sites.⁵⁰
- Increase international marketing and promotion to target segments.
- Strengthen human resources and Jordanian employment in the sector through professional training and certification programs.
- Increase focus on urban products and services (e.g., shopping promotions) catering to tourists from the Gulf States.

⁴⁹ World Travel Tourism Competitiveness Report, World Economic Forum, 2011

⁵⁰ The evening light shows at the Egyptian Pyramids at Giza are an example of a value adding activity that has been created to increase tourism spends at a major tourism attraction site.

- Consider adding another powerful tourist attraction such as a casino.

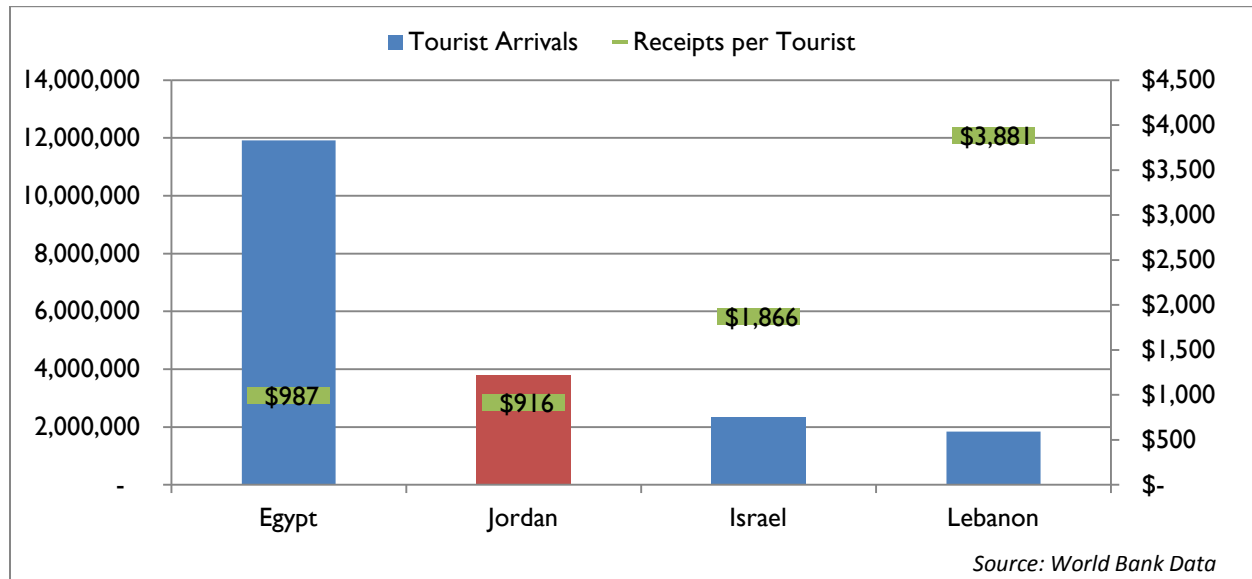
Conditions for success:

- Targeted investment attraction for new opportunities and value adding activities (cluster infill).
- Donor support for workforce development and certification program and increased localization.
- Targeted recruitment programs and career paths for women, with options and solutions to current challenges in the areas of daycare, transportation, and clothing.

Threats:

- Major tourism competitors in the region include Egypt, Lebanon, and Israel/West Bank.
- Egypt has lower-cost and more developed resorts on the Red Sea; even Jordanians often prefer to vacation there, rather than in Aqaba. Egypt also offers substantial customer entertainment around their major tourist attractions, such the Sound and Light Shows at the Pyramids in Giza.
- Israel/West Bank boasts religious and cultural sites that rival Jordan's, and is supported by a better-trained workforce as well as more developed tourism infrastructure—including ICT and transportation systems.
- For the urban tourist, Lebanon offers a greater number of festivals than Jordan, and is renowned for its shopping, cuisine and entertainment.
- Competitors' tourism rates have been growing more quickly than Jordan. From 2005-2009, Israel/West Bank and Jordan grew in tourist arrivals at about 6 percent annually, while Egypt grew at 10 percent and Lebanon at 15 percent. Egypt had nearly 12 million international arrivals in 2009, whereas Jordan had less than four million.
- Jordan has the edge on Lebanon and Israel/West Bank in number of arrivals, but lags far behind in tourist expenditures. Israel/West Bank receives double and Lebanon more than four times the amount Jordan does from international tourists. These numbers likely reflect both the length of stay, and the quality or perceived value of goods and services purchased in-country.

Figure 20 - Tourist Arrivals & Receipts, 2009



Supporting Sectors:

Tourism is unique in that it has so many synergies with other sectors. Medical travel is covered as part of the Medical Services sector, but the following areas also warrant mention for their contribution to the tourism sector.

- Handicrafts.** Globally, low-end (priority on low prices) and high-end (priority on high quality) handicraft markets are growing; middle (moderate quality at moderate prices) is relatively stagnant. The global market is dominated by China (70%), India and Vietnam; this is expected to be the case for the foreseeable future.⁵¹ This is largely based on a low-cost, high-volume model. Imported items from these three countries are 50-100% cheaper than Jordanian handicrafts; on average, retail outlets in Jordan sell 80% imported products. Tourist guides regularly receive commissions of approximately 40% on items sold.

Tourists are far and away the largest market for Jordanian handicrafts; an average overnight tourist or family is estimated to spend 70JDs on handicrafts.⁵² With an estimated 3.79 million tourist arrivals in 2009, there is a significant market not currently being captured by Jordanian producers. The handicraft market in Amman allows imported handicrafts from China and India. This is an opportunity to offer only Jordanian handicraft products to a captive tourist market most likely willing to buy Jordanian purchases if the market were restricted to them.

Jordan's primary handicraft segments are textiles (embroidery and weaving) at 50% followed by ceramics (20%) and mosaics (20%). Other products such as jewelry, olive wood carvings, and beauty products make up the remaining 10%. Much of Jordan's production is low-moderate quality, with moderate prices. The luxury market tends to focus more on distinctive designs; high-quality has the most opportunity for growth in Jordan and abroad.

⁵¹ USAID, AMAP Project, 2006. "Global Market Assessment for Handicrafts."

⁵² USAID/Jordan SABEQ Project, 2009. "Handicrafts Market Demand Analysis."

Although handicrafts are a small industry, interviews revealed that some Jordanian firms are having considerable success. Opportunities in this segment include: increased clustering of a currently fragmented industry, higher-quality production, enforcement of law requiring 70% local handicrafts in retail outlets and promotion of “Handmade in Jordan” brand for authentic products, increased availability of high-quality raw materials and inputs, and participation in international trade shows to improve non-tourist export sales in the high-end segment. Handicraft production can also offer employment for women, particularly in rural areas, as it allows them to work from home.

- **Dining, Shopping, & Entertainment.** Interviewees noted that tourists from the Gulf States are largely interested in urban Amman-based tourism focused on restaurants, nightlife and high-end shopping. Jordan has considerable assets in these areas, including high-end restaurants and malls, including the just-opened Taj Mall.

To take full advantage of this tourism sub-sector, Jordan should promote their shopping with sales and festivals in low seasons. Lebanon has an annual shopping festival⁵³ that highlights local producers and retailers with fashion shows, entertainment at shopping malls, and food service providers. Local hotels collaborate and offer special rates to festival visitors.

In retail, hospitality and food service, Jordan’s workforce tends to be relatively weak. Training and certification programs could improve quality and attract more Jordanians to these fields. “Service and Sales” workers accounted for 27.4% of Jordanians in 2010, up from only 15% in 2005, indicating that although many jobs are currently filled by immigrants, this is an area for significant employment growth.⁵⁴

⁵³ <http://gurgaonshoppingfestival.com/shopping-festivals-around-the-world/shopping-festival-in-lebanon.html>

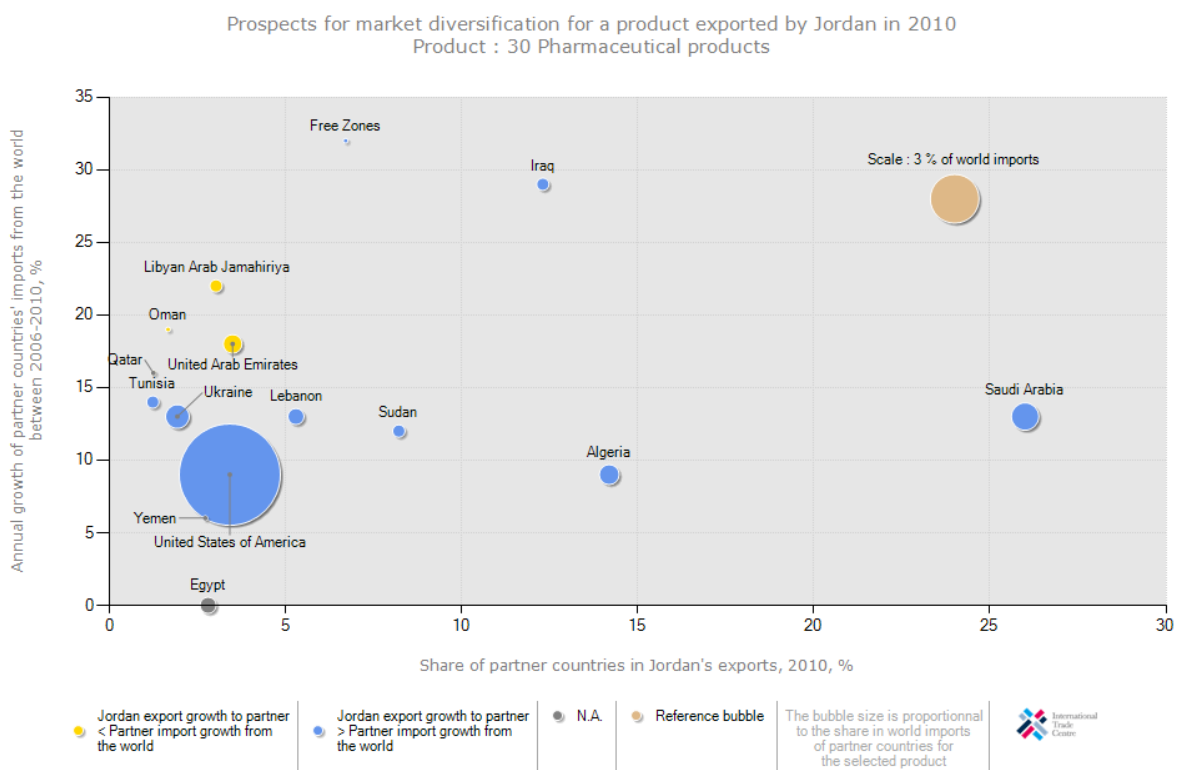
⁵⁴ Jordan Department of Statistics, Employment and Unemployment Survey

Pharmaceuticals

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none"> Generics 	<ul style="list-style-type: none"> Gulf/MENA regional markets: Saudi Arabia, Algeria, Iraq are largest. United States
ASSETS	LIABILITIES
<ul style="list-style-type: none"> Critical mass of companies, 16 manufacturers Growing market share in large Middle East market Large, qualified labor pool at competitive wages Strong intellectual property rights protection Strong regulatory environment, led by Jordan Food and Drug Administration 	<ul style="list-style-type: none"> Low investment in R&D Little product diversification, with emerging generics industries in currently importing countries Limited marketing budgets compared with big pharmaceutical companies

Opportunities:

- Diversify export markets and expand product portfolio. See the best prospects for market diversification in the bubble chart below.
- Expand private and university R&D investment through increased funding for research grants and incentives such as R&D tax credits
- Build closer working synergies with CROs and health services providers
- Explore licensing with strategic foreign partners for manufacturing and distribution.

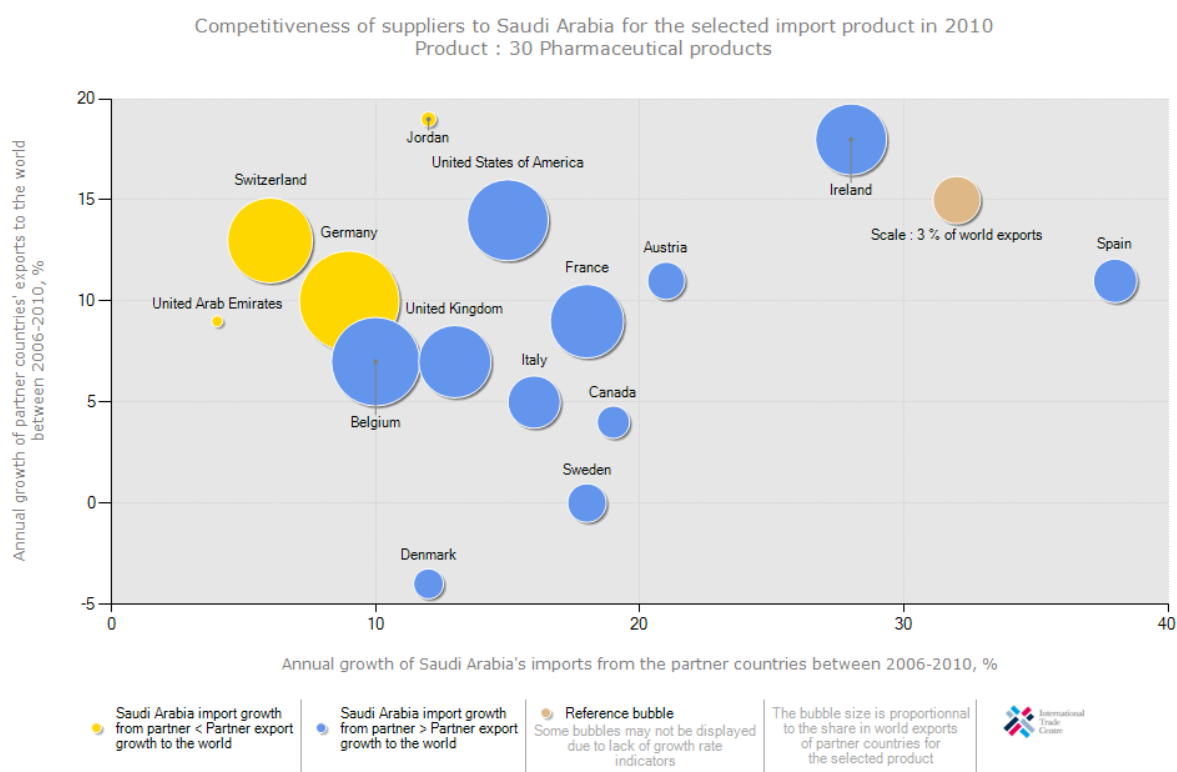


Conditions for success:

- Strengthened clustering within the sector, based on strong private sector leadership.
- Certification of good manufacturing practices for the Jordanian pharmaceutical firms.
- Successful clinical trials for new products seeking entry and regulatory approval in North America and Europe.

Threats:

- Price pressures on generic drugs in markets such as the U.S., the market in which Jordan is growing fastest, could drive down profits. These pressures are also present in Europe and could be adopted in Middle East markets as well.
- Trade barriers on pharmaceutical imports in key markets, such as Algeria, threaten Jordan's exports.
- Jordan faces stiff competition in its key markets, with only 5% market share in Saudi Arabia and 6.4% in Algeria. Ireland and Spain, which are quickly gaining market share in the Saudi Arabia, in particular (see bubble chart below).



Clean Energy and Water Resource Management

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none"> • Wind technologies • Solar technologies and equipment • Water conservation technologies and desalinization technologies • Environmental consulting 	<ul style="list-style-type: none"> • Domestic green market for clean technologies and renewable energy • Water conservation technologies and practices in Jordan and the region
ASSETS	LIABILITIES
<ul style="list-style-type: none"> • Jordan has a good natural resource potential for solar energy development and local demand for solar technologies such solar hot water heaters are rising steadily. • The high cost of imported fossil fuel energy supplies creates an economic need for increasing local renewable energy supplies. • Royal Scientific Society's International Research and Development Center has established clean energy as one of its research priorities. • The scarcity of fresh water resources in Jordan creates a strong incentive for companies in Jordan and consumers to invest in water saving technologies, practices and products. 	<ul style="list-style-type: none"> • Limited funding have been invested in such renewable energy and water conservation projects. • Investment on the part of the government has been limited due to a tight budget and limited leeway to expand the public sector deficit. • Lack of a final approved PPP which would clarify the regulatory framework for PPPs in clean energy, water conservation, and other key infrastructure areas. • Lack of defined feeder tariff for renewable energy projects.

Opportunities:

- *Solar Energy:* Jordan's can improve its value proposition as a location for power generation, product manufacturing, research, and consulting services in the solar industry. By organizing events and promoting access to international trade shows and matchmaking opportunities, the position of Jordan could be expanded in this important segment
- *Energy Conservation:* Investment in energy efficiency of industry could save the nation one-fifth of its energy usage over the next decade and enable the creation of more jobs. Some of the methods to promote energy conservation include: taxing excessive energy use; improving insulation and energy efficiency of homes; and incentivizing the use of lower voltage bulbs and devices.
- *Water Conservation:* There is a tremendous opportunity to save water in Jordan by introducing a stronger combination package of policies, tax incentives, research funding, and promotion of conservation practices and incentives.

Conditions for success:

- A final approved PPP law which would clarify the regulatory framework for PPPs in clean energy, water conservation, and other key infrastructure areas.
- A feeder tariff for renewable energy which is favorable enough to attract strategic investors.
- Increased fiscal space to enable GOJ to come to the table to offer PPP partners some matching counterpart investments or partial risk guarantees.
- Packaging and promotion of renewable energy and water conservation projects by GOJ and the Jordan Investment Board.
- Stronger tax incentives for commercial companies and residential homes to invest in energy and water saving technologies and products. Increased application of the Renewable Energy Law.
- Increased university and private industry research on renewable energy and water solutions

- Increased donor support for clean energy and water treatment and sanitation projects in Jordan.

Threats:

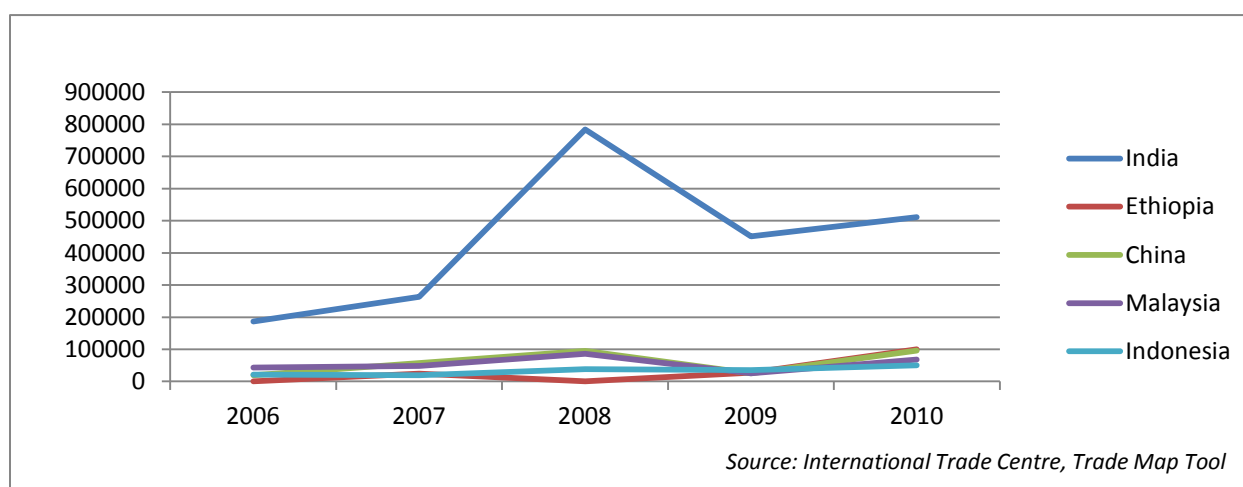
- In November 2011, the World Bank approved \$297 million in loans to Morocco to help finance the 500-megawatt Ouarzazate Concentrated Solar Power Plant Project, among the largest solar plants in the world. The Ouarzazate plant is the first in Morocco's \$9 billion solar power program, vital for a country that has no oil or gas but has an abundance of sun.⁵⁵
- In 2010 Egypt completed a 140-megawatt capacity solar thermal power plant, the first in the country. Also in 2010, the Egyptian electrical ministry unveiled plans for a \$700 million second solar thermal plant with a 100 MW capacity, financed in part by the World Bank, and announced 4.5 MW of photovoltaic applications for highway and street lighting. In addition, the Egyptian government has been moving ahead with plans to build two new wind farms in the Gulf of Suez.
- In 2010, Qatar launched the Qatar Environment and Energy Research Institute, with a priority focus on mitigating climate change. The goal of the institute is to ensure energy diversity and cleaner energy. Research priorities for the institute include: renewable energy, air quality, climate change, and desalination research.
- Sixty percent of the world's desalination capacity lies in the oil-rich Gulf states; 30 percent of the world's total is in Saudi Arabia, which has facilities on the coasts of both the Red Sea and the Gulf of Aden. Kuwait is also a leading country in developing desalination to supply fresh water for domestic use.

⁵⁵See <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:23050069~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

Fertilizers & Raw Material Ingredients

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none"> • Phosphate • Potash 	<ul style="list-style-type: none"> • India • Other Asian markets
ASSETS	LIABILITIES
<ul style="list-style-type: none"> • Significant natural reserves of key fertilizer ingredients including potash and phosphates. • Growing global demand for fertilizers, due to increased food and biofuel production. • Highest industry growth is in Asia, for which Jordan incurs lower transport costs than competitors. 	<ul style="list-style-type: none"> • Current production is almost entirely raw material fertilizer ingredients, not value added downstream chemical fertilizer products. • Export markets are not diverse (See chart) • Very low investment in R&D.

Figure 21 - Destination of Jordanian Fertilizer & Ingredient Exports



Opportunities:

- Move to value-added chemical and fertilizer production, rather than exporting raw material ingredient products.
- In collaboration with JIB, attract foreign investment in higher value chemical fertilizer production.

Conditions for success:

- Private sector investment to introduce technology, upgrade the industry, and move to value-added production.
- Cluster willingness to collaborate.

Transportation Services

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none"> • Trans-shipment • Passenger services • Clean fuels and efficient vehicles (new market niche) 	<ul style="list-style-type: none"> • Domestic • Regional • Europe
ASSETS	LIABILITIES
<ul style="list-style-type: none"> • Central location connecting the Gulf and Europe. • Port of Aqaba is strategically located to link East Asian countries with the Middle East. Advantages over the nearby Eilat port include lower labor costs and room for future expansion. • High quality roads (ranked 44th of 139 countries)⁵⁶. • Strong demand for passenger services. 	<ul style="list-style-type: none"> • Excessive regulation in passenger services constrains the private sector from meeting market demand for increased services. • Low road density (ranked 115 out of 139 countries)⁵⁷. • Limited rail system.

Opportunities:

- Development of vibrant passenger services (small buses and taxis etc) especially outside of Amman. These services would be developed in response to unmet demand, helping decrease unemployment that results from potential employees unable to find reliable daily transportation from home to work and back.
- Construction of transnational railway to provide a faster and lower cost mode of transport for both passengers and cargo.
- Clean transport. The promotion of cleaner fuel and more efficient vehicles use can potentially save tens of millions of Dinars annually.
- Revising customs policies on clean fuel and low emission vehicles and establishing cleaner public transportation fleets have the capacity to save foreign exchange, and create a much more efficient and environmentally friendly the transport sector in Jordan.⁵⁸

Conditions for success:

- Deregulation in domestic passenger services market for private taxis and small bus fleets.
- Mega investment in large infrastructure projects including transnational railway.
- Revised tariff schedule and tax regime to encourage more efficient vehicles and fuels.

⁵⁶ World Economic Forum, Tourism Competitiveness Report, 2011

⁵⁷ World Bank, World Development Indicators, 2010

⁵⁸ Jordan Green Economy Scoping Study (2011), Ministry of Environment Jordan.

Architecture & Engineering Services

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none">• Green building (schools, government buildings, commercial offices and residential)• Export services on procurements and sub contracts on major urban infrastructure development projects in Saudi Arabia, UAE and Qatar	<ul style="list-style-type: none">• Jordan• The Gulf Market
ASSETS	LIABILITIES
<ul style="list-style-type: none">• Architecture & Engineering (A&E) is one of the most developed service industries in Jordan, with a base of over 80,000 engineers.• There is a well organized private Architecture and Engineering (A/E) Business Council which promotes technical architectural and engineering business opportunities in Jordan.• The Industry established a Jordan Green Building Council (JGBC), which promotes quality certifications such as LEED and helped to create voluntary green building codes for environmentally compliant building practices.• There have been cooperative training ventures such as between Consolidated Contractors Company (CCC) and the Al-Huson University College, where engineers were trained as oilfield pipe-fitting specialists and were immediately employed by the CCC after their graduation.	<ul style="list-style-type: none">• While there are more than 80,000 engineers in Jordan, it is reported that less than 10,000 are currently working in the engineering field. This suggests that there has not been enough local demand for this particular skill set.• While numerous individual Jordanian architects and engineers have found employment in the Gulf States, it is rarer for Jordanian A&E companies to “package” their services from Jordan and compete for contracts in the Gulf as Jordan-based companies.•

Opportunities:

- There are significant opportunities to position Jordan’s engineering and building industry as source of expertise in environmentally friendly building in Jordan and in the Gulf region. These activities can be led by the Jordan Green Building Council and the A/E Business Council.
- There are significant opportunities for the A&E industry to work closely with universities and schools in Jordan to ensure that Jordanians possess the skills to excel in the jobs of the future.
- There are major export development opportunities on procurements and sub contracts for major smart infrastructure development projects in Saudi Arabia, UAE and Qatar.

Conditions for success:

- Increased focus on green technologies and smart technologies.
- Increased organization of Jordanian companies around specific commercial opportunities in the Gulf, starting at the sub-contracting level.
- Need to scale up the model whereby Consolidated Contractors Company (CCC) and the Al-Huson University College trained engineers specific skill sets required by private sector so that greater numbers of engineers are trained in practical areas where job prospects are greatest.

Agriculture and Food Processing

KEY SEGMENTS & PRODUCTS	KEY MARKETS
<ul style="list-style-type: none">• Fresh Vegetables• Processed Meat	<ul style="list-style-type: none">• Local Jordan market• Regional Gulf Market• Growing markets in Eastern Europe and Russia
ASSETS	LIABILITIES
<ul style="list-style-type: none">• Jordan possesses rich and fertile soils for producing high quality cash crops (vegetables, cut flowers, herbs).• More than 31,000 employees in agribusiness industry in Jordan and there are more than 3,400 agriculture students in Jordanian universities.• The Highlands region receives the highest rainfall in Jordan and is the most vegetated region in the country. Suitable for olive trees, and stone-fruit trees.• Dry climate is particularly well suited to production of crops, such as tomatoes that are susceptible to fungal diseases in more humid climates.• Jordan Valley provides ready access to regional market and to Europe particularly during winter months when prices are highest.	<ul style="list-style-type: none">• Jordan has one of the driest climates in the world with very limited supplies of fresh water.• Overall, Jordan has not yet mastered efficient water resource management in the agricultural sector.• Jordanian workers are not very interested in the manual labor jobs required in agriculture.• Many Jordanian farms and agribusiness companies do not have very strong management practices and generally do not adopt cutting edge technologies.• Post-harvest packaging and handling practices are not very efficient and post-harvest losses are a problem.

Opportunities:

- Jordanian agribusiness exporters say they are facing more demand at high prices for products in export markets (the Gulf and Eastern Europe) than they can currently supply.
- There are opportunities to introduce water conservation in the Jordanian agribusiness sector though increased use of water saving technologies such as drip irrigation and hydroponics, automatic low discharge sprayers, and increased mulching, rainfall harvest technologies as cisterns.
- Attract increased investment in packaging houses to aggregate supplies and package products for export markets within cold marketing chains.

Conditions for success:

- Water pricing to reflect its true scarcity opportunity cost. This might include allowing landowners to trade or lease their water rights allocations.
- Changing incentives embedded in the water rights allocation criteria which currently encourage the continued use of water thirsty crops including bananas in order to retain a high water quota rights on individual parcels
- New incentives for and promotion of increased use of recycled waste water and desalinization.

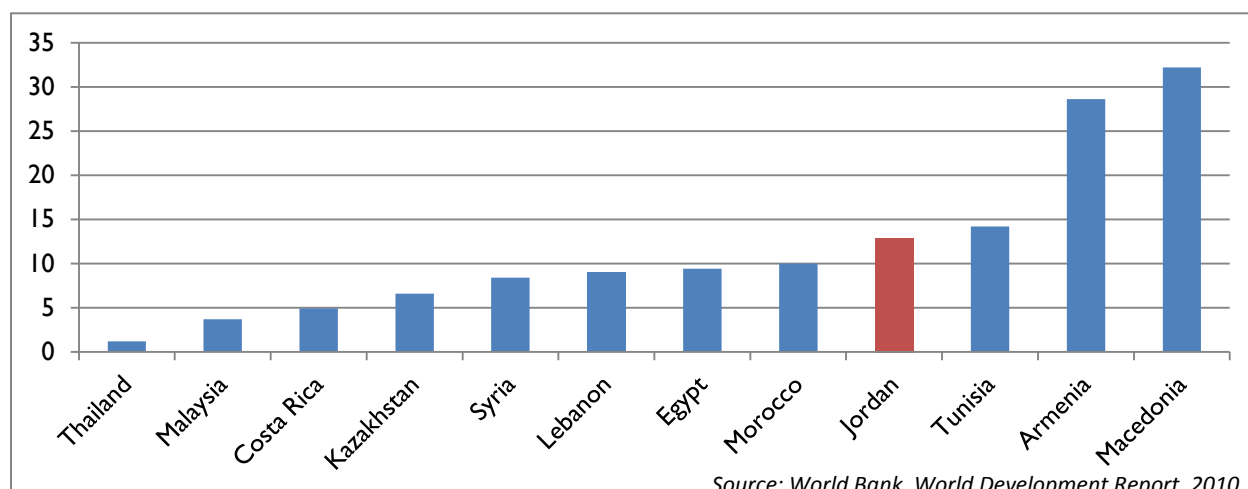
VI. EMPLOYMENT AND JOB CREATION

OVERVIEW

Unemployment in the MENA region in 2008 averaged 11 percent. Unemployment in Jordan is significantly worse than the regional average: in Jordan, unemployment in 2008 stood at just over 14 percent. By 2010, Jordan's unemployment rate had shrunk only modestly, to 13.5 percent.⁵⁹ Reducing unemployment is a top priority for the GOJ, with a strong focus on attracting foreign investment and achieving economic growth. Success thus far has been elusive, however, and new approaches are needed. Our research suggests that Jordan needs a two-tiered employment-generating strategy. On the one hand, it should improve incentives and conditions for jobs to employ well-educated Jordanians and diaspora returnees in knowledge-based industries such as ICT, pharmaceutical contract research and business/professional services or architecture and engineering. On the other hand, the country also needs jobs for the economically disadvantaged and less educated, especially outside of Amman, in industries like tourism, handicrafts, transport and some segments of data entry.

Jordan's economy has grown significantly in the last ten years, but the unemployment rate has varied little. Jordan's growth and increased investment during this period generated significant numbers of new jobs per year, but most of that supply was met by non-Jordanians.⁶⁰ Although Jordan's economy is projected to grow modestly (four to five percent annually until 2015), efforts to match job creation with Jordanian skills and preferences are necessary for economic growth to translate into higher rates of employment.

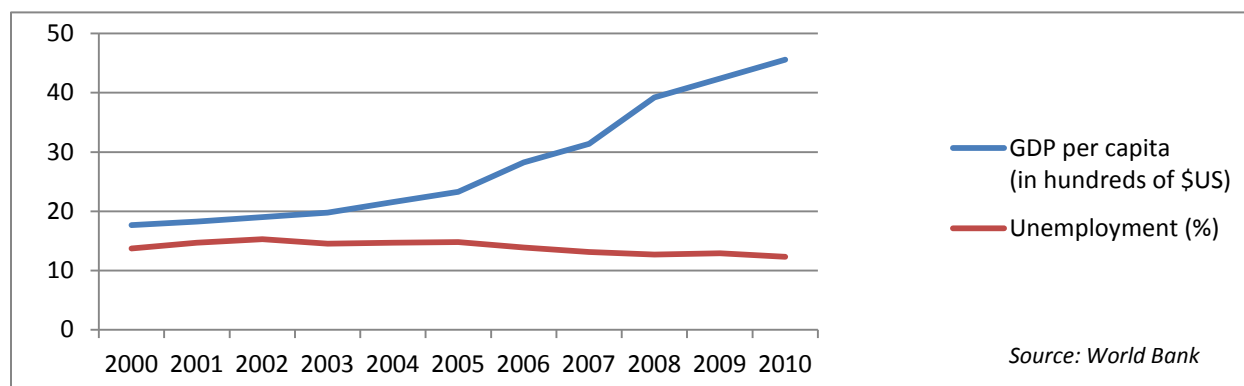
Figure 22 Benchmarked Rates of Unemployment (%)



⁵⁹ ILO, "Global Jobs Pact Country Scan: Jordan," p. 24.

⁶⁰ UNDP, 2010 "Job Creation in Arab Economies" p.22.

Figure 23 – Jordan’s Persistent Unemployment Despite High GDP Growth (2000-2010)



Youth and women’s unemployment in Jordan are particularly high. Jordanian youth unemployment, at over 27 percent, slightly exceeded the already-high MENA average of 26 percent.⁶¹ Nearly 22 percent of women were unemployed, which is particularly significant when considering the number only counts women who are actively seeking employment; 85 percent of Jordanian women are not active in the labor market at all.⁶² The public sector plays an extremely important role in Jordanian employment; there is a general preference for work in the public sector, particularly among women, with this sector employing 47 percent of female workers and more than 25 percent of male workers. The assessment team found consensus among interviewees that there is a strong preference for government jobs among women because of job security, shorter working hours, and less discrimination than in private sector jobs.

New small firms created the most new jobs in the private sector 2000-2007. Among existing businesses, large firms led employment growth, increasing their share of national employment from 21.6% in 2000 to 28.6% in 2007. However, women comprise only 14 percent of SME employees (compared to 36 percent of large company employees), and among private sector companies women comprise the smallest percentage (10 percent) in the smallest businesses (those with only 1-4 employees).⁶³ Trends that contributed to this growth included trade liberalization and the establishment of QIZs; the expansion of the telecommunications sector; and the FDI inflow and expansion in some large industries due to the privatization process in 2005-2007.⁶⁴

ASSETS

Jordan has the following assets with respect to workforce capacity and job creation potential:

- **Educated workforce.** Jordan has a well-educated populace that under-utilizes significant segments of the population, especially well educated women, many of whom are currently either not participating in the labor force (85%), or unemployed⁶⁵ Many well-educated Jordanians, primarily

⁶¹ IMF, 2011 “Regional Economic Outlook,” p. 39.

⁶² UNDP Jordan Human Development Report 2011

⁶³ Ibid.

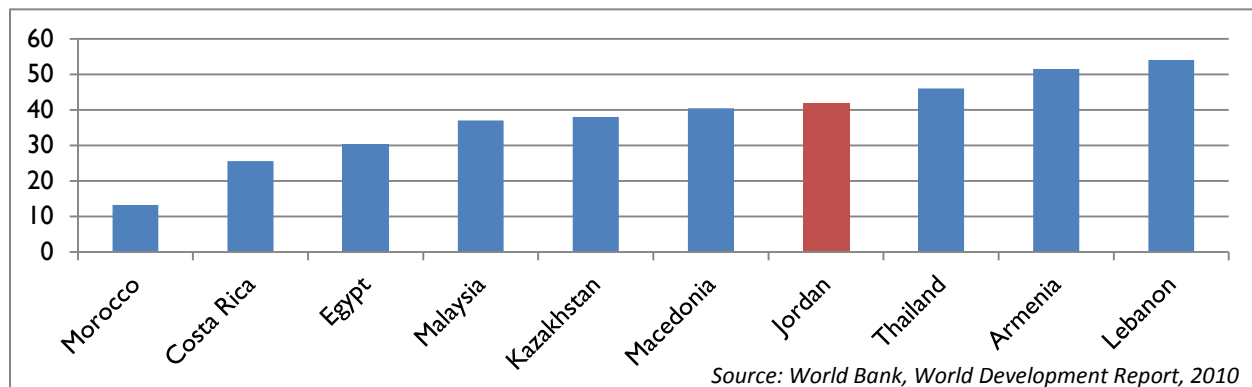
⁶⁴ Ibid.

⁶⁵ 22% of the 15% of the women who are “participating in the workforce” are actually unemployed, but are actively seeking employment.

men, currently emigrate to work abroad, where their skills are highly valued and remunerated. Women are often restricted from working abroad by cultural traditions and family obligations.

- **Government and donor commitment to reduce unemployment.** The problem of Jordanian unemployment is well-documented and recognized. The GOJ has named unemployment as a top priority in its strategy documents. That commitment, combined with the high level of donor involvement and funding in the country, greatly increases the probability of success.
- **Growth in sectors with significant employment potential.** Labor-intensive sectors, such as tourism, construction and transportation services are growing rapidly. Although many of the jobs created in these sectors currently go to foreign workers, the right interventions could help these sectors to employ more Jordanians in the future. Additionally, nascent Jordanian sectors, such as clinical research and business process outsourcing, have high potential for the creation of the higher-wage professional jobs that appeal to Jordanians.
- **Access to growing regional markets.** Strong geographic, trade, financial and cultural ties to wealthy oil-exporting neighbors provide promising markets for Jordanian products and services, especially in knowledge-based industries, and possibly also in financial services in the future.⁶⁶ Demand is growing for Arabic content and business process outsourcing in the Arab world; Jordan provides a stable near-sourcing option for businesses in the region. And, such jobs are attractive for women, especially those located close to where they live.
- **SMEs driving employment growth.** SMEs represent 60% of private sector employment and 37% of total employment in Jordan. The contribution of SMEs to job creation between 2000 and 2007 was impressive, with employment growing at 18%. SMEs achieved this growth over the period despite high tax rates and regulatory obstacles, such as a cumbersome registration process and the inability to operate a formal business from home. SMEs employ 12% non-Jordanian workers, which is about half of the national average. Women-owned businesses are more likely to hire women employees than are men-owned businesses.

Figure 24 - Tertiary Enrollment (% Gross)



⁶⁶ See for example IMF, “Regional Economic Outlook: Middle East and Central Asia,” p. 31: “. . . greater trade and remittance receipts from oil exporters within the region – who are benefitting from higher oil prices – are likely to offset some of the negative impact of rising commodity prices. ... In Tunisia and Morocco 70 – 80 percent of exports are directed to the European Union, whereas the majority of Jordan and Syria’s external receipts are from regional oil exporters.”

LIABILITIES

Jordan has the following liabilities that pose a problem in addressing the employment and job creation deficit:

Declining Quality and Relevance of Tertiary Education. While the overall quality of Jordan's education system ranks fairly well internationally, its quality relative to the rest of the world is quickly slipping. The entire system suffers from outdated techniques and technologies; low quality of government spending on education: 93% of education expenditures go toward salaries but there is still a lack of qualified teachers and training; and educational facilities in the municipalities are limited by their small size and thus can only provide half-day shifts for students, decreasing the quality of education further.⁶⁷ Interviews confirmed that there is a great reliance on traditional memorization and rote-learning methodology instead of emphasis on analytical thinking, problem-solving, entrepreneurship and teamwork skills, all of which are required to compete in the international and local labor markets.

Table 3 - Quality of Educational System (Ranking of 142 Countries)

Country	2008-2009	2011-2012	Change
Lebanon	(no data)	12	--
Malaysia	18	14	+4
Costa Rica	32	23	+9
Tunisia	17	41	-24
Jordan	27	51	-24
Macedonia	65	75	-10
Thailand	53	77	-24
Morocco	100	93	+7
Syria	91	96	-5
Armenia	96	97	-1
Kazakhstan	68	112	-44
Egypt	126	135	-9

Source: WEF Global Competitiveness Report

At the tertiary level, one cause of this decline is a lack of funding in public universities. Currently, higher education expenditures only make up 0.003% of the GDP. The University of Jordan, which is recognized as the top university in the country, has reportedly not received government funding in the last three years. Raising tuition for students who qualify for the university on their exams is considered untenable, for fear of public outcry. In addition to students accepted on merit, universities are now accepting less-qualified students who are able to pay higher tuition rates to marginally increase revenue. The results are overcrowded universities, outdated materials, and faculty that are overworked and underpaid. These factors lead to deterioration in the quality of graduates.

It is interesting to note that within the MENA region, Lebanon ranks extremely well in the quality of its education system (see Table 3 above). Longstanding institutions such as the American University of Beirut (founded in 1866) and Saint Joseph University (founded in 1875) have helped set a high standard for tertiary education. In Lebanon, only one university is public and the rest (28 universities) are private.⁶⁸ In Jordan, a third of universities are public.

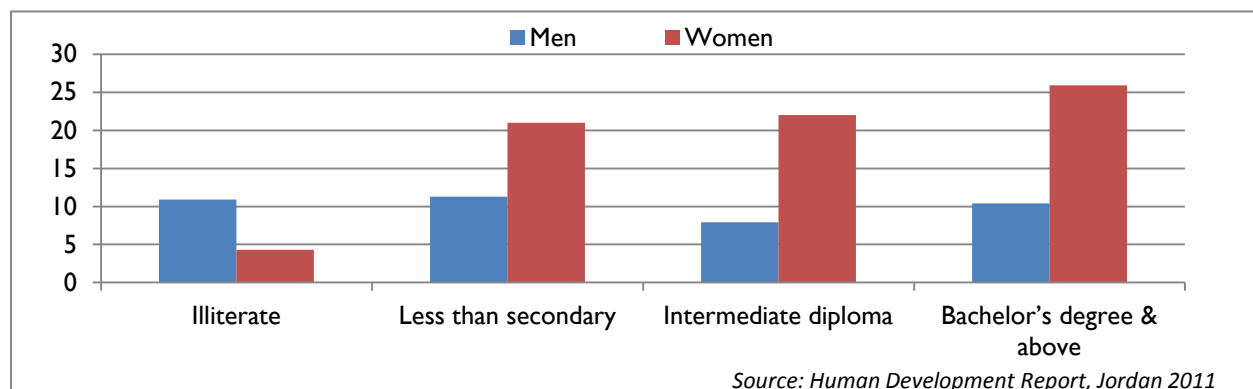
⁶⁷ Jordan Second Education Reform for Knowledge Economy, World Bank, 2009.

⁶⁸ http://en.wikipedia.org/wiki/List_of_universities_in_Lebanon

Team interviews with private sector representatives in Jordan revealed their perception that both public and private universities in Jordan do not have close working relationships with the private sector, and these institutions are not generally demand-driven in their approach to education. Government regulations in Jordan tend to stifle competition among private and public universities. There is a strong need for higher education reform in Jordan, including introducing a strong culture of becoming market-driven and competitiveness-oriented. There is also a need to encourage greater specialization. For example, there are currently 12 faculties of law in Jordan and numerous faculties of engineering, when a smaller number of specialized faculties could offer higher-quality training.

Apart from the drop in educational quality, public universities lack focus on producing graduates with the skills to meet the needs of the private sector. While graduates in some fields leave their universities with strong technical knowledge, they generally have few practical skills and no experience. Universities provide little or no career services, such as job placement assistance, resume-writing or interview skills. These problems are apparent in the unemployment rates; while higher education levels correlate with higher participation in the labor market, unemployment rates among university graduates seeking work are nearly equivalent to others actively seeking work with lower levels of education.

Figure 25 – Jordan Unemployment Rate by Level of Education (%)



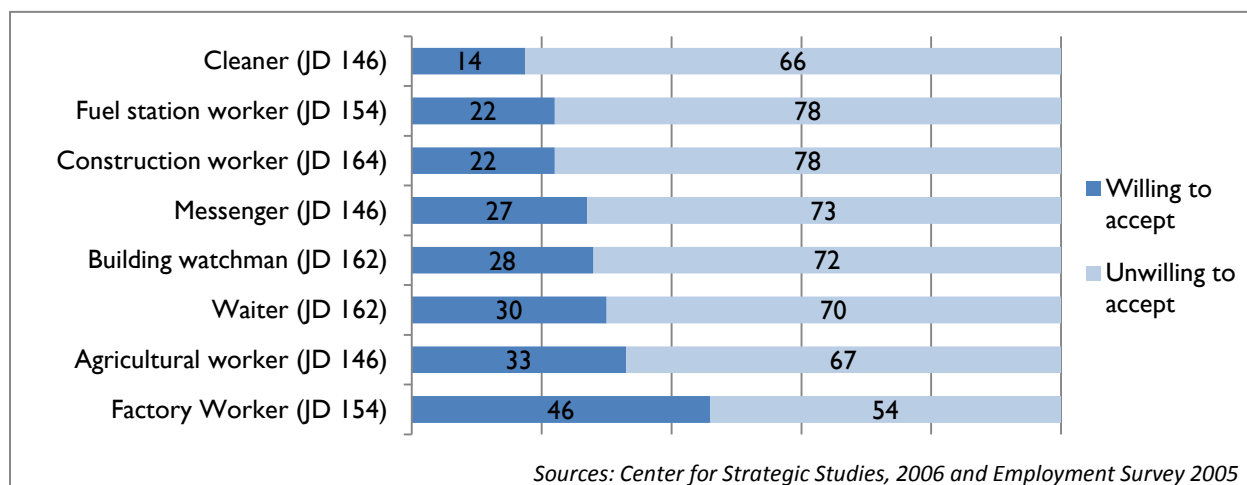
Mismatches in the Labor Market. The World Bank identified three primary mismatches in the Jordanian labor market in 2008: geography, employability and expectations. The assessment team confirmed that each of these mismatches are still present, and also found that there is increasingly structural unemployment resulting from a skills mismatch as well.

- **Geography.** Job creation is taking place primarily in Amman, but the highest levels of unemployment are in other parts of the country. The assessment team found that the high cost and low availability of transportation services exacerbates this problem. The GOJ has provided some incentive for businesses to move activities to higher-unemployment areas, including satellite branches of enterprises, which have had limited success. Some interviewees expressed that the difference in workforce quality outside of Amman was too great.
- **Employability.** While Jordanians possess the same qualifications as foreigners, they are said to lack in “employability” skills, such as effort, responsibility, productivity and flexibility in comparison with foreigners. The WEF found “Poor work ethic in national labor force” to be one of the top five most problematic factors for doing business in Jordan. The assessment team found that most frequently referred to among employers were missing “soft skills” among Jordanians, including communications, customer service, and basic computer skills.
- **Expectations.** Unemployed Jordanians are often highly educated, creating a mismatch between their skills or aspirations and the low-wage jobs available. Some 46% of business owners surveyed stated

that they employed foreigners because they were unable to find Jordanians willing to perform certain tasks.⁶⁹ Many attribute the unwillingness of Jordanians to take certain types of jobs to a “culture of shame,” but a more common explanation is that these jobs simply do not pay enough to make working worthwhile. This is especially true for men who still expect to be the sole provider of family income, regardless of whether or not their wife works. The assessment team found that additional disincentives to accepting low-wage work include high transportation and – especially for women – childcare costs that negate earnings, as well as high levels of remittances from family working overseas. The persistence of gender stereotyping and traditional gender roles for men and women also create internalized perceptions of “women’s work” as service oriented and “men’s work” as leadership oriented that can negatively affect workplace dynamics. High expectations are also created in the public sector, because it offers generous pay and job security with fewer qualifications than are required in the private sector. In some cases, negative perceptions of working conditions also dissuade Jordanians from taking jobs. For example, interviewees noted that young women outside of Amman refuse to accept jobs in foreign-owned manufacturing plants because of a perception that worker abuse is common, and working there would hurt the woman and her family’s reputation, and her prospects for marriage.

- **Skills.** Jordan’s labor force is educated, yet often lacks the skills that are required by employers, hence affecting their employability and/or productivity once employed. These employers have to invest a minimum of 1-2 years in training and building the capacity of their staff. In high-tech industries in particular, the university system is slow to respond to swiftly-changing market demands, negating the value of education. The university system of directing the most highly qualified candidates to particular careers—like engineering—influences the value Jordanians place on particular professions and produces too many professionals in low-demand areas. Women, who comprise the majority of university graduates, are particularly vulnerable to the slow-changing preferences for fields of study considered desirable for women that are not necessarily linked to labor market needs.

Figure 26 - Share of Unemployed Jordanians Willing to Accept Available Jobs



Inefficient Labor Market. The GCI ranked Jordan’s labor market efficiency at 107 out of 142 countries, considering Jordan’s market to be relatively inefficient. Workers are unable to flexibly shift

⁶⁹ Jordan Human Development Report 2011: Small businesses and human development, UNDP and Ministry of Planning and International Cooperation

from one job to another and no incentives are provided to motivate the workers to perform at their optimal efficiency. Jordan ranks worst among benchmarked countries in “Hiring and Firing Practices.” “Restrictive Labor Regulations” is ranked as one of the 10 most problematic factors for doing business in Jordan by the WEF. In addition to hiring and firing regulations, inflexibility of working hours/shifts and part-time work were identified as obstacles to employment by interviewees. Wasta, which refers to using one’s connection or influence to get hired or get things done, is another impediment to an efficient labor market in Jordan. Wasta prevents a worker with no connections from being hired, while an unqualified worker with wasta may be hired, creating inefficiency in the labor market.

Low Women’s Participation in Workplace. Although women’s educational attainment is on par with men, often with superior academic performance, female participation in the labor force remains extremely low. Additionally, women represent only 14 percent of the labor force in Jordan, but 34 percent of the total number unemployed.⁷⁰ Women’s low rates of participation and high rates of unemployment stem from traditional cultural values, male dominance in household decision-making, inadequate services for working mothers, and employer discrimination.

Discrimination⁷¹ against married women and against women wearing the traditional headscarf or *hijab* has been reported, as well as some employers explicitly requesting only male applicants for jobs. The perception of what is appropriate work for women is also a major limiting factor, with teaching and public sector jobs preferred. The distance to workplaces, long working hours, and low pay combine to serve as a powerful disincentive to adding an outside job to a full complement of household responsibilities. That a woman also should have to overcome the cultural tradition of women-- especially married women--not working is an added hurdle.⁷² Two women-dominated areas of QIZ and domestic work have lower minimum wage requirements and thus offer lower pay (110JD compared to 150JD). The gender pay gap is significant in both the public and private sectors. For professionals (most women active in the labor market), it is 41 percent in the private sector and 28 percent in the public sector.⁷³ Women-owned businesses tend to hire more women than do men-owned businesses, but less than two percent of working women own and operate their own business. Most of women’s entrepreneurial activities are in the informal sector.⁷⁴

⁷⁰ Jordan Human Development Report 2011: Small businesses and human development, UNDP and Ministry of Planning and International Cooperation

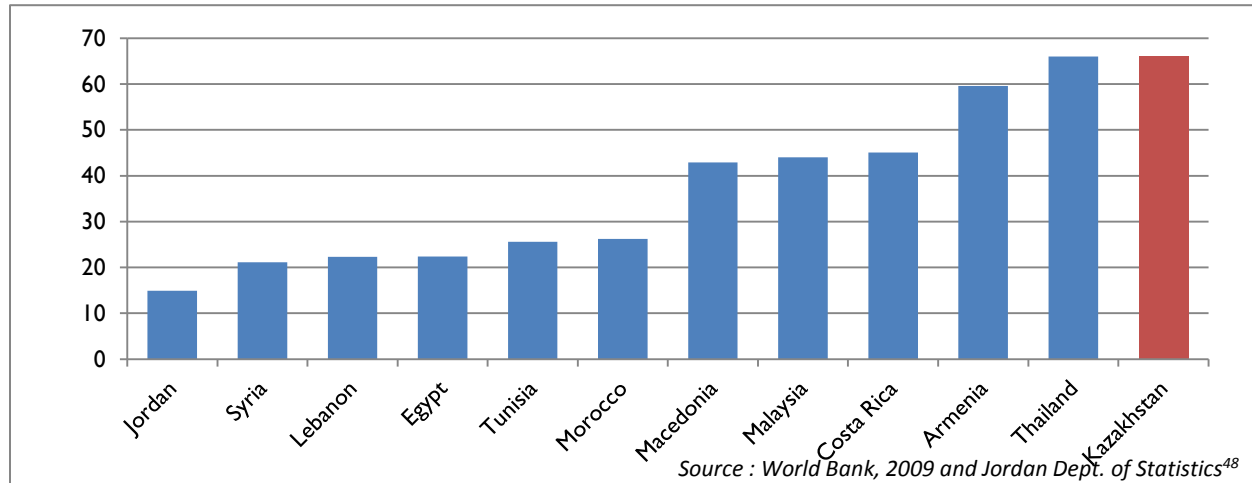
⁷¹ There is conflicting data about women’s participation in the labor market, estimates range from 12-23%, depending on the source. 12-15% was most commonly cited in Jordan. Data from the Department of Statistics was used.

⁷² 2007 Opinion Poll cited in SABEQ, 2010 – Strengthening Coordination for Increased Women’s Economic Participation

⁷³ ILO, 2010

⁷⁴ Sabeq, 2010

Figure 27 - Female Labor Force Participation (%)



OPPORTUNITIES

Jordan has the following opportunities to make changes that can help address the employment and job creation deficit:

Regulatory Reform and Enforcement

Inflexible labor laws constrain both employees and employers. Key areas for attention are: hiring and firing of employees, laws restricting working hours (call centers, for example, would benefit from 24-hour operations; and removing restrictions on women's working hours and certain job categories would allow those women who want to work those jobs to do so), and laws restricting part-time employment. There has been recent reform regarding some accommodations for female workers, such as child care and government subsidized paid maternity leave; but enforcement of these regulations is weak.

Linking Tertiary Education to Private Sector Demand

A detailed skills gap assessment in high-priority industries would help identify not only the careers that are in highest demand, but the specific skills employers are seeking. The private sector needs to participate in curriculum design, collaborating with universities and technical schools to ensure that skills acquired are relevant and up to date. Sustainable linkages between business and universities are beneficial for both parties as well as students. Jordanian universities need to prioritize employment of men and women graduates and should work as a part of a national strategy for employment and economic growth. Their admittance schemes should be updated to funnel qualified students into sought-after career tracks, curriculum should include practical and soft skills, an experiential learning component (like internships), and universities should offer career services. This sort of change requires significant buy-in from universities and regulating bodies. If this level of commitment is not achievable, supplementary courses, like those currently offered by the Business Development Center in soft skills are a good supplement to University education. Other components of this approach, like development of a national internship program, are also possible without university leadership.

Expanding Technical and Vocational Education and Training (TVET) and Certification Programs

There is a strong preference in Jordan, among students and their families, for university education, especially for young women. As the quality of public universities deteriorates, and degrees become less relevant to burgeoning industries, a need to fill the skills gap arises. Additionally, young Jordanians need more high quality educational options in knowledge-based fields, such as ICT, as employers seek out specific skills and competencies that are rarely found in university graduates. Certification programs, based on international standards, build Jordanian resumes and attract employers. There is a need to adapt an international certification program for clinical research organizations, for example, which would help Contract Research Organizations attract international clients.

Vocational training in Jordan is led by the Vocational Training Corporation (VTC) within the Ministry of Labor. The VTC operates 42 training centers throughout the country. Enrollment in VTC programs has remained steady at about 10,000 students in the last 10 years, although government funding for the VTC has increased by 24% and university enrollment has been on the rise.⁷⁵ The VTC's most significant specializations in the past have included: chemicals, minerals, carpentry, blacksmithing, appliance maintenance and auto repair. VTC has recently added programs for pharmacy, the food industry, tourism, environment, and energy and electronics to produce graduates for employment in emerging sectors. Jordanian TVET programs, however, tend to lack market linkages and private sector participation in curriculum design. This leaves the programs unable to respond quickly to shifts in the market and produce graduates with the specific skills demanded by the private sector. The European Training Foundation did an analysis of the system in Jordan, and found that clear occupational standards should be introduced and validated by private business; there is also a need for organization and leadership of TVET institutions and coordination within the sector.⁷⁶ The assessment team's interviews confirmed that the identified problems persist in Jordan, and the recommendations are also in line with international best practices for TVET institutions that lead to increased employment and national competitiveness.

For lower-wage work, which is largely filled by foreign labor, in sectors such as tourism, construction and manufacturing, there are two groups that could be targeted.

- The *unemployed but willing* are those that would take the jobs available, but lack the employability skills that employers are seeking. For this group, targeted training in basic skills, particularly in the governorates is necessary.
- The *voluntarily unemployed* are those who are unwilling to take jobs at the prevailing wages. For this group, behavioral and attitudinal change is necessary, which can only be achieved through broad dissemination of information and targeted interventions to address perceptions and attitudinal issues specific to men and those specific to women. Interviewees confirmed that this was achieved in the nursing profession in Jordan. Professional certifications and defined career tracks within these sectors and occupations could help persuade Jordanians to pursue careers in new sectors. Collaboration with the private sector to design skills certification programs may lead to a willingness to pay a premium for certified professionals in their field with specific skill sets.

Incentives, or disincentives such as canceling work visas, may be necessary to encourage employers (who have become used to foreign workers who are less likely to complain about working conditions, etc.) to hire more Jordanians for these jobs.

⁷⁵ USAID/Jordan Fiscal Reform Project II, 2011. "Education Public Expenditures Working Paper."

⁷⁶ European Training Foundation, 2006. "Technical and Vocational Education and Training in Jordan: Areas for Development Cooperation."

Expand SME Support

SMEs have proven to be an engine for employment generation in Jordan in recent years, and create a higher proportion of jobs for Jordanians than large firms. SMEs face a number of challenges that could be overcome through targeted assistance. The typical life cycle of SMEs - growing from small to medium sized firms - is not taking place. The small companies have weak productivity and exit the market more frequently than larger firms. Labor productivity tends to be much greater in medium and large than in small companies; this is generally a result of greater capital investment and more established business processes. In Jordan, the business environment constrains the expansion of SMEs, preventing them from driving economic growth. Access to finance, for example, is a major constraint, and even more limiting for women than for men. This is particularly true for firms outside Amman, Irbid and Zarqa, in less economically advanced regions.

Increasing Women's Employment

There is no single action that will, by itself, ensure that a greater proportion of women in Jordan are able to join the workforce with prospects for advancement. However, simultaneous progress in several key areas of opportunity should together create a measurable impact on increasing women's opportunities. In particular, (i) gender discrimination in employment should be addressed, (ii) efforts should be made to expand opportunities for women's employment where success has already been shown on a smaller scale (such as call centers and medical technology), (iii) lessons learned and best practices for a more supportive working environment for women should be replicated throughout the private sector, and (iv) additional support should be provided for women-owned businesses. On the opposite side of the equation, more women will need to be encouraged to seek and accept employment opportunities in a wider variety of jobs and sectors. Family support will be important because fathers, brothers and husbands often weigh in on a woman's decision to work, especially after marriage and in jobs outside of the limited category of "acceptable jobs" for women.

Addressing Gender Discrimination in Employment. Efforts should be made to address real and perceived areas of discrimination, especially by the private sector, against women (and, where relevant, against men) in career tracking, recruitment, hiring, job training, working hours and benefits, opportunities for promotion, etc. The issue of discrimination against married women, as well as sexual harassment and other problematic working conditions require special attention as well.

Expanding Opportunities for Women's Employment in Identified Sectors.

- In Jordan, ICT is a high-growth sector, and numerous incubators are cropping up to support entrepreneurs. Female entrepreneurs are much more likely to hire women. Making incubators female-friendly is a good way to get them more involved in the sector. This might mean locating incubators on university campuses, which women and their families feel are safe and appropriate environments for women to work. Additionally focusing some start-up capital specifically on women is a good opportunity. Currently, SME and entrepreneurship financing aimed specifically at women, from the Microfund for Women, is going to almost exclusively non-tech activities.
- Business Process Outsourcing is a growing opportunity for female work. The flexible shifts and high turnover make call centers and excellent place for educated women to work. With improved technology and Voice Over IP nascent in Jordan, there could be opportunities in the future for this work to be home-based as well.
- Medical services and contract research areas that have significant promise for female employment. Contract Research Organizations expressed a preference for female employees based on their excellence in quality control, attention to detail and high moral standards. In other medical areas,

nursing is slowly losing its taboo among Jordanian women, largely thanks to Princess Muna, who established a nursing scholarship.

- Handicrafts represent a significant opportunity for women's employment, tied to the tourism sector. Jordan is capturing little of the tourist market for handicrafts, so there is a clear opportunity for growth. Handicraft producers need to be better organized, so that women can be trained to create higher-value products and connect with markets. This is a good option for women as it can be done with flexible hours and from the home.
- While apparel manufacturing in Jordan does not seem to have a particularly bright future on the international market, there has been some success in bringing jobs to Jordanian women. Because of the very bad image of factories in industrial zones and the high cost of transport, women (or their families) are unwilling to work in those areas. Moving production to the governorates, in Jordanian-owned factories, with areas designated for women only, has proved the best way to entice Jordanian women to take those jobs.

Additional Support to Women-owned Businesses. Female business owners are much more likely to hire female employees. Among women-owned businesses in Jordan, there were 1.84 female employees for each male, and in male-owned businesses, there were 3.11 males for each female.⁷⁷ The assessment team confirmed this in several interviews, with female business owners stating a near-universal preference for female employees, citing that they were more reliable, more productive and better at multi-tasking. Encouraging women's entrepreneurship and supporting growth of women-owned MSMEs could lead to significant employment growth. Some of the primary constraints identified by interviewees that could be addressed include:

- Increasing access to finance for female entrepreneurs, who are often required to have a male family member co-sign on loans. The Micro-fund for Women is working in this area.
- Establishing shared workspaces or incubators where women can access office supplies and equipment and it is appropriate to meet with clients. Incubators housed in universities have been especially successful for women, as there is generally little family objection to a young woman working from the university. The Young Entrepreneurs Association has established one such incubator.
- Access to markets, particularly for home-based and rural businesses is a constraint; services providing transportation could help.
- Simplifying registration requirements and providing assistance with the process to women trying to establish a business would address a constraint raised by women-owned business owners⁷⁸
- Analyze and address barriers to women's entrepreneurial activities moving from the informal to the formal sector.

Create a More Supportive Working Environment for Women. Initiatives suggested by various gender analyses undertaken by the International Labor Organization and several donor organizations include:

- Strengthening and enforcement of legal protections such as equal pay, right to nondiscrimination based on marital status or wearing of hijab, provision of onsite daycare, maternity/paternity leave, following through on contractual commitments to provide transportation, etc. would also improve women's employment opportunities, especially in the private sector.
- Reviewing and amending labor laws to provide for flexible work arrangements and to activate part-time work (currently allowed by law).

⁷⁷ Ibid, p 71

⁷⁸ IFC Survey

- Efforts should be made to explore options such as part-time, job sharing, and flex time when feasible for positions as a way to encourage more women to apply for and accept work opportunities. These are very feasible options in a number of sectors, particularly in ICT, Finance, Administration, and Medical Services. In the case of call centers and business process outsourcing in particular, businesses would like to run 24-hour operations, allowing for any number of shifts; it is only government regulation that keeps them from doing so.
- Stereotypes and assumptions about how accommodations for women might affect productivity should be debunked by sharing examples from companies where such options have been successfully used, and by using targeted survey research, as appropriate. In interviews and focus group surveys, the assessment team repeatedly encountered a perception that women are more productive than men on the job, meaning that even if they finish work earlier than men on average, they complete at least the same amount of work. Women's attention to detail is another quality that employers value, particularly in fields such as accounting, finance and research. Businesses in these areas tend to be very open to hiring women, even for reduced hours, to get these skills.
- Companies tended to be less inclined to hire women in jobs that require travel to the field and visits off-site. A major constraint cited was women's perceived willingness to work overtime. Part-time work is not feasible in these professions. A desire to work fewer hours also constrains women's opportunities for advancement into management and supervisory roles, so flex and part-time options do not help with the lack of women's leadership and career advancement.
- Daycare facilities negate the need for part and flex-time employment. Companies with more than 25 employees are required by law to provide daycare, but the law is not enforced. Thus, employers who do provide this service incur costs that their competitors do not. Better enforcement or government incentives would help to level the playing field.

Concentrate Business Enabling Reforms on Industries and Initiatives with the Best Employment Generation Potential

The goal of the GOJ with regard to stimulating employment, as noted throughout this assessment, should be to grow two types of job-creating enterprises: those that create "smart" jobs to absorb and mobilize the productive potential of Jordan's surplus of university-educated women and men joining the workforce or working abroad; and those that bring economically disadvantaged workers (those living outside of the main urban centers, women and key segments of Jordan's youth) into challenging, rewarding, jobs (some of which may be in the skilled trades, rather than in the more popular white-collar professions). The industries that offer the most promise to create such employment include:

- Tourism
- Construction
- Medical Services
- Business and Professional Services
- Transportation Services
- ICT (especially call centers & customer services occupations)

ANNEX I: LITERATURE REVIEW AND BIBLIOGRAPHY

INTRODUCTION

The Business Environments for Agile Markets (BEAM) Project is conducting a broad-spectrum economic growth assessment for USAID/Jordan from November 2011 through January 2012. This literature review presents the key secondary-source materials most pertinent to this Assessment, along with brief notes and comments highlighting the particular value of each cited source. The literature is divided into major topical theme areas, including the macroeconomic and business enabling environment; innovation and entrepreneurship; sectors and value chains, gender issues, and employment and workforce development.

MACROECONOMIC AND BUSINESS ENABLING ENVIRONMENT

As 2011 drew to a close, Jordan was wrestling with slowed economic growth due to the global economic downturn, soaring expectations due to the Arab Spring, and reduced fiscal latitude as the government budget experienced the pinch of reduced tax revenues. Meanwhile, Jordan's standing among countries in the various international business and competitiveness indicators continued to slide, indicating that Jordanians had some catching up to do to maintain their competitiveness in key industries.

The several reports listed below, in the Assessment Team's opinion, provide the most accurate and comprehensive picture of the macroeconomic and business climate factors bearing upon Jordan at the close of 2011:

IMF, "Regional Economic Outlook: Middle East and Central Asia," 2011.

- This report puts Jordan squarely into its regional context, and usefully divides its discussion into sub-categories of countries, including Mideast oil producers and Mideast non-oil producers (including Jordan).
- Two developments, the report says, mark the outlook for the Mideast countries: the unrest in the region and the surge in global fuel and food prices. "As a result, the near-term economic outlook is subject to unusually large uncertainties stemming from the fluid political and security situation in a number of countries."
- The report also notes, for example, that, whereas GDP growth for the MENA region as a whole dropped from 5.1 percent in 2008 to 3.8 percent by 2010, in Jordan, it fell from a high of 7.8 percent to 2.0 percent in the same period.

Mark Gallagher et al, "Jordan: Public Expenditure Perspectives," USAID/Jordan Fiscal Reform II Project (DAI/Nathan Group, Inc.), December 2011 (final draft).

- This first comprehensive analysis of Jordan's fiscal management and prospects since the start of the USAID/Jordan-funded Fiscal Reform II Project provides the latest and most comprehensive overview of Jordan's budget, revenue and expenditure picture to date.

- One of the report's strengths is its systematic analysis of Jordan's overall performance and prospects (in which the GOJ receives relatively high marks for basic fiscal management, in spite of its dangerous dependence on foreign aid grants to fill much of the budget gap).
- It paints a picture of a nation whose relative success with privatization of public enterprises, trade agreements and other business environment improvements, has become mired in the global economic downturn and the rising political pressures from the Arab Spring. It raises a particularly important question about how easy it will be for the GOJ to achieve, in the coming years, the expenditure reductions that have helped it to make ends meet in recent years through one-shot measures such as major privatizations.
- More unusual for such reports, however, is the DAI team's sector-by-sector appraisal of the GOJ's expenditure and budget performance in many of the key public expenditure sectors. These chapters, including discussions of social assistance, health, education, transportation and water, outline the specific and most pressing management challenges facing the GOJ for each of these areas.

Sheri Pitigala et al, “Assessment of Trade Policy in Jordan and Recommendations for Reform,” SABEQ, 21 February 2008.

- Although already three years old, this comprehensive analysis of Jordan's recent trade accomplishments and its institutional, regulatory and other shortfalls, continues to serve as an excellent guide to trade reform and competitiveness in Jordan.
- The report's most compelling conclusions are those that point to relatively "easy fixes" that the GOJ could undertake to streamline trans-shipment, improve highway infrastructure, reduce inefficiencies in the Customs Service, and negotiate less restrictive rules of origin (ROOs) that bedevil the details of many of its free trade agreements, notably the EU PanEuroMed Agreement.

INNOVATION AND ENTREPRENEURSHIP

The Global Innovation Index <http://www.globalinnovationindex.org/gii/>

- The Global Innovation Index is the probably the most widely used ranking index, covering 125 countries.
- The format of the report is very similar to the Global Competitiveness report, but is focused more narrowly and in more detail on innovation factors of with competitiveness.
- The report has two main sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index, each built around pillars.
- The innovation pillars measured include: (1) Institutions, (2) Human capital and research, (3) Infrastructure, (4) Market sophistication, and (5) Business sophistication. Two output pillars capture actual evidence of innovation outputs: (6) Scientific outputs and (7) Creative outputs.
- Each country is scored in both sub-Indices and each of the five pillars on an extensive range of innovation performance indicators.

Innovation Foresight for MEDA Partners in the European Research Area, “INNforMED report on Jordan 2011,” (<http://www.innformed.org/meda-countries/innovation-policy-in-jordan.html>).

- This report uses an “Innovation Systems” thinking to develop a structured inform the EU-Mediterranean dialogue in research and innovation.
- The report summarizes Jordan innovation assets and liabilities and forecasts private and public investment opportunities that could have the biggest payoff for Jordan’s innovation system.

Institute for Innovation and Technology (IIT), “Study on the National Innovation System in Jordan,” GTZ, December 2009. (<http://www.iit-berlin.de/Jordan.pdf>)

- This report discusses the basic elements of a national innovation system.
- Then organizational players including education and research institutes, firms, industrial parks, incubators, governmental institutions, banks.
- It defines innovations as it relates to new technologies, products, processes and services.
- The paper explores the relationships between innovation stakeholder organizations and describes the “hard” and “soft infrastructure” requirements for having a more innovation enabling environment

Jordanian Royal Scientific Society (RSS), “The Innovation System in Jordan,” 2007.

- This PowerPoint presentation describes the current innovation system in Jordan
- It explains the roles of each of the main S&T support organizations.
- It also provides some useful benchmarking indicators for where Jordan stands as country location for innovation system activities.

Concept Foundation, “Technology Transfer Snapshots from Middle-Income Countries: Creating Socio-Economic Benefits through Innovation,” from IP Handbook of Best Practices, August 2009, <http://www.iphandbook.org/handbook/ch03/p04/index.html>.

- This report examines the case study outcomes of technology transfer policies adopted in the past 20 years by five middle-income countries: Brazil, India, Ireland, Israel, and Jordan.
- The outcomes in those countries suggest that nations whose governments enable the assimilation of new technologies grow faster, create more jobs, and reduce poverty levels
- The report suggests also that a mixture of government and market strengths are needed to efficiently use technology transfer.

World Bank, “A Candid Review of Jordan’s Innovation Policy,” Draft Report, April 2010.

- This note is a short and informal and is intended to be provocative and stimulate debate.
- The World Bank prepared in this note a rapid appraisal of Jordan’s innovation system.
- The report provides a list of Jordan’s assets and liabilities in its innovation system.
- The note offers six suggestions or recommendations for Jordan to make its innovation policy more comprehensive and potent.

COMPETITIVE SECTORS AND VALUE CHAINS

The following documents summarize the growth potential of various sectors and the important role of SMEs in Jordan’s competitiveness.

UNDP and Ministry of Planning and International Cooperation, “Jordan Human Development Report 2011: Small businesses and human development.”

- In addition to reviewing Jordan’s performance against Human Development indicators, this report takes a detailed look at the role of MSMEs and economic growth, social progress, gender empowerment and sustainable development. The report also examines the state of microfinance for poverty reduction.
- For this economic assessment, the most valuable information was about SME’s contribution to economic growth and job creation, particularly for women. Some of the highlights include the following.

- MSMEs play a vibrant role in high-income countries, contributing 50% of GDP on average. As is true in many lower-income countries, MSMEs contribute much less in Jordan.
- A survey of MSMEs found that in Jordan, the typical life cycle of MSMEs - growing from small to medium sized firms - is not taking place. The small companies have weak productivity and exit the market more frequently than larger firms.
- Labor productivity tends to be much greater in medium and large than in small companies; this is generally a result of greater capital investment and more established business processes.
- In Jordan, the business environment constrains the expansion of MSMEs, preventing them from driving economic growth. Access to finance, for example, is a major constraint. This is particularly true for firms outside Amman, Irbid and Zarqa, in less economically-advanced regions.
- There are no good statistics on MSME contribution to GDP, tax revenues or exports in Jordan, but based on export guarantees, the Jordan Loan Guarantees Corporation estimates that they were JD 87.2 million in 2008, showing significant growth from the previous year, but still not contributing more than 5% to overall national export numbers.
- A survey of MSMEs corroborates this estimate, finding that only 4% of MSMEs are currently exporting. The percentage of exporters is significantly larger in medium-sized enterprises.
- Another factor keeping MSMEs from exporting is the lack of collaboration between MSMEs to produce sufficient volume for export. Of those surveyed, 78% of enterprises do not belong to any professional association and 86% had never had a relationship with another MSME or group, and 90% had never joined with another MSME to purchase or sell a large order. This prevents specialization in sectors and value-addition to MSME products.
- New small firms created the most new jobs in the private sector 2000-2007. Among existing businesses, large firms led employment growth, increasing their share of national employment from 21.6% in 2000 to 28.6% in 2007
- Women comprise only 14 percent of SME employees (compared to 36 percent of large company employees), and among private sector companies women comprise the smallest percentage (10 percent) in the smallest businesses (those with only 1-4 employees)
- Trends that contributed to large business growth included trade liberalization and the establishment of QIZs; the expansion of the telecommunications sector, and the FDI inflow and expansion in some large industries, due to the privatization process, 2005-2007

Ministry of Planning and International Cooperation, "Jordan's Competitiveness Report, 2008-2009." http://www.jnco.gov.jo/static/our_work_studies.shtm.

- This was the second competitive report produced by Jordan's Ministry of Planning and International Cooperation, focusing on key sectors with potential to boost growth. The 2008-2009 report provided updates on sectors from the 2007 report (pharmaceuticals, ICT, tourism, medical tourism and higher education) and added three new sector analyses (banking, insurance and meat processing). Highlights follow:
- **Pharmaceuticals:** Most products are sold within the Arab world. Jordan boasts a solid workforce, including many PhDs, but curricula could be more closely linked with market needs, including soft skills and creative thinking. Additionally, manufacturers have good reputation and Jordan is the most open market in region. There are no foreign ownership restrictions or cost to repatriate profits. However, intellectual property rights and patent awareness need to be strengthened.
- **Information and Communications Technology (ICT).** ICT contributed 12% to GDP in 2008; the market size was US\$ 883m in 2007; domestic revenue was US\$ 686m, export revenue US\$ 197m, and growth for the year was 18.6% and 2.81%, respectively. Government support has been crucial. Jordan has had a consistent ICT strategy, with measurable goals and time limits, followed by consecutive governments. This has improved the regulatory framework in recent years, making Jordan more attractive to foreign investors. There is increasing interest in BPOs in Jordan;

demonstrated in the 2009 AT Kearney Global Services Location Index, in which Jordan was ranked 9th out of 50. The sector could be further strengthened through cluster formation and increased specialization.

- **Tourism.** The tourism sector in Jordan is growing in visitors, revenue and employment. The government has made the sector a priority, investing in infrastructure in tourism zones and partnering with the private sector. Priorities for the sector are diversification of tourism products to include cultural, family, religious and eco-tourism; increased use of ICT; development of domestic demand; and specialized guide training to improve the available workforce.
- **Medical Tourism.** World Bank experts have ranked Jordan as the top country in Arab region and fifth in world for medical tourism. Assets in this industry are high-quality medical treatment, modern medical equipment, a professional and skilled workforce, and political and economic stability. The primary nationalities of visitors include Iraqi, Palestinian, Sudanese, Gulf countries, Syrian, and Libyan. Domestic demand is also strong, with health expenditure comparable to high income countries, but could be strengthened with a national healthcare insurance requirement. Potential improvements for the sector are updating legal regulations and implementing stronger governance of the sector.
- **Higher Education.** This sector is expanding, with increasing enrollment each year; faculty has not grown at the same rate, increasing the student to faculty ratio. The National Strategy for Higher Education and Scientific Research Sector should guide development priorities in this area, with a focus on narrowing the gap between higher education and labor market requirements.
- **Banking.** Jordan has an established banking sector, with a strong regulatory supervision and an internationally-based legal framework. Banks have minimized risk by prioritizing liquidity and security over profitability. A strong workforce supports the sector's growth. However, the industry is fragmented and IT systems differ in quality. Although some banks offer high-quality e-banking options, they are not used extensively. Internet penetration is relatively low, and Jordanians prefer to visit branches. Jordan's banks lack wide geographical coverage, small bank branches, and ATMs. Access to banking services is below international standards. The sector could benefit from expansion and an improved rating and scoring system to deal with risks at the beginning of the credit process.
- **Insurance.** The insurance sector is currently small and its competitive position could be strengthened, but there is significant growth potential. Developing supporting industries, such as third party standards and ratings agencies, would strengthen the sector. Lower minimum capital requirements for those entering the sector would improve market competition. Demand must also be stimulated for growth, which could be achieved through tax breaks, compulsory insurance products, and awareness campaigns.
- **Meat Processing.** Jordanian meat is high quality and competes with international brands in the domestic market. Local demand is projected to grow based on changes in consumer preferences, but new export markets are still needed. Producers are using the most advanced technology but supporting industries lacking; over 90% of processed meat production equipment and packaging materials are imported. To improve export potential, centralized inspection/quality assurance and improved labeling are needed. Training or vocational education programs are also needed to improve the workforce for this sector.

USAID/Jordan, SABEQ, "A Rapid Diagnostic of the Garment Sector," 15 July 2007.

- USAID did a rapid assessment of the garment sector in 2007, finding that the majority of firms were 100% foreign owned, less than a third were locally-owned, and joint ownership was least common. Foreign investment came primarily from East and South Asia and most investors owned their own factories. Companies surveyed worked with subcontractors very little, citing that local companies lacked production capacity and skilled labor.

- The proportion of local labor in manufacturing declined steadily from 2002 to 2006; owners surveyed unanimously preferred foreign workers despite the cost advantage of domestic labor, citing high turnover and inefficiency among locals.
- Most companies are exporting everything that they produce and both sales and exports showed significant growth 2002-2006. The U.S. is the primary export destination, with the EU as a distant second.
- Products are generally unsophisticated; the country competes on price more than quality.
- Locally sourced materials made up less than 10% of inputs, primarily because Jordan does not produce cotton.
- The sector suffered losses resulting from bad publicity in 2006, which cited poor working conditions and violations of labor law.

Dr. Yusuf Mansur, “Overcoming Barriers to Foreign Investment in Jordan,” June 2008.

- This review of Jordan’s performance attracting FDI found that Jordan had performed well in recent years; however, inflows have been driven more by regional developments than by improvements to the business environment in Jordan.
- Internal improvements recommended include establishing institutions focused on investment, like a think-tank and a national investment and development agency; revamping investment incentive, particularly with regard to tax schemes; and streamlining procedures in line with international best practices.
- The report focuses largely on Jordan’s performance in key indicators such as the Global Competitiveness and Doing Business reports.

GENDER ISSUES

No statistics encapsulate Jordan’s unique dilemma regarding women’s economic empowerment better than its status as the home of the most educated women in the Arab world, but also the home of the highest female unemployment rate in the region. Several documents provide excellent insight into the particular challenges that Jordanian women face, especially regarding enterprise formation and employment.

Al Manar, Human Resources Development Information System Project, “Women’s Participation in the Private Sector,” 2006.

- A comprehensive and easy-to-read analysis that covers legal policies and social and cultural factors affecting women’s private sector employment, a comparative analysis of income, wages and benefits in the public and private sectors, and recommendations.
- The research findings confirmed that women’s unemployment is higher than men’s, and that there is considerable discrimination against women in the private sector, especially against married women because they are perceived to be less committed to their jobs due to family obligations. Women’s jobs in the private sector are more closely related to their roles in the household and women are under-represented in management.
- The table summary of labor laws is useful, but a bit dated due to changes subsequent to the publication date. The policy analysis recommends enforcement of policies, removal of others, and revising still others to be more gender equitable. The social and cultural factors section includes a wide range of issues that are an important reminder that legal changes are only a part of what is needed to increase women’s participation

- The paper includes a case study of pharmaceuticals, communications and ISPs that added additional detail to the general research findings, while noting the women comprise 25 percent of the employees in those sectors.
- A key recommendation is that addressing the issue of women's participation will require engaging the government, the private sector, academia, and NGOs/civil society from multiple perspectives: legal changes to restrictive labor laws, more equitable and fair private sector HR policies, increased awareness of their rights and obligations among women in the labor market, more research on gender gaps and better educational preparation of labor force.

Mendana Hendessi, "Jordan Gender Assessment," USAID/Jordan SABEQ Project, 18 January 2007.

- This is an analysis of women's economic participation based on SABEQ's experience working on the issue and focused on opportunities to integrate gender into SABEQ program components.
- The assessment also devotes analysis and recommendations to specific ways that SABEQ can address women's economic empowerment through the Project's various components, and its chapters are thus organized according to these components: financial markets; trade and investment; removing government constraints on competitiveness; enhancing productivity; and social and political empowerment.
- Access to finance was identified as a key issue for women in private sector development, noting that Jordan has one of the lowest rates of women's entrepreneurship in the MENA region at 4 percent in the formal sector. The gender gap and segmentation also is reflected in the fact that three-quarters of women's businesses are home-based and represent a narrow range of traditionally female skills, such as sewing, embroidery, production of other handicrafts, provision of beauty services and commercial trade in groceries or clothing.
- Also identified is women's need for technical assistance in helping them access markets and networks to expand their businesses.
- The report notes that most working women in the formal sector are among the better educated and higher income brackets, with a large percentage of women working in the public sector where wages are higher, benefits and working conditions are better, and where job security is provided.
- The opportunities identified in the ICT sector and at QIZs are somewhat negated by the explicit discrimination against married women expressed by those QIZ managers due to legal requirements for maternity leave and childcare provision.
- Gender stereotyping in Jordanian education was noted as constraint in social and human development.

Ricardo Hausmann et al, "The Global Gender Gap Report 2011," World Economic Forum (WEF) 2011.

- WEF, in addition to its relatively widely-quoted annual competitiveness indicators, publishes each year a profile of the trends for women's participation in economic and political life, as well as the degree to which their needs are served by health and education systems, in most of the world's countries.
- The indicator and its four constituent elements (political, economic, education and health) is designed to measure, in the most objective possible terms, the percent of each sector in which women are engaged, thus avoiding more qualitative comparisons between men's and women's status which are more readily debatable.
- In the case of Jordan in 2010 and 2011, the Global Gender Gap indicator clearly shows Jordan improving only slightly (from 120th to 117th in the world), but it also draws starkly the contrast between Jordanian women's relative success in education (Jordan was 79th in 2011), and their disappointing levels of unemployment (Jordan ranked 127th).

International Finance Corporation, Women's Entrepreneurship in MENA, 2007.

- This analysis of women entrepreneurs and their firms in 5 MENA countries – Bahrain, Jordan, Lebanon, Tunisia, and UAE – is unique for its comparability across the countries.
- For Jordan, the 444 women business owners surveyed indicated their top three business concerns are access to capital, learning financial management skills, and the high cost of public services (electricity, water, telephone, etc.) but their primary recommendations were to reduce the time to register/start a business, reduce business registration cost, and promote business ownership in general.
- The executive country report for Jordan is just 3 pages, but one of the most enlightening aspects is the survey results on access and use of finance. Only 9.2 percent received micro-finance loans, and only 14.2 percent acquired business/commercial bank loans. The rest did not rely on external financial resources (35.4 percent), relied on private resources (20.9 percent - personal savings, friends and families), depended on earning of their business (27 percent), took out personal bank loans (8.1 percent), used vendor credits (2.9 percent) or business lines of credits (2.5 percent), or used credit cards (1.6 percent).
- The report also points to women business owners desire to grow their businesses, with one third wanting to go from a part-time to full-time venture and 62 percent likely to seek external financing in the coming two years.
- The biggest challenge identified was balancing work and family life, but dealing with business payoffs and bribes was noted by 46.2 percent as more difficult for women and 41.4 percent mentioned dealing with networking and building informal business relationships.
- A key recommendation was to promote women-owned micro level and home-based businesses to grow.

International Labor Organization. Pay Equity in Jordan- Policy Brief 9, 2010

- This short document is a recent analysis of pay discrimination in Jordan in the public and private sector, defining pay equity to include both different pay for the same job and different jobs that have equal value that are paid differently.
- Although the official gender pay gap (GPG) is 7 percent, the brief asserts that the low figure is misleading since the less than 15 percent of Jordanian women participating in the labor market tend to be well-educated and thus not engaging in low-skill, low pay employment. Thus, when taking into account the skill level, women professionals in Jordan are paid 33 percent less than men professionals. At the low skill level, the exclusion of domestic workers from the DoS Employment Survey is criticized as also skewing the numbers.
- The brief includes a comparative analysis of public and private sector GPG based on four skill levels. In all levels, the private sector GPG exceeds the public sector, from a high of 23 percent for the lowest skilled workers (where women are advantaged compared to men by 2 percent in the public sector) to a still significant 13 percent for the highest skilled workers.
- Also analyzed are gender segregation and how even in feminized public sector fields such as education, women professionals still earn less than men professionals (by one third).
- Policy options are presented, mostly based on international models to promote pay equity.

USAID/Jordan SABEQ, Strengthening Coordination for Increased women's Economic Participation: End of Mission Report, 2010

- Somewhat repetitive, but useful, analysis of specific gender-based constraints to women's participation across various economic sectors: local economic development (LED), information communication and technology (ICT), Business Process Outsourcing (BPO), Clean Technology and Water Sector, and Pharmaceutical sectors. Each sector is analyzed with an overview of its

importance in the Jordanian economy and analyzes women's current participation, prospects for future increased participation, and gender-based constraints.

- The report opens with an explanation in global terms of how women play a vital role in economic progress because: (i) increasing women's employment reduces poverty through intergenerational transmissions of wealth, (ii) increasing women's employment increases economic growth, (iii) addressing gender-based constraints can increase competitiveness, and (iv) women positively impact the bottom line.
- Common constraints faced by Jordanian women across sectors include: social expectations related to a women's primary role as mother and caregiver (and worker as secondary), low expectations for women's professional achievements, employers perceiving women workers as less committed and career oriented than their male counterparts. Women also are constrained by limited social networks and restrictions on women's mobility and socializing outside work hours. And, labor laws do not provide for part-time or flexible work arrangements that would help accommodate women's dual roles as caregivers and workers.
- The report also contains some interesting statistics such as Jordanian women own only 5 percent of land, and less than 2 percent of working women own and operate their own businesses.

European Foundation (Majcher-Teleon, A & Slimène, O), Women and Work in Jordan: Case Study of Tourism and ICT Sectors, 2009

- This brief paper analyzes the opportunities for women in the expanding sectors of tourism and ICT in Jordan, noting that skilled workers are required and that gender sensitive donors are investing in the sectors.
- Women account for just 10 percent of the tourism sector employees because it is considered inappropriate for women (though the number is steadily increasing), while women comprise 26 percent of the ICT sector which does not suffer from that stigma and has even less gender stereotyping than in the West.
- The report includes detailed sex-disaggregated data of jobs
- Noted is the negative impact on economic development of women not utilizing their education in the labor market that lacks the requisite skilled and talented work force.
- The report suggests that greater efforts are needed to make jobs more woman-friendly and to encourage women to enter the work force. It points to the school-to-work transition as being particularly difficult for young women and one that deserves additional study.

Sweidan, M. (n.d) Work Pattern of Jordanian Women, Women in Informal Work and Home Based Entrepreneurship, Amman

- This 10-page analysis by the head of Gender Statistics at DoS pulls together data to explain the work patterns of Jordanian women.
- Interesting perspectives include a life cycle analysis of women's work, and differences in men's and women's rationale for women not working (for women overwhelmingly "not good for quality of life", while for men split between that reason and "social norms and traditions"). Only 9 percent of men and 7 percent of women answered "no economic need".
- Of note is that rates of married women active in the labor market actually decreased between 2004 to 2009 from 29 percent to 24.2 percent.
- As noted in other studies, women's activity in the formal sector increases with education, and the preference for public sector work.
- The paper discusses the implications of the low utilization of productive capacity and the impact on household income caused by women not participating in the labor market.
- The paper concludes with a note that the primary role of women as wife and mother needs to be addressed to ensure women have equal access to the labor market in Jordan.

EMPLOYMENT AND WORKFORCE DEVELOPMENT

Jordan has become, particularly over the last decade, an economy adept at creating jobs suitable for less-skilled and lower-paid guest workers and refugees. It has fared significantly less well at creating the lasting, relatively well-paying jobs that would interest Jordan's own increasingly educated and women- and youth-dominated workforce. The resulting high unemployment rates among Jordan's most potentially valuable workers, and the additional economic distortions Jordan endures from the large numbers of these workers that leave the country and send home remittances from the Gulf, Europe, the United States and elsewhere, represent a major impediment to Jordan's achieving its full economic and competitive potential.

The following are the reports that best captured this set of challenges and opportunities in Jordan at the end of 2011:

International Labor Office (ILO), "Global Jobs Pact Country Scan: Jordan," 2011.

- This report represents the first step for Jordan (and other ILO member countries that choose to engage with the ILO) in a global program designed to help mitigate the unemployment attributable to the global financial and economic crisis. It is an inventory of employment and workforce development issues that Jordan presently faces.
- The Country Scan outlines the economic and jobs impact of the global economic recession on Jordan, and then evaluates Jordan's response to date through social policies, job creation programs, meeting international industrial standards, promoting social dialogue on priorities and national action plans, and promoting "a fair and sustainable globalization."
- The Country Scan notes, for example, "In MENA, already the region with the lowest labor force participation rate in the world (about 48 percent compared to 70 percent in East Asia), unemployment in 2008 averaged 11 percent. In Jordan, unemployment in 2008 stood at just over 14 percent. By end of September 2010, Jordan's unemployment rate had shrunk only modestly, to 13.5 percent."

International Youth Foundation (IYF), "Building On Hope: Findings from a Rapid Community Appraisal in Jordan," February 2010.

- Part of the IYF's "Youth: Work Jordan" (YWJ) Initiative, this report was funded under a USAID/Jordan grant in association with the Jordanian Ministry of Social Development (MoSD). A rapid community appraisal, the report identifies gaps in support services and other institutions to assist Jordanian youth to help address their unemployment and their low level of civic engagement.
- The report's recommendations are aimed at project partner institutions' youth action agendas.
- It highlights the mismatch between existing job training programs and local labor demands, as well as the lack of practical training or preparation of youth to compete in the job market. The report also highlights that only 1.6 percent of targeted youth are registered members of any kind of civil institution, and that there are extremely few voluntary service organizations available to Jordanian youth.

World Bank, "Hashemite Kingdom of Jordan: Resolving Jordan's Labor Market Paradox of Concurrent Economic Growth and High Unemployment," Report No. 39201-JO, December 23, 2008.

- This report, prepared by the Economic and Social Development Unit of the Middle East Department of the World Bank, provides an excellent and in-depth analysis of Jordan's paradox of high unemployment even in times of strong economic growth.

- It clearly documents the extent to which many (over 60 percent) of the new jobs created in the mid-to-late 2000s were low-skill jobs that went to foreign workers and not to Jordanians.
- It blames the phenomenon primarily on the mismatch between the available jobs and the preferences of unemployed (and relatively well-educated) unemployed Jordanians. It recommends a mixed response of: assisting those in the minority willing to accept available jobs; promote high-wage jobs by providing incentives to “knowledge economy” and other jobs suitable for relatively educated workers; adjusting immigration and emigration laws to encourage local employment; and improving the links between vocational and other education, and employers’ needs.
- The report also notes the negative effect of Jordan’s large diaspora and the remittances they send back home. For example, an estimated 450,000 Jordanians were working abroad and sending home remittances by 2006 – nearly double the number at the beginning of the decade. Studies have shown that in Jordan and in other countries with similarly large “brain-drain,” the benefit of remittances accrues primarily to the wealthy, relatively better-educated families in the home country, while remittances put upward pressure on real exchange rates and encourage Jordanians in the domestic labor market to “opt out” of seeking employment.

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ANNEX II: INTERVIEWS

A. Government of Jordan:

Dr. Yousuf A. Al-Abdallat, Program Director, University of Jordan, abdallat@ju.edu.jo, Tel: 962 6 535-5000.

Eng. Hassan Al-Omari, Director, National Production Protection Directorate, Ministry of Industry and Trade, Hassan.o@mit.gov.jo, Tel: 962 6 562-9030.

Bashir Al-Zu'bi, Vice President for Humanities, University of Jordan Aqaba Branch, bashir@ju.edu.jo, Tel: 962 6 535 5000 Ext: 21112.

Maha Ali, Secretary General, Ministry of Industry and Trade, maha.a@mit.gov.jo, Tel: 962 6 562-1686.

Saleem Z. Nammari, Director of Special Projects Uint, Jordan Investment Board, saleem.nammari@jib.com.jo, Tel: 962 6 560-8400.

Dr. Maen Nsour, Deputy Chairman, Director General, Social Security Corporation, maennsour@ssc.gov.jo, Tel: 962 6 550-7700.

Nidal Qanadilo, Director, ICT Investments, Ministry of Information and Communications Technology, nidal.q@moict.gov.jo, Tel: 962 6 580-5674.

B. Jordanian Enterprises:

Doha Abdelkhaleq, Co-founder & Managing Partner, ESKADENIA Software, d.salah@eskadenia.com, Tel: 962 6 551-0717.

Salah M. Abu-Osbeh, Executive Director, Professional Partnerships, Talal Abu-Ghazaleh Organization, The Arab Organization for Global Professional Services, sabuosbeh@tagorg.com, Tel: 962 6 510-0600.

Eng. Amer Al-Majali, Chairman of the Board of Directors, Future Today, Jordan Industrial Estates Company, amer@jiec.com.jo, Tel: 962 6 552-9360.

Hisham Al-Ramahi, R&D Manager, Nuqul Group, halramahi@nuqulgroup.com, Tel: 962 6 465-2688.

Engineer Elham Zeadat Aranki, General Manager, Bloom Dead Sea Life, elham@bloom.com.jo, Tel: 962 6 571-2680.

Zaid Ayoub, Program Director, JTronix Jordan Electronics, zayoub@jtronix.jo, Tel: 962 6 580-8777.

Yousef Barjakly, General Manager, Manaseer Food Industries, y.barjakly@mgc-food.com, Tel: 962 6 471-1307.

Hamdi Abu Dahab, Managing Partner, Jorsal Jordan Universal Wood Industries Co. Ltd., hamdi@jorsal.com, Tel: 962 6 553-4001.

Iman Al Damen, Chief Risk & Credit Officer, Capital Bank, iman.damen@capitalbank.jo, Tel: 962 6 510-0200 Ext: 405.

Dr. Usama Fayyad, Executive Chairman, Oasis 500, usama@oasis500.com, Tel: 962 6 580-5460.

Samar Habayeb, Owner Silsal: Art/handcrafts samar@silsal.com, Tel. 962 6 593-1128

Rima Abu Hilal, Programs Coordinator, The Scientific Foundation of Hisham Adeeb Hijjawi, rhilal@hijjawi.org, Tel: 962 6 550-0999.

Eng. Nabil Y. Kamal, Managing Director, Techno Group, Nabil.Kamal@techno-grp.com, Tel: 962 6 420-3155.

Salwa Katkhuda, Investments Manager, Oasis 500, salwa@oasis500.com, Tel: 962 6 580-5460 Ext: 4204.

Elias Kawar, Managing Partner, Maani & Partners Furniture Co., elias@maani.com, Tel: 962 6 412-9119.

Amy Kyleen Lute, Corporate Development Coordinator, Oasis 500, amy@oasis500.com, Tel: 962 6 580-5460 Ext: 4212.

Tamam Mango, Partner, Leading Point Management Advisory Services, tamam.mango@leadingpoint.co.uk, Tel: 962 6 554-9333.

Dr. Adel Mishal, General Manager, United Pharmaceuticals, adelm@upm.com.jo, Tel: 962 6 416-2901

Dr. Wissam Rabadi, Executive Director, Start Alliance Angel Network, wrabadi@bedaya.jo, Tel: 962 6 534-4808.

Khaled Sadeddin, Chief Coach & VP of Operation, Oasis 500, khaled@oasis500.com, Tel: 962 6 580 5460 Ext: 4230.

Radwan A. Shaban, Senior Vice President, Chief Economist, Arab Bank, radwan.shaban@arabbank.com.jo, Tel: 962 6 560-0000.

Diana Sober, Quality Assurance Manager, Clinical Quest, Diana.sober@clinicalquest.jo, Tel: 962 6 461-0012.

Nadine Toukan, Independent Film Producer (<http://urduunmubdi3.ning.com/profile/Nadine>).
Maha Tutunji, Chief Executive Officer, Clinical Quest, maha.tutunji@clinicalquest.jo, Tel: 962 6 461-0012.

Thabet L. El Wir, Sabeel Co, thabet@sabeelco.com, Tel: 962 6 552-3984.

Firas Abu Wishah, Business Development Director, Petra Engineering Industries Co., fabuwishah@petra-eng.com.jo, Tel: 962 6 405-0227.

Nadim Muasher, Chairman, Various tourism and manufacturing companies. nymuasher@gmail.com, Tel: 962 6 566-0812

C. Jordanian Non-Governmental Organizations (NGOs) and Associations:

Muhammad Al-Jarrah, Deputy CEO for Operations, INJAZ For the Creation of Economic Opportunities for Jordanian Youth, mjarrah@injaz.org.jo, Tel: 962 6 565-7410.

Dr. Maher H. Al-Mahrouq, General Manager, Jordan Chamber of Industry, m.mahrouq@jci.org.jo, Tel: 962 6 464-2649.

Naser Aloul, Executive Director, The Scientific Foundation of Hisham Adeeb Hijjawi, naloul@hijjawi.org, Tel: 962 6 550-0999.

Ahmad Asfour, Executive Director Youth Entrepreneurs Association (YEA), director@yea.com.jo, Tel: 9632 6 500-7263

Rashad M. Bibars, Senior Business Development Director, Business Development Center, rbibars@bdc.org.jo, Tel: 962 6 586-5002 Ext: 108.

Nabil A. Ismail, Member of the Board of Directors, Jordan Chamber of Industry, nabil.ismail@jci.org.jo, Tel: 962 6 464-2649.

Nidal Mansour, Executive President, Center for Defending Freedom of Journalists, nidal@cdfj.org, Tel: 962 6 516-0820.

Fateh Mansour, Program Manager, Center for Defending Freedom of Journalists, fateh@cdfj.org, Tel: 962 6 516-0820.

Issa H. Murad, First Vice Chairman, Jordan Chamber of Commerce, issa.murad@jocc.org.jo, Tel: 962 6 566-5492.

Khaleel Al Najjar, Director, The Intellectual Property Commercialization Office, El Hassan Business Park, Najjar@ehsc.jo, Tel: 962 6 534-4701 Ext: 2526.

Sharaf Obeidat, Business Development Officer, Al Urdonia Lil Ebda, sh.obeidat@bic.jo, Tel: 962 6 235-6220.

Fatima F. Abuo Okab, Deputy General Manager, Microfund for Women (MFW), fokab@microfund.org.jo, Tel: 962 6 566-6100 (ext. 128).

Valentina Qussisiya, Director General/ CEO, Jordan River Foundation, v.qussisiya@jrf.org.jo, Tel: 962 6 593-3211.

Maha N. Shawareb, Vice President, Business Development Center, mshawareb@bdc.org.jo, Tel: 962 6 586-5002 Ext: 114.

Nayef Z. Stetieh, President and CEO, Business Development Center, nstetieh@bdc.org.jo, Tel: 962 6 586-5002.

Abdelmajeed Shamlawi, Chief Executive Officer, Information and Communications Technology Association- Jordan, abed.shamlawi@intaj.net, Tel: 962 6 515-2322.

Ghaith Shuqairi, Senior Program Coordinator, Center for Defending Freedom of Journalists, ghaith@cdfj.org, Tel: 962 6 516-0820.

D. United States Government Agencies:

Laith Al-Qasem, Chief of Party, SABEQ USAID Jordan Economic Development Program, laqasem@sabeq-jordan.org, Tel: 962 6 550-3050.

Douglas H. Ball, Deputy Mission Director, USAID/ Jordan, dball@usaid.gov, Tel: 962 6 590-6717.

Amy R. D'Angelo, AgBEE Snapshot Assessment Jordan, USAID Enabling Agricultural Trade (EAT) Project, dquinn@fintrac.com, Tel: 079 931 9055.

Christine Erickson, Deputy Chief of Party, USAID/Jordan Fiscal Reform II (FRP II) Project, Christine_Erickson@dai.com, 962 6 592-2863.

Mark Gallagher, Chief of Party, USAID/Jordan Fiscal Reform II (FRP II) Project, Mark_Gallagher@dai.com, 962 6 592-2863.

Rana Al-Turk, Country Director, International Youth Foundation, USAID Youth:WORK program, r.alturk@iyfnet.org, Tel: 962 6 585-5506

Ruba Jaradat, Project Management Specialist, USAID/ Jordan, rjaradat@usaid.gov, Tel: 962 6 590-6696.

Beth S. Paige, Mission Director, USAID/ Jordan, bpaige@usaid.gov, Tel: 962 6 592-0158.

Dr. Thomas Rhodes, Director of Water Resources & Environment, USAID/ Jordan, TRhodes@usaid.gov, Tel: 962 6 590-6248.

David Quinn, AgBEE Snapshot Assessment Jordan, USAID Enabling Agricultural Trade (EAT) Project, dquinn@fintrac.com, Tel: 079 881 8378.

Joyce S. Wong, Economic Counselor, Department of State, WongJS@state.gov, Tel: 962 6 590-6556

ANNEX III: BACKGROUND NOTE ON JORDAN'S DECENTRALIZATION EFFORTS

USAID/Jordan, in the scope of work (SOW) for this assessment, asked specifically about the impact that decentralization policies and initiatives might have on economic growth, business development and job creation in Jordan. Specifically, the questions was: “Is Jordan likely to decentralize in a substantial way given recent constitutional reforms and will this have any impact on Jordan’s economic growth trajectory?”

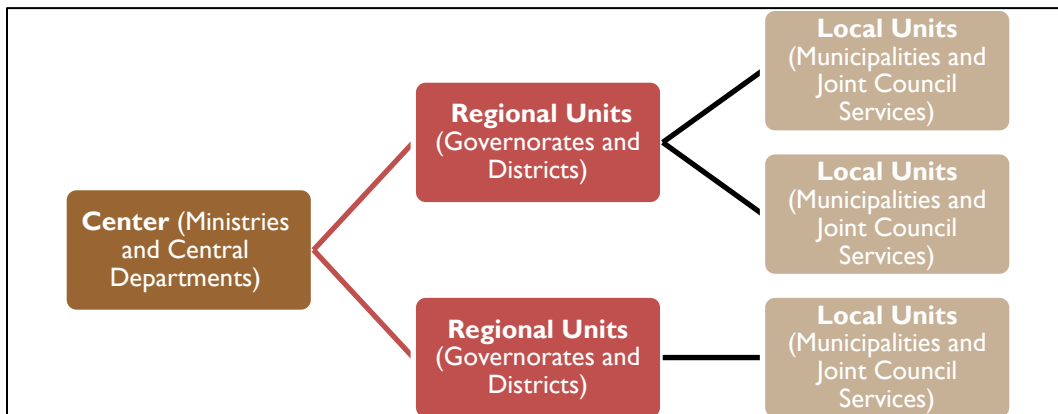
As discussed in Chapter II, the Assessment Team’s judgment, based on a wide range of interviews with government, business and civic leaders, is no – it will not significantly affect growth, employment or business development over the next five years (the planning horizon for this Assessment). Decentralization is primarily a political dialogue between the nation’s influential tribal and other privileged interest groups, vying for influence and a share of local, regional and national government resources and influence. If anything, decentralization would exert a beneficial influence on the economy by reducing and consolidating the number of Jordanian municipalities and local governments to reap basic economies of scale. Unfortunately, during 2011, under the pressure of the Arab Spring in the region and rising expectations at home in Jordan, the public debate over decentralization seems to have had the opposite effect – raising, rather than reducing, the number of proposed municipalities.

This note sets the stage for, and summarizes the state of debate in Jordan as of December 2011, over decentralization and the consolidation or proliferation of municipal entities in Jordan. First, Jordan’s governance system consists of three primary levels: the Center (Ministries and Central Departments), regional units (governorates and districts) and local units (municipalities and joint council services):

- **Regional units.** The kingdom is subdivided into 12 governorates. Every governorate may be subdivided into districts, and sub-districts. (The 12 governorates include Ajlun, Aqaba, Balqa, Karak, Mafraq, Amman, Tafilah, Zarqa, Irbid, Jarash, Maan, and Madaba.)
- **Municipal level** consists of 99 municipalities and councils of shared services made up of groups of related municipalities. The number of municipalities in Jordan became a political flash point for popular protests that broke out in October 2011, however, and as the Jordan Times reported then: “Authorities have endorsed 24 new municipalities amid protests continuing for a second day, with dissatisfied citizens closing roads and staging sit-ins in various parts of the country. The endorsement of the new municipalities, which came despite a Cabinet decision on Tuesday to look into outstanding applications after the December 27 [2011] municipal elections, raises the number of these new entities to 123. ...”⁷⁹

⁷⁹ “New municipalities emerge as violent protests continue,” Jordan Times, 15 October, 15 2011.

Jordan's National, Regional and Local Governance Structures



Central executive authority rests with the King and is exercised by Cabinet, which is composed of the Prime Minister and a number of ministers according to need and public interests. The King appoints the Prime Minister, and may dismiss him or accept his resignation at will. The King also appoints the ministers and dismisses them or accepts their resignation, upon the recommendation of the Prime Minister.

The Prime Minister and ministers are responsible before parliament for general policy of the state. Ministries may have within their structure semi- independent public bodies whose head reports directly to the minister. These units are specialized in certain functions and manage their affairs in a relative autonomous manner.

Decentralized units: These units consist of two types:

- **Independent public corporations** established by Acts, with full capacity to operate as legal independent entities. Every public corporation (service, business, professional) has its own budget independent of the state budget; and
- **Local administrative units** like municipalities and joint services councils.

Jordan has been committed to implementing decentralization since the Fifth National Development Plan (1986-1990). The Fifth Plan outlined decentralization as a response to declining money flows from grants and workers' remittances. It proposed decentralizing government to increase civic participation and diversify revenues. Then, in 1989, the decentralization process took on new significance as Jordan successfully carried out the country's first competitive national elections, for the first time allowing Jordanians to elect their local leaders rather than having them appointed by the national government.

The national decentralization plan calls for the merging of the 12 regional zones into three development zones, each with their own elected parliament and regional capital. It envisions the election of local councils (currently partially appointed by the government, which also appoints the council head). Decentralization has been driven by a National Agenda Committee was formed in February 2005 to set guidelines for political, economic, and social reform, including gender mainstreaming, in Jordan for the next 10 years. Also in early 2005, the king formed a royal commission on the regions to devise a decentralization plan for the country's political system.

"There is a need for a big effort, not only from the government, but by citizens, who will have a bigger participation in decision-making under decentralization schemes"

Today, however, power is still concentrated in the hands of the governors, who oversee the heads of the districts (Liwa) and sub-districts (Qadha) and their staff, all of whom are employees of the Ministry of Interior. Other ministries (e.g. Education, Health, Public Works, etc.), have their branch offices in the governorates. The governor is the representative of the central government at the regional level; and as such he cannot be considered a representative of the local population.

A 1996 UNDP-supported program offered direct assistance to the local governments of Jordan with two objectives: improving administrative efficiency, and providing citizens with suitable services. In a policy statement to Parliament early in 1996, the prime minister affirmed the GOJ's keen interest in "activating and deepening" decentralization, through strengthening and developing the Executive and Advisory Councils at the governorate level and ensuring wider public participation in the decision-making process.

- The Draft Budget Law for 2012 seeks to advance the decentralization process by establishing a fund to help governorates. The King asked for JD150 million to be allocated, but so far the figure under discussion is only JD15 million annually for decentralization, leaving the process severely under-resourced. As the First, the GOJ could launch a comprehensive and protracted consultation led by a high-profile public-private working group representative of the whole range of stakeholders. Its aim would be to craft, and build a broad constituency to support a short-term Jordan A national reform effort, based on practical steps to increase efficiency in government regulation of commerce, and in the dealings of government officials, could potentially transform the business climate in Jordan under present circumstances.

"There is a need for a big effort, not only from the government, but by citizens, who will have a bigger participation in decision-making under decentralization schemes"

HM King Abdullah II, March 2009

Decentralization is presently an extremely sensitive domestic political matter and any attempt should proceed cautiously and selectively. Two specific opportunities to help promote successful economic decentralization include:

- An effort to invest in specific industries, notably tourism or certain back-office or data-entry knowledge-based enterprises that could easily be established wherever electricity and the internet were available, so as to help create jobs outside of Amman.
- A concerted effort across all interested aid donors to support the significant number of Jordanian business development services, vocational training, women's and youth empowerment and community development organizations (NGOs) that have already demonstrated their capacity to help people living outside the capital to gain employment-ready job skills to match local labor market needs or establish micro- or small/medium enterprises.

ANNEX IV: SECTOR SCORING MATRIX

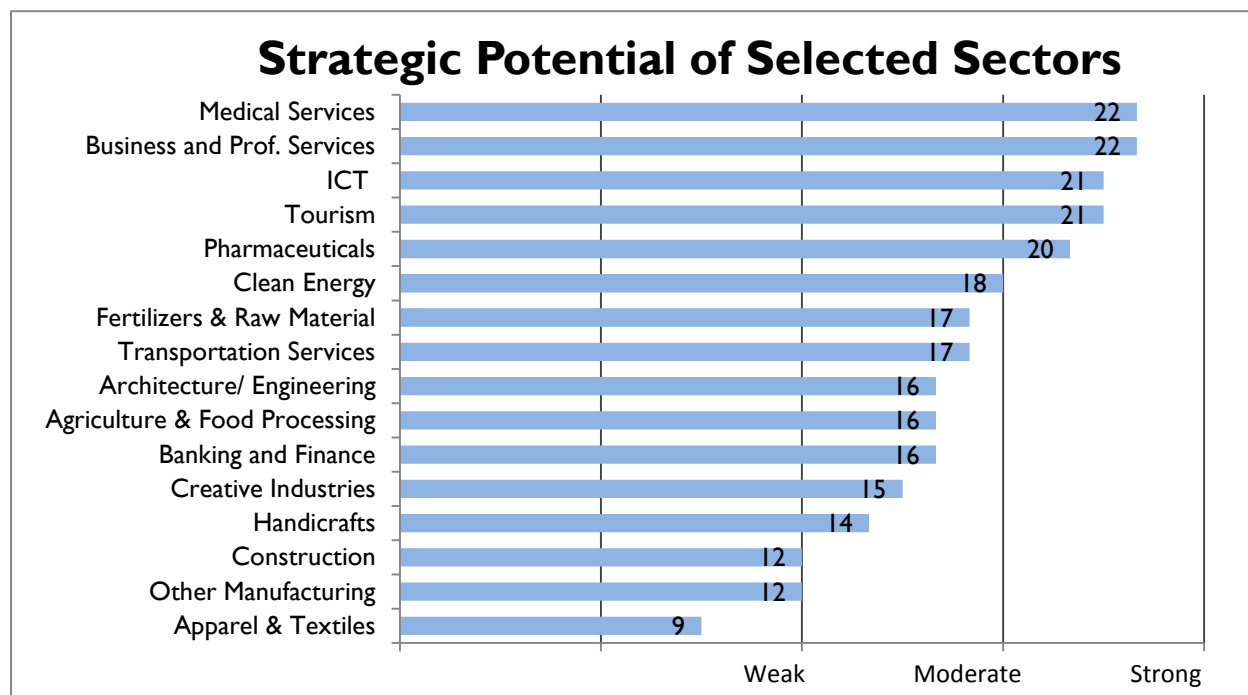
ANNEX V: ALTERNATIVE SCORING SCENARIOS

SECTOR SCORING – ORIGINAL CALCULATION METHODOLOGY

The assessment team evaluated and scored sixteen sectors using the following six criteria:

7. Opportunity to increase employment
8. Opportunity to increase exports
9. Export growth – past performance
10. Jordan's advantages and resources
11. Potential for female job creation
12. Impact on water use

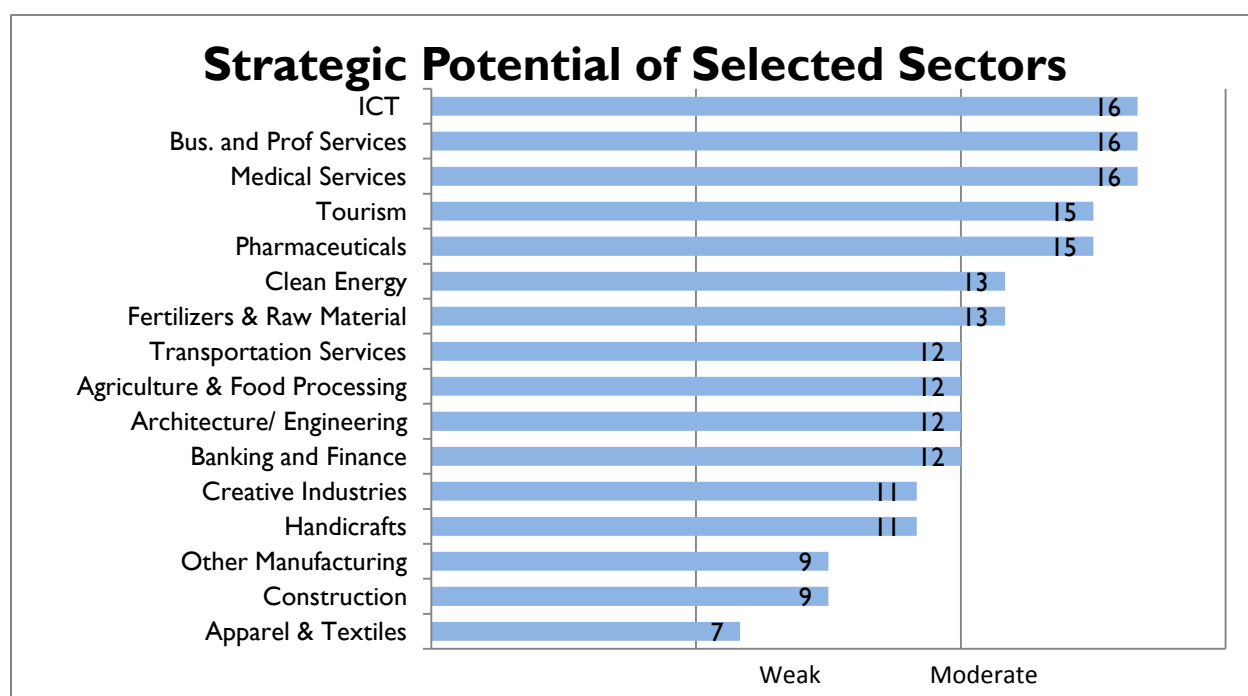
Sectors received a score out of three possible points in each of the categories above. We applied double weight to the first two categories, for a total of 24 possible points. The table below reflects the team's prioritization of employment and economic growth, particularly opportunities for the future, rather than past performance. This scoring methodology is used in the body of the report.



SECTOR SCORING – ALTERNATIVE CALCULATION METHODOLOGY

This alternative calculation, as well as the following individual criteria scoring pages, allows for the re-evaluation of the strategic potential for various sectors based on priorities of the reader. If all criteria are weighted equally, rather than double weighting potential for employment generation and potential for economic growth, the results are the following:

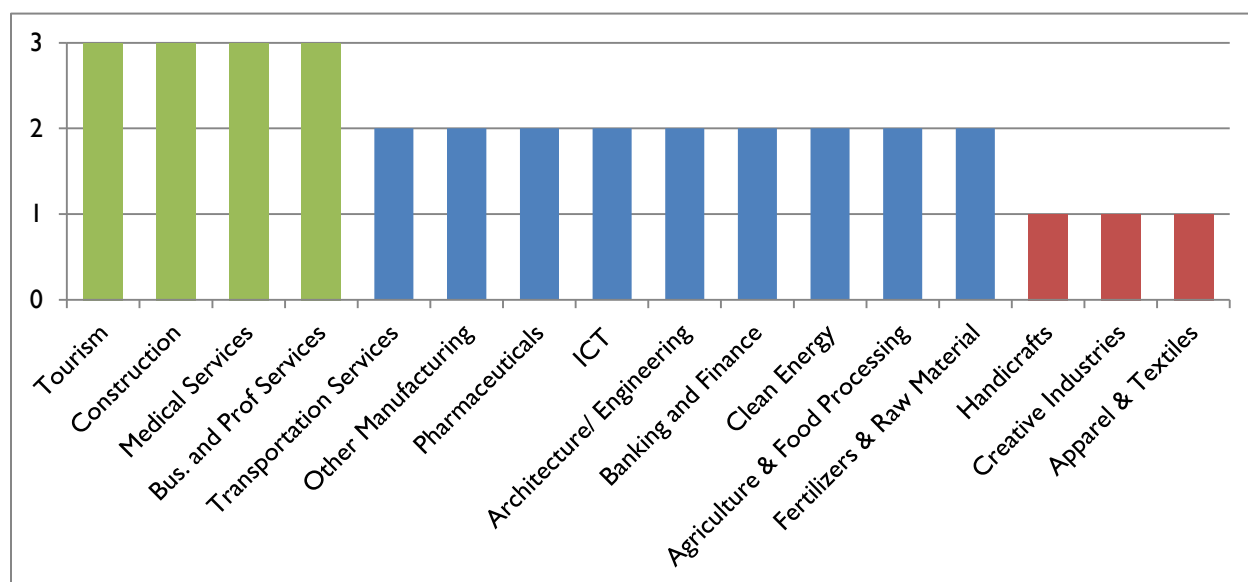
Rank	Sector	Score (Max 18)
1	ICT	16
1	Medical Services	16
1	Bus. and Prof. Services	16
4	Tourism	15
4	Pharmaceuticals	15
6	Clean Energy	13
6	Fertilizers & Raw Material	13
8	Transportation Services	12
8	Agriculture & Food Processing	12
8	Architecture/ Engineering	12
8	Banking and Finance	12
12	Creative Industries	11
12	Handicrafts	11
14	Other Manufacturing	9
14	Construction	9
16	Apparel & Textiles	7



OPPORTUNITIES TO INCREASE EMPLOYMENT

The assessment team analyzed the size and labor-intensiveness of industries as well as employment growth. Information from interviews about burgeoning industries and new employment opportunities were considered, in addition to current employment levels and past growth rates. The team weighed whether the primary source of labor was Jordanians or foreign; prevailing wage levels and any cultural barriers to employment in the sector were also taken into account.

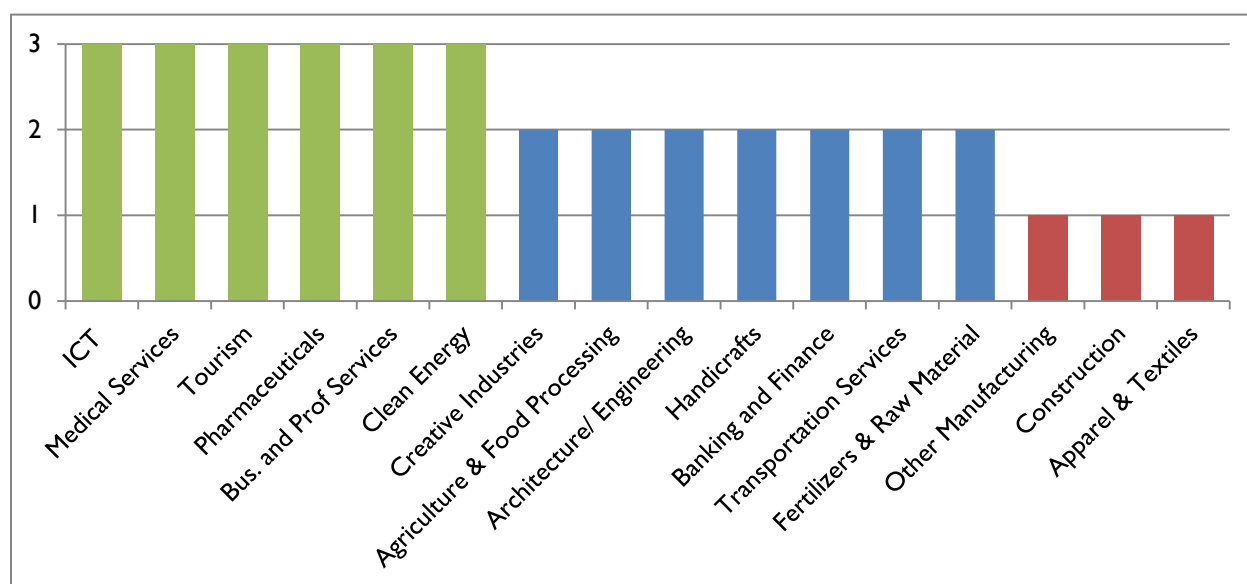
Sector	Recent Job Growth	Employment 2010	Focus Group Score	Team Score
Tourism	3%	28,300	High	3
Construction	26%	83,150	High	3
Medical Services	21%	61,207	Moderate	3
Bus. and Prof Services	31%	54,000	Moderate	3
Transportation Services	15%	116,000	Moderate	2
Other Manufacturing	2%	42,800	High	2
Pharmaceuticals	33%	6,000	Moderate	2
ICT	15%	19,000	Moderate	2
Architecture/ Engineering	10%	23,000	Not Scored	2
Banking and Finance	9%	23,500	Not Scored	2
Clean Energy	186%	1,000	Moderate	2
Agriculture & Food Processing	3%	35,000	Moderate	2
Fertilizers & Raw Material	28%	10,747	Low	2
Handicrafts	12%	2,800	Not Scored	1
Creative Industries	14%	22,800	Low	1
Apparel & Textiles	-56%	24,000	Low	1



OPPORTUNITIES TO INCREASE EXPORTS

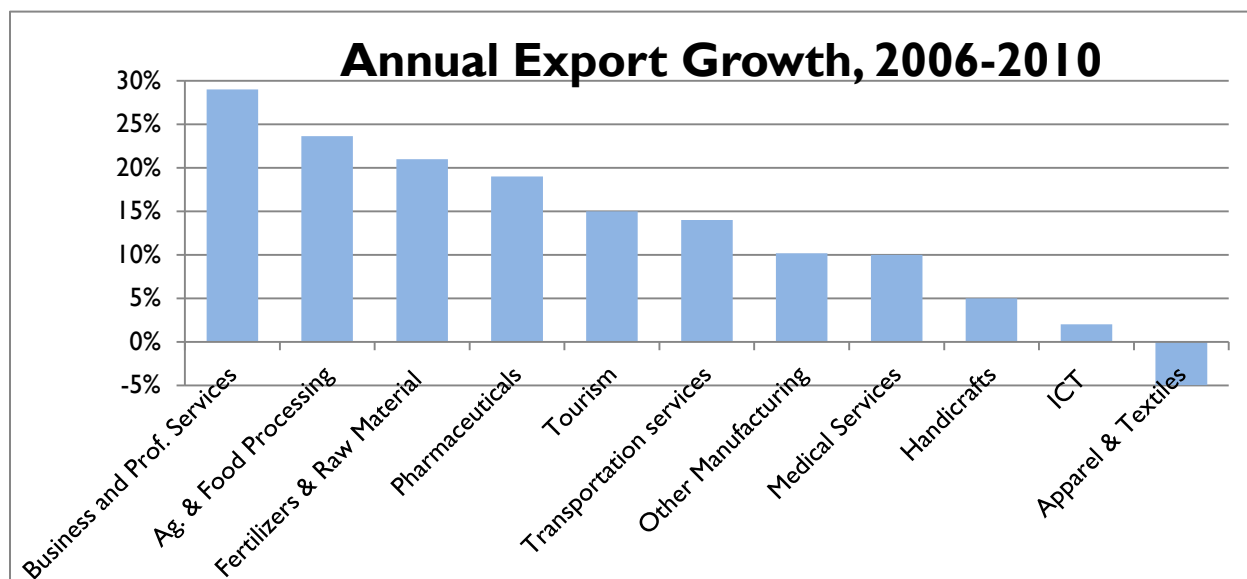
As Jordan is a small country, the domestic market generally does not provide the most significant opportunities for sales growth. The team looked at the country's current products and services as well as markets and segments being served. We reviewed current and potential markets and Jordan's position therein, taking into account performance of competitors. The team also considered potential for import substitution when a significant opportunity was present.

Sector	Recent Export Growth	Focus Group Score	Team Score
ICT	2%	High	3
Medical Services	10%	High	3
Tourism	15%	High	3
Pharmaceuticals	19%	High	3
Bus. and Prof Services	29%	High	3
Clean Energy	N/A	Moderate	3
Creative Industries	14%	Moderate	2
Agriculture & Food Processing	24%	Moderate	2
Architecture/ Engineering	N/A	Not Scored	2
Handicrafts	5%	Not Scored	2
Banking and Finance	N/A	Not Scored	2
Transportation Services	14%	Low	2
Fertilizers & Raw Material	21%	Low	2
Other Manufacturing	2%	Low	1
Construction	26%	Low	1
Apparel & Textiles	-56%	Low	1



EXPORT GROWTH – PAST PERFORMANCE BY SECTOR

As a proxy for past success in external markets, which have the most potential for growth, annual growth rates determined scores in this category. We used average annual export growth 2006-2010, or estimated where export statistics were unavailable. Negative growth (sectors in decline) = 0 points, Sectors not currently in the export market = 1 point, 1-15% = 2 points, 16% and more = 3 points. It is important to note that this is only a measure of performance for a limited period and that some sectors have been more affected by the global economic crisis than others. As an example, ICT grew at a rate of 74% per year from 2000 to 2006.

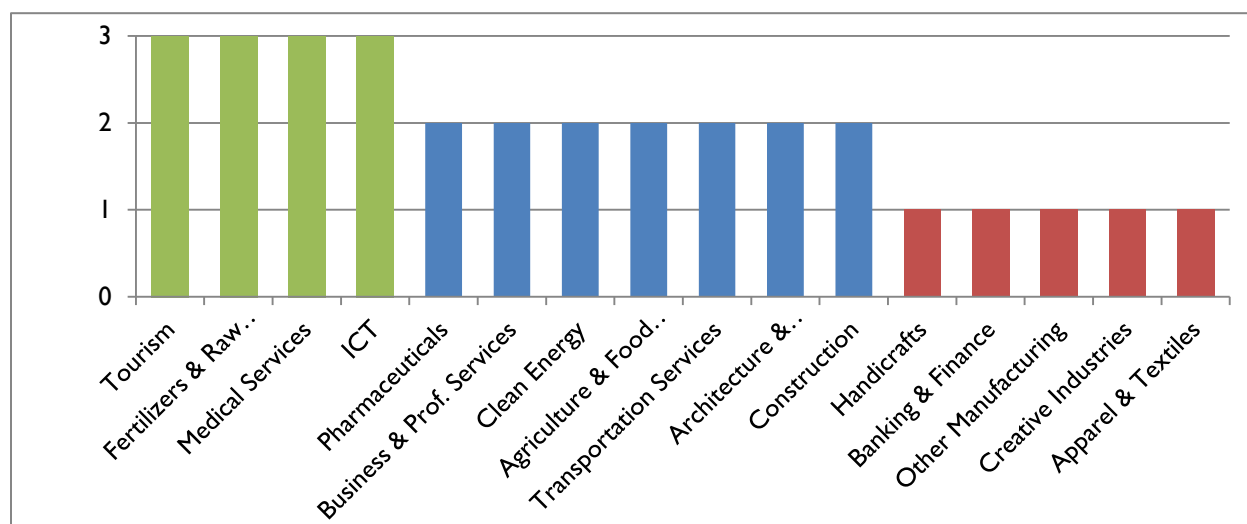


Rank	Sector	Annual Export Growth	Score
1	Business and Prof. Services	29%	3
2	Ag. & Food Processing	24%	3
3	Fertilizers & Raw Material	21%	3
4	Pharmaceuticals	19%	3
5	Tourism	15%	2
6	Transportation services	14%	2
7	Other Manufacturing	10%	2
7	Medical Services	10%	2
9	Handicrafts	5%	2
10	ICT	2%	2
11	Architecture/ Engineering	Not currently a significant export	1
11	Construction	Not currently a significant export	1
11	Clean energy	Not currently a significant export	1
11	Banking and Finance	Not currently a significant export	1
11	Creative industries	Not currently a significant export	1
16	Apparel & Textiles	-5%	0

RESOURCES & COMPETITIVE ADVANTAGES

The team scored Jordan's natural resources, unique assets, exceptional human capital pools, strategic location and other specific competitive advantages for success relevant to each sector.

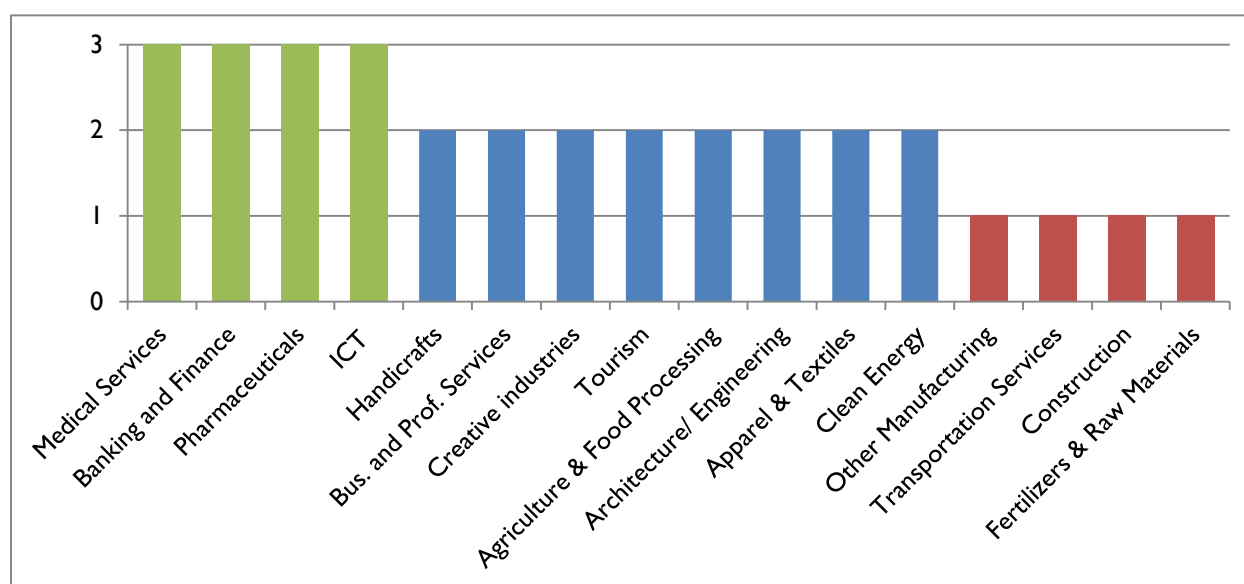
Strong (3 points)	Tourism	Location of cultural and religious sites (Petra) , natural resources (Dead Sea)
	Fertilizers & Raw Material Inputs	Natural resource base: phosphate & potash
	Medical Services	Cost advantages, specialized doctors & medical facilities
	ICT	19,000 IT-related labor force and pool of 6,000 students in IT, language ability.
Moderate (2 points)	Pharmaceuticals	Cost competitive, critical mass in sector, skilled workforce
	Business & Professional Services	Language ability, educated workforce, proximity to Gulf
	Clean Energy	Need for import substitution, good wind & solar natural resource base
	Agriculture & Food Processing	Jordan Valley's fertile soil, dry climate makes crops less susceptible to disease
	Transportation Services	Gateway to Gulf, important trade corridor; land, sea & air
	Architecture & Engineering	80,000 + Engineers
	Construction	Significant investment in Jordanian real estate
Weak (1 point)	Handicrafts	Some tradition of artisanal handicraft & jewelry production
	Banking & Finance	Somewhat strong regulatory framework, high liquidity
	Other Manufacturing	Underutilized FTAs with EU and USA, GAFTA
	Creative Industries	Nascent industry with educated, tech-savvy population; natural resources as a film location
	Apparel & Textiles	QIZs, FTA with U.S., but still not cost competitive



POTENTIAL FOR FEMALE JOB CREATION

Reducing female unemployment and increasing women's participation in the labor market are priorities in Jordan. To determine this score, the team used current female employment data, wherever available, as well as information from interviews and a survey from a gender-based focus group. Even when a sector employs a high percentage of women, we also considered the total employment in the sector and whether the sector was generating employment growth in general.

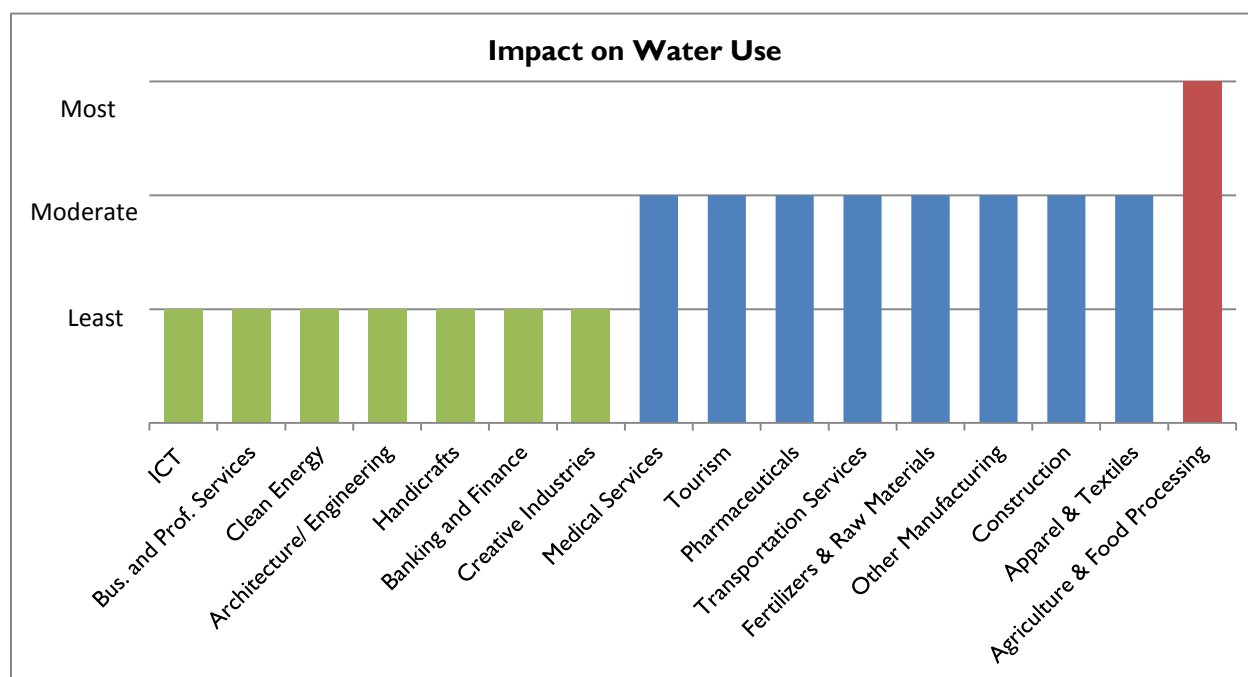
Sector	Employment Growth 2006-2010*	Current % Female Employment*	Focus Group Rating of Potential	Score
Medical Services	21%	47%	High	3
Banking and Finance	9%	26%	High	3
Pharmaceuticals	33%	39%	High	3
ICT	15%	15%	High	3
Handicrafts	12%	40%	High	2
Bus. and Prof. Services	31%	22%	Moderate	2
Creative industries	14%	14%	Moderate	2
Tourism	3%	5%	Moderate	2
Agriculture & Food Processing	3%	7%	Moderate	2
Architecture/ Engineering	10%	12%	Moderate	2
Apparel & Textiles	-56%	45%	Moderate	2
Clean Energy	186%	8%	Moderate	2
Other Manufacturing	2%	4%	Moderate	1
Transportation Services	15%	6%	Low	1
Construction	26%	3%	Low	1
Fertilizers & Raw Materials	28%	4%	Low	1



IMPACT ON WATER USE

Scarcity of water is a major concern for Jordanians. This score reflects the extent to which sector growth will increase water usage; higher scores indicate lower impact for consistency of scoring. Data from the Ministry of Water and Irrigation and stakeholder interviews informed estimates.

Sector	Score (3 is least impact)
Clean Energy	3
Bus. and Prof. Services	3
ICT	3
Architecture/ Engineering	3
Handicrafts	3
Banking and Finance	3
Creative Industries	3
Medical Services	2
Tourism	2
Pharmaceuticals	2
Transportation Services	2
Fertilizers & Raw Materials	2
Other Manufacturing	2
Construction	2
Apparel & Textiles	2
Agriculture & Food Processing	1



ANNEX VI: ECONOMIC DATA IN JORDAN

In the course of our work, the assessment team analyzed and worked with several sources of economic data in Jordan including data from the Department of Statistics, (<http://www.dos.gov.jo>) Ministry of Trade (<http://www.mit.gov.jo>), the Ministry of Finance (<http://www.mof.gov.jo>) the Ministry of Labor (<http://www.mol.gov.jo>), the Central Bank of Jordan, (<http://www.cbj.gov.jo>), Jordan Investment Board (<http://www.jordaninvestment.com>) the National Competitiveness Observatory (<http://www.jnco.gov.jo>), and sector specific data from such from organizations such as Intaj (<http://www.intaj.net>), Jordan Tourism Board (<http://www.visitjordan.com>) and Medical Tourism Jordan (<http://www.medicaltourismco.com>). One of the sources for employment data is Al Manar (<http://www.almanar.jo>)

Overall, the assessment team's findings are that the quality and timeliness of the economic data in Jordan is among the best in the region. Data is generally up to date and is available in a user friendly format online in both Arabic and English.

Regarding macroeconomic statistics, the balance of payments statistics account well for FDI flows and but further improvements could be made to give more detailed accounting of exports and imports of services, especially in light of the importance of services exports to the Jordanian economy. IMF missions have commented that macroeconomic data is improving in Jordan but that enhancements in the frequency and timeliness of expenditure-based national accounts data, and in the quality of high-frequency production-based national accounts, would assist policy formulation.⁸⁰

In addition, the development of development of regular and timely wage, employment, and real estate statistics would also enhance monitoring of labor and asset markets. The assessment team felt that is difficult to find up-to-date numbers on employment by sector or by occupation. The Statistics Department has data on employment for most sectors, but would also be very helpful for employment generation analysis and policy formulation, if more detailed wage and employment data by type of occupation could be gathered on regular and timely basis. Furthermore for several sectors it is not possible to disaggregate employment data on foreign workers from national citizens. However, male/female disaggregations on employment data are generally available and are useful.

The Jordan National Competitiveness Observatory (JNCO), was established in 1997 as part of the Ministry of Planning and International Cooperation (MoPIC). JNCT was established with a being technical economic competitiveness units which will help build the competitive advantage of Jordan. JNCO is mandated with providing a knowledge- and data- reference base on Jordan's economic competitiveness at both the micro and national levels. However in recent years JNCT data gathering and analysis functions have diminished, and the unit would need to be strengthened to enable them to produce up-to-date data and analysis related to sector and country competitiveness.

⁸⁰ <http://www.imf.org/external/pubs/ft/scr/2010/cr10297.pdf>