DEVELOPING A NATIONAL SUPPLY STRATEGY FOR JORDAN

Final Report

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FINAL REPORT

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EXECUTIVE SUMMARY

Jordan recently witnessed a supply shock in terms of oil and basic commodities. This has been coupled with a lack of a supply policy, insufficient storage facilities, no emergency response system, lack of modern purchasing techniques, uncoordinated efforts among stakeholders-- consequently, conflicting actions, and a social safety net that is in need of significant overhaul.

This study investigates the conditions in Jordan covering inflation, competition, consumer policy, institutions, external and internal conditions, and sources of phenomena such as "sticky downward prices" and provides a set of extensive recommendations to ameliorate the impact of supply shocks and enable the creation of a properly functioning supply policy. As summarized below, a proper supply policy starts from designating stakeholders and a supply policy leader or champion.

The recommendations are:

1. **Improve coordination among the stakeholder ministries to achieve food security** in Jordan (MIT, Ministry of Water and Agriculture, Ministry of Energy, Ministry of Transportation, Ministry of Social Work, Ministry of Finance, CBJ, Ministry of Planning, and the Ministry of Health); and the delegation of a champion from the ministries. **The most likely champion would be the MIT** for the following reasons:
   - MIT is the heir of the Ministry of Supply—it inherited the staff of the Ministry of Supply when the latter was phased out during the reform years in the 1990s
   - MIT combines data on trade, industry, investment and consumption
   - The Minister of Industry and Trade is the Chairman of the Board of JISM (the standards and quality assurance body), JE (the enterprise and productivity enhancement government organization), the Competition Directorate, the Supply Directorate and the counterpart and responsible government body for the execution of the Consumer Protection Law when agreed by the parliament
   - MIT is responsible for the enhancement of both production and consumption in Jordan.
   - MIT is the primary party in trade negotiations, trade policy and has direct contacts with NGOs and the public at large
2. **Expand MIT coordination with NGOs and donors** (through the Ministry of Planning and International Cooperation) regarding aid and supply emergencies. All approaches should employ synergistic measures and coordination across sectors and stakeholders.
3. **Expand storage capacity** in order to increase the supply of reserves.
4. **Employ methods other than spot purchases of commodities** (long term purchase contracts—futures, price hedging, insurance schemes, etc.). This requires that the Supply Directorate role be qualitatively enhanced and expanded.
5. **Diversify imports to avoid monopsonies** and bottlenecks caused by a limited number of suppliers.
6. **Enhance the capacity of the Competition Directorate and convert it into a supra commission** with competition regulatory powers across all sectors. This would save funds as sectoral commissions become obsolete or downsized, and enable better control and coordination of competition issues throughout the economy.
7. **Revise existing legislation** that helps create natural monopolies in certain sectors such as the meat sector.

8. **Adopt a comprehensive Consumer Protection Law** to grant consumers the power to litigate and contest price-gouging practices, and allow for the creation of several consumer protection bodies organized and operated by the private sector. This would entail revising the current draft to introduce proper implementation structures.
9. **Adopt a more transparent policy in pricing** to allow wholesalers, retailers, and consumers access to the data and price formulation methodology. Transparency and sharing reduces the cost of asymmetric information to the economy and enables proper planning and reduction of efficiency losses.
10. **Empower NGOs to conduct policy analysis and research** in order to encourage government to conduct policy impact assessments. Currently economic policy is conducted without impact assessments showing costs and benefits. In addition, there are no public sector think-tanks that can conduct such studies. There is a dire need for assessment of public policy and the private sector and NGOs should be encouraged to do so.
11. **Institute a coherent programmatic plan for crisis prevention, mitigation, social protection and emergency assistance**. This should be coupled with a longer-term, coordinated and multi-actor plan for building maximum resilience and self sufficiency in borderline and at-risk populations throughout the economy.
12. **Invest in developing a coherent program of crisis prevention, mitigation and preparedness for emergency assistance**. A number of valuable resources may be drawn upon for developing a consolidated approach to early warning systems (EWS) and food insecurity. See for example the Food and Agriculture Organization (FAO) handbook for defining and setting up a food insecurity information and early warning system (FSIEWS) and the FEWS Network (FEWS NET) set up by USAID. Measures should include:
    - Strengthening the capacity for establishing an early warning system for food crisis prevention and emergency preparedness; knowledge management and information system development including technical support to the planned interventions (by the National Crisis Center) of establishing computerized databases in ministries, as well as the municipal levels;
    - Instituting techniques and tools for developing a consensus on urgent, longer-term and contingency requirements for preparedness; mapping out of a plan for all food security and crisis mitigation interventions required against the back drop of initiatives already being undertaken throughout the country; systems development for making information broadly available to all stakeholders (Government, Donors, aid agencies, national and international NGOs, partner consumer protection societies, and the relevant private sector partners);
    - Enhancing upstream advocacy and policy building for a common, multi-sectoral, multi-stakeholder strategy that links protection, resilience and longer-term development.
13. **Institute "smart cards"**, if food aid is to continue, to enable beneficiaries to "purchase" their commodities through selected local grocery store chains, or coop partners. This will reduce transportation costs, maintain citizen dignity by receiving aid through local regular stores, and reduce queuing costs and time-waste.
14. **Revise the Social Safety Net** in order to properly accommodate food and energy supply shortages and encourage livelihood enhancement and diversification schemes with due focus on the underprivileged.
15. **Develop public-private partnerships promoting improvements** in agricultural research; linkages for enhanced technology transfer and broad adoption of improved practices, and encourage storage.
16. **Reduce customs duties, sales tax and other taxes on basic commodities.** Taxes that directly impact consumption should be revised. The revision should include a wide spectrum of goods and commodities that are primarily consumed by the poor and low income groups.
17. **Publish indicative and wholesale prices in the newspapers on weekly basis**. In this way the Government can help reduce market information asymmetry. These prices are simply

indicative and non-binding on retailers. This way, consumers are made aware of the price differentials and become partners in monitoring the market.

18. **Allow imports of goods that suffer from domestic protection.** All goods that have enjoyed protection under current regulations should be allowed to compete with imports. Competition has the basic advantage of lowering the price or improving the quality.

19. **Expand alternative markets (co-ops and bazaars).** Expand the MOPIC initiative and continue the policy of availing goods at co-ops. Alternative markets allow options, increase competition, and transfer savings directly to the consumer. This action should be implemented in combination with other actions to avoid heightened pressure at co-ops. Bazaars are to be expanded and properly regulated in order to allow entry by the private sector and alleviate some of the pressure on co-ops. The savings from set up costs should translate into lower prices to consumers.

20. **Consider the creation of import-boards to help break import monopolies (monopsonies).** The Ministry of Industry and Trade (MIT) through JE has a significant experience in creating import and export boards; that is, encouraging a cluster of companies to export or import jointly in order to benefit from economies of scale. In this case, the MIT can help create import boards so that a group of importers can purchase large quantities of certain products and receive the relevant quantity discounts, which translate into savings to consumers in the form of lower prices.

21. **Improve the broader business environment** to enable easy market access and break any local or regional monopolies created through local advantages and encourage competition.

22. **Institute a Supply Policy:**

Example of a Supply Policy policy statement.

"The Government of Jordan has formulated a supply policy to achieve the following specific objectives:

- *Procuring essential commodities continuously and in sufficient quantities for all markets.*
- *Providing supply items at reasonable quantities and prices.*
- *Expanding consumer choices.*
- *Encouraging fair competition among suppliers.*
- *Establishment distribution chains and upgrading the level of commercial services in general.*
- *Promoting better understanding and cooperation between the commercial sector and government.*

Further, the supply policy is based on the following principles:

- *Reliance on the private enterprise system under normal conditions.*
- *Government intervention is only deemed necessary under abnormal conditions and when it is absolutely necessary.*
- *Price ceilings are fixed for a selected number of basic supply and food items in order to make these available to the majority of consumers and also to protect the consumers from volatile international market prices of commodities. At the same time, an appropriate*

subsidy scheme comes into force to compensate importers of supply commodities when the cost of importation exceeds local price ceilings.

- *Fix profit margins in the trade of groups of essential commodities under emergency situations.*
- *Monitoring and regulation by government of import storage and warehousing operations carried out by the public and private sector with respect to basic commodities.*

Consumer Protection Objectives and Functions

Main objectives are:

- *Protect consumers from commercial fraud while keeping the average consumer and to keep him well-informed.*
- *Prevent the rise of monopolies and the abuse of monopoly power.*
- *Contribute to the stability of prices and living standards.*
- *Maintain better quality control in locally produced and imported foods and other consumer products by checking on specifications and standards adopted by JISM.*
- *Ensure the commercial application of standardization rules with respect to volumes, weight, and measures."*

1. INFLATION TRENDS AND IMPACTS ON SUPPLY

During the period 1990-2008, the rates of inflation in Jordan fluctuated widely. Rates ranged from a high of 16.2% in 1990 before declining to 3% by 1997 and reaching a low of 0.7% in 2000. In 2001, the inflation rate began to rise again from 1.8% to around 15% in 2008. Food, housing, oil prices and that of other goods and services participated in the increase in overall prices.

The major increase in the inflation rate occurred in 2008. As measured by the Consumer Price Index (CPI), in 2007 the rate increased by only 5.71%; however, in 2008, the rise in the CPI was 15.01%, when prices of oil derivatives were set according to a new pricing mechanism, and oil subsidies were completely removed. The rise in inflation in 2008 would have been higher had oil prices and those of food items continued to rise to the level anticipated earlier in the year.

Overall, the relative change in the CPI was 33.27% over the period 2004-2008. The greatest increase (46.25%) was in food items, followed by housing (25.72%), other goods and services (24.3%) and clothing and footwear (16.24%). A summary of the CPI levels during 2004-2008 is shown in Table 1 below.

Table 1: Average Consumer Price Index for January 2004-2008 (2002=100)

Category and Items	Relative Imp.	Ave. 2004	Ave. 2005	Ave. 2006	Ave. 2007	Ave. 2008	% Change (2007-2008)	% Change (2004-2008)*
All items	100	105.05	108.71	115.51	121.73	140.01	15.01	33.27
Food Items	39.72	107.28	112.81	121.24	132.50	156.90	18.41	46.25
Clothing & Footwear	4.85	94.39	94.00	96.62	102.74	109.72	6.79	16.24
Housing	26.40	103.44	105.66	111.58	113.80	130.05	14.27	25.72
Other Goods & Services	29.03	105.41	108.34	114.41	117.83	131.03	11.20	24.30

** Calculated by EnConsult*

Source: Compiled from data provided by Jordan Department of Statistics, www.dos.gov.jo

Consistent with world trend, the greatest increase occurred in prices of food items, which are of particular significance to the poor as they comprise an even greater proportion of their income than the official 39.72% used as a weight in the consumer basket in Jordan.[1]

With respect to the weights in the basket of consumer price index, it was constituted as follows: food items (40%), clothing and foot wear (5%), housing (26%), and other goods and services (29%). Many observers of the Jordanian economy predict that if the weights are adjusted to reflect the change in consumption patterns over the past few years to include the introduction of new goods and services, the inflation rate as measured by the CPI would be much higher. There has been no official response

[1] A review of the assigned weights in the consumer basket will most likely indicate that prices are higher than currently reported.

to this criticism. The obvious reason is that higher official inflation rates would cause greater dissatisfaction among the public and create more challenges for policy makers to overcome.

This should not come as a surprise. Agricultural commodity prices rose sharply worldwide in 2006 and soared even faster in 2007. In 2007, the Food and Agriculture Organization (FAO) Food Price Index averaged 157, up 23% from 2006 and 34% from 2005. Dairy, cereals and vegetable oils contributed the most increases in prices due to tight supply and demand in 2007.[2]

The Jordanian economy, being a net importer of goods and services (imports in 2007 were triple the value of exports, once re exports were excluded) has been affected by the global demand for oil and other basic commodities which pushed price levels upward. However, when prices of imports fell worldwide, local prices did not fall as fast or in commensurate amounts, indicating that prices in Jordan are "sticky downward." In other words, while prices can rise seemingly freely (except for some government controlled commodities), they do not fall at the same rate when the cause of the rise vanishes.

Jordan is not self sufficient in most commodities. Jordan imports the majority of its cereal consumption items and, as shown in Table 2 below, it is only self sufficient in poultry and eggs. Jordan almost attains self sufficiency in the production of fruits, but in wheat and maize, chickpeas, red meat, lentils and fodder, imports comprise a substantial portion of local demand and consumption.

Table 2: Level of Self Sufficiency in Major Food Items in Jordan

Crop	% of Self Sufficiency
Wheat and Maize	7
Chickpeas	8
Lentils	17
Fodder	17
Vegetables	130
Poultry	100
Eggs	100
Red Meat	35
Fruits	90
Milk and Dairy	50

Source: Current and Future Priorities, Ministry of Agriculture 2008

Food commodity prices were subject to primary inflation rounds, and later in secondary rounds, other items followed.[3] The food import bill rose as a result in 2007 by 75% compared to the previous year.[4]

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[2] Source: http://www.fao.org/es/esc/en/15/53/59/highlight_529.html

[3] Primary inflation rounds are caused by the direct effect of rising import prices of the commodity, secondary rounds follow from the rising cost of living to producers and the demand for substitutes whose prices have not risen internationally. In other words, this can be thought of as direct and indirect inflationary effects.

[4] Annual Report 2007, Central Bank of Jordan.

Table 3: Main Food Imports in Jordan

Product	Quantity in 2002 (1000 T)	Quantity in 2003 (1000 T)	Quantity in 2002 (1000 T)	Value in 2002 (JD M)	Value in 2003 (JD M)	Value in 2004 (JD M)
wheat	321	343	795	37	46	106
Maize	470	513	427	41	52	51
Milled Rice	105	127	136	28	36	43
Barley	316	561	765	22	38	73
Oil of Palm	138	144	291	36	46	104
Total Agricultural Products Imports				590	723	978

Source: FAOSTAT, currency converted to JD (0.7JD=1US$) by author.

Moreover, Jordan, no longer a beneficiary of oil subsidies after the invasion of Iraq in 2003, became a victim of rising oil prices and its loss of subsidies. Oil prices which were around US$23 in March 2003, have since surpassed the US$100 mark in 2008 and came close to US$150 in the first quarter of 2008. Countries whose currencies were free floating became better able to tolerate some of the increase in oil prices because their own currencies had evaluated against the falling US dollar. Jordan's current account deficit suffered significantly as a result of rising import prices.

Caused primarily by fuel and food imports and the falling exchange rate of the US$ until the end of April, the current account deficit rose to 17.5% of GDP In 2008, compared with 11.3% for 2007. Oil imports rose 96.4% during the first five months of 2008 compared to the same period in 2007. Notably, the increase was due to an increase in price of 69.4% rather than in quantity, which rose only by 16%.[5] The balance of payments (current receipts less current payments) by the end of 2007 had a deficit of JD1968.9 million or 16.5% shortage between receipts and payments. However, this deficit was alleviated by an increase in remittances and foreign grants which grew significantly over the period with FDIs offsetting some of the trade deficit. The main contribution to the balance of payment deficit was that of imports (JD8523.4 million), which far exceeded exports (JD4041.3 million) for the year. Table 4 below shows the trade deficit for the period 2004-2007, which grew by 87% during the period.[6]

Table 4: Trade Balance 2004-2007, JD million

	2004	2005	2006	2007
Exports	2753	3049.7	3689.9	4041.3
Imports	5148.1	6606	7274.6	8523.4
Trade Deficit	-2395.1	-3556.3	-3584.7	-4482.1

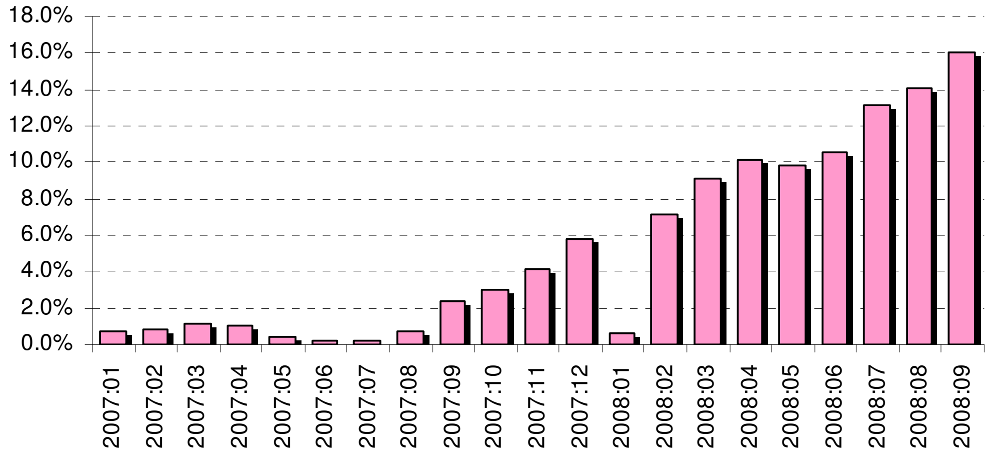
Source: Central Bank of Jordan, Monthly Statistical Reports (several)

[5] *Recent Monetary and Economic Developments in Jordan*, *July 2008*, CBJ.

[6] Note that the export figures are not net of re-exports which make up close to one fourth of all exports.

The following two figures show the consumer price index and percentage change in the index starting January 2007 till September 2008 as estimated by the Department of Statistics. The percentage monthly changes in the CPI over the first nine months of 2008 and 2007 are shown in Figure 1 below. Note that until September prices were exponentially rising and the view then was that prices would continue to rise due to global conditions.

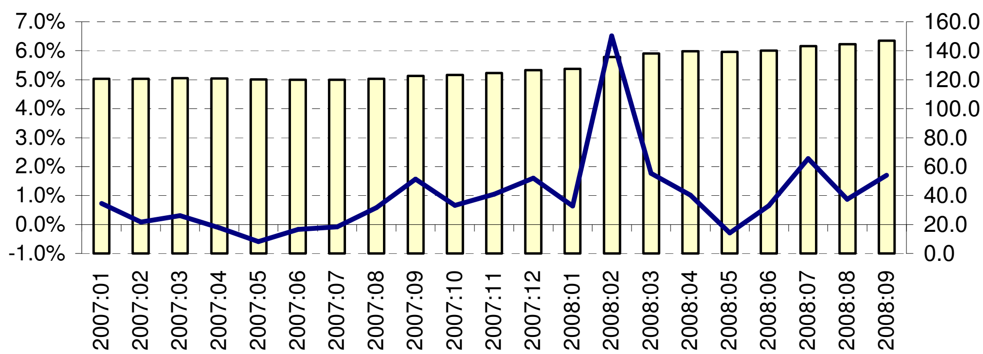
Figure 1: Percentage Change in Consumer Price Index first months of the year



Source: Department of Statistics (DOS), www.dod.gov.jo, and Central Bank of Jordan monthly reports

The CPI tended to peak in 2008, as shown in Figure 2 below, while it remained almost at the same level during the first nine months of 2007. The fixity in the CPI in 2007 was due to the non-increase in the prices of fuel derivatives and the maintenance of the oil subsidies in spite of rising oil prices world wide.

Figure 2: Consumer Price Index



Source: Department of Statistics (DOS), www.dod.gov.jo. and Central Bank of Jordan monthly reports

The prices of “Food Items” group had the largest share, about 40%, amongst the CPI components and increased by 18.7% during the 1st nine months in 2008 compared to 9.5% over the same period in 2007. The Central Bank of Jordan estimated the contribution of this group to inflation recorded in the previous period was 7.5%. The rise in prices of this group can be attributed to the increase in the price of all its items.

The prices of “Clothing and Footwear” group increased by 4.9% during the 1st nine months in 2008 compared to 7.5% during the same period in 2007 and therefore the contribution of this group in the overall inflation rate amounted only 0.4%. The relative small increase in clothing and footwear is due to the fact that Chinese imports have replaced imports from else where. Indeed, the shoe industry in Jordan has been decimated by Chinese shoe imports, which arrive wholesale at below half the production cost (factory cost) in Jordan. A study on the shoe industry conducted by EJADA in 2004 recommended upgrading the shoe industry and imposing taxes on Chinese imports of shoes. China not being a member of the WTO at that time and Jordan invoking the Safeguard Law permitted the imposition of the tax, but local industry was not upgraded; consequently, Jordanians continued to import shoes and the consumers paid higher effective prices.

The Central Bank also estimated the rise in the prices of the “Housing” group at 26.4% during the 1st nine months in 2008 against a rise of 2.2% during the same period in 2007; as a result the contribution of this group in the overall inflation rate reached 3.9%.The increase in the prices of this group was due to increase in the prices of fuels, electricity, and house finishing. Construction activity suffered a major climb in steel and cement costs, in addition to other materials. All affected by the rise in production costs due to escalating energy costs have been subject to inflationary pressure. Construction activities have recently declined and are considered the lowest contributor to growth this year even though construction costs have been reduced drastically after September 2008 as expectations of a global recession lowered the demand for oil and reduced its prices. One reason for the continued decline in building activity is the loss of liquidity in the market due to the high interest rates, borrowing by government (which is crowding out the private sector), and the loss of optimism in market in light of the continuing fall in asset prices at the Amman Stock Exchange (ASE).

About 29.0% of the CPI belonged to “Other Goods and Services” where the prices of its components increased during the 1st nine months in 2008 by 12.5% compared to 2.5% over the same period in 2007 consequently contributing 3.7% of the overall inflation rate. The increase in the prices of this group was attributable to increases in the prices of transportation, personal care, and education.

2. IMPACT OF EXTERNAL INFLUENCES/FACTORS ON PRICES, CONSUMER BEHAVIOR, AND SUPPLY

The accelerating inflation rates in Jordan can be attributed to local and external factors. The external factors included the sharp increase in oil prices in international markets which led to increase the prices of imports including capital goods and raw materials as well as other essential goods such as food products, whether locally produced or imported. The change in oil prices jumped by 170% in 1999 compared to those in 1998. This trend began in 2003 in the aftermath of the Iraq war and continued until the end of the third quarter of 2008 with the onset of the global financial crisis amidst expectations of a global recession.

The Central Bank of Jordan had estimated that 54% of the most recent increase in inflation was imported. Therefore, approximately 46% of inflation resulted from internal factors given below:

- The liberalization of the prices of petroleum derivatives in the local market starting February 2008 which imposed 4% and 16% sales tax on the two types of unleaded gasoline.
- The prices of electricity also increased starting in March 2008 accompanied byan increase in the current expenditure of the government represented by raising the wages and salaries of employees in the public sector and also of retirees of the public sector and social security.
- The private sector has also raised wages and salaries, which in turn contributed to rising price levels through the creation of additional demand side by side with increasing direct production costs.

- Prices have also been aggravated by the shock in the agricultural sector due to the severe freeze waves that hit the Kingdom during the last winter season that negatively impacted crops and livestock. This explains partially the tremendous rise in vegetable prices.

- Monopolistic practices in the Jordanian market, where the majority of these practices go undetected or, when detected, are not adequately addressed due to the lack of capacity in the Competition Directorate at the Ministry of Industry and Trade, among other factors that will be addressed in subsequent sections of this study. There is a call to enhance the capacity of the Directorate to properly implement the Competition Law No.23 for the Year 2004, a law that is considered to emulate international best practice.

3. PAST AND CURRENT PRICING MECHANISMS INCLUDING PRICING POLICIES AND PRICE CONTROLS

By 2004, receipt of crude oil at concessionary prices ended and fuel subsidies were rising. In early 2004, the government announced to gradually eliminate the subsidy over a four-year period, and in line with a pricing formula that would include taxes. Later, the removal of subsidies was to occur over five years.

Table 5: Energy and Food Subsidies for the Period 2003-2008

	2002	2003	2004	2005	2006	2007	2008(1)
Oil Subsidies	42	88.7	262.4	530.8	214	306	0
Food Subsidies	0	0	0	69.3	78.1	200	237
Subsidies(2)	42	88.7	262.4	600.1	292.1	506	237
% of GDP(3)	0.6	1.2	3.2	6.7	2.9	4.5	1.8
Per 1000 person	8	17	49	110	52	88	41
% of total government Spending(4)	1.8	3.3	8.4	17.2	7.6	11.1	4.5

(1) Budget Projection

(2) In nominal terms (JD m)

(3) Nominal GDP at market prices

(4) Total government expenditures, Cash basis

Source: Ministry of Energy and Minerals, Annual report

In July 2005, the Government increased domestic prices by around 27 percent to reduce subsidies to 3 percent of GDP in 2005. Because of further increases in world prices, domestic prices were increased by 14 percent in September 2005. The Government claimed to fully liberalize the pricing of fuel derivatives in 2008. The historical removal of subsidies is shown in Table 5 above.

Table 6 below shows the increases in Jordan in the prices of fuel derivatives to the consumers. The government plan which started in 2005 has adversely affected the purchasing power of the consumer.

Table 6: Developments in Fuel Derivatives Prices

Item	Unit	2005	2006	2008							2009
				10.02 to 10.03	11.03 to 10.04	11.04 to 11.05	12.05 to 09.06	10.06 To 09.07	10.07 to 09.08	10.08 to 31.12	1.09 To 2.7.09
Liquid Gas	Fils/ Cylinder	3750	4250	6500	6500	6500	6500	6500	6500	6500	6500
Gasoline 90 Octane	Fils/ Liter	_	_	575	585	615	645	705	735	700	660
Gasoline 95 Octane	Fils/ Liter	_	_	660	665	700	740	805	840	800	755
Kerosene	Fils/ Liter	220	320	555	600	600	630	705	770	730	690
Diesel	Fils/ Liter	220	320	555	600	600	630	705	770	730	690

Source: AlGhad Newspaper Archives, based on documents supplied by the Ministry of Energy & Natural Resources

Note that the rise in prices of energy to the consumer means that the after-tax budget of households suffers two consequences; Consumers feel poorer as their real (after inflation) incomes decline; and given that fuel derivatives are inelastic (the consumer does not respond significantly to price hikes since the fuel derivatives are necessities) would tend to have less funds available to spend on other commodities and goods and services. The impact is to decrease the overall demand for industrial products.

By early 2008, the Government had removed all subsidies on the local prices of petroleum products as a step towards completely liberalizing this market. As such, the government implemented a Social Safety Net (SSN) program that targeted the groups in need of subsidy and at the same time eased the impact of higher inflation rates on low and middle income groups.

The main features of the SSN are as follows:

1. The civil servants' salaries were raised by JD 50 per month for those employees with a total salary of less than JD 300 per month. While those with salaries exceeding JD 300 per month, will receive JD 45 per month. The employee's basic salary will be increased by 8% and the remaining will be added to the fixed monthly allowance.

2. The same scheme was applied to the military and security agencies personnel:
   - Retired civil servants and military personnel received JD 50 or JD 45 per month depending on their monthly income if it is lower or higher than JD 300 per month respectively.
   - As of 2009, the monthly salary of civil servants, military and security agencies personnel will be adjusted annually according to the inflation rate and a productivity indicator.
   - Monthly payment to the National Aid Fund (NAF) beneficiaries was increased by JD 10 per individual given that the total aid per person does not exceed JD 36 per month and JD 180 per month for the family.
   - A one-time cash payment is made to families of all non-public sector employees or retirees with a per capita income of JD 1000 per annum.

3. Moreover, the government has also pledged to:
   - Include more people in the national health insurance program.
   - Build housing units for the poor.
   - Keep water and electricity prices at current levels for small consumers.

It is worth noting that the increase in salaries of civil/military employees and retired pensioners, as well as the cash subsidies for the families in the private sector, exceeds the impact of increasing domestic oil prices. Moreover, the cash subsidy will decrease as the family income increases. Furthermore, the government has increased the salaries of public servants and defense and security personnel six times since the inflationary wave first began to hit the economy. The impact of these increases was inflationary since they were not tied to performance and productivity.

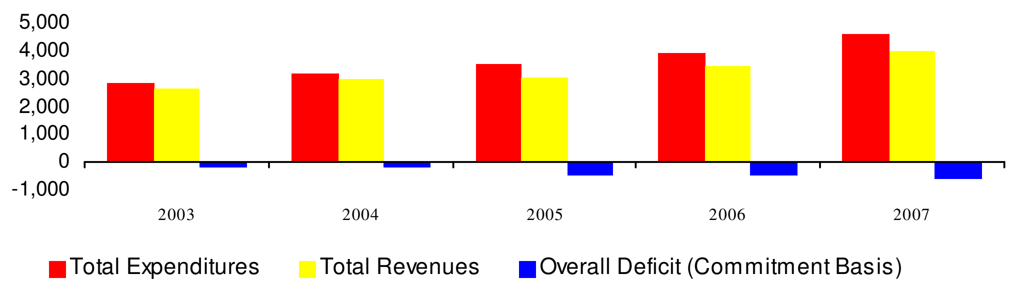
4. CONSUMPTION, PRODUCTION AND DISTRIBUTION (PUBLIC AND PRIVATE VENUES) PATTERNS

Consumption by government exceeds 50% of the GDP, while the quality of government services is not rising at the same level as expenditures. Government expenditures currently make up close to 70% of the government budget and given that another 10% is typically allocated to retirees and another 10% goes to debt servicing, the remainder of the budget, a mere 10%, is hardly viewed as large enough to upgrade public sector facilities or establish new ones to meet the rise in demand for government services.[7]

The chronic current expenditure commitments of the government limit its ability to become an active promoter of the welfare of the economy and enable greater competitiveness. In recent years, Jordan's ranking in terms of competitiveness and business environment have declined significantly.[8] Furthermore, in recent years, the government revenues grew at a faster rate than the rate of growth of the GDP.

During the period 2003-2007, total revenues (domestic revenues plus foreign grants) registered an increase of JD 1358.5 million (52%) to reach JD 3971.5 million in 2007 compared to JD 2381.2 million at the end of 2003. Foreign grants amounted to JD 343.3 million during 2007 compared to JD 682.6 million received during 2003.

Figure 3: Summary of Central Government Budget 2003 - 2007, JD Million



Source: Ministry of Finance, Annual report 2008

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7 *Jordan National Agenda (2006-2015),* Jordan 2006.

8 See: *The Global Competitiveness Report*, WEF; and the *Doing Business Report*, IFC, World Bank.

Domestic revenues increased by 117% or JD 1952.5 million to reach JD 3628.1 in 2007 compared with JD1,752.1 million in 2002. The increase was the result of a rise in tax revenues by JD 1388.9 million and an increase in non-tax revenues of JD 564.3 million. The growth in tax revenues was mainly a consequence of: an increase in general sales tax (GST) revenues by JD 868.2 million or 146%, contributing 63.1% to the total increase in tax revenues; the rise in income tax revenues by JD 268.1 million or 209% contributed 19.3% to the total increase in tax revenues. The overall rise in tax revenues was a result of continued growth in economic activities as well as enhancements in the efficiency of tax collection. However, as can be noted from above, the deficit in the government budget has been consistently on the rise since 2003 and holds true for 2008 where the government budget deficit exceeded JD1 billion. It is anticipated that the deficit will be slightly higher in 2009 with expectations of a falling GDP growth rate due to the indexing of wages and salaries to inflation and sporadic increases in current expenditures (particularly salaries and retirements pensions).

Table 7: Main Indicators of Public Revenues 2003 – 2008, JD Million

	2003	**2004**	**2005**	**2006**	**Preliminary 2007**	**Budget 2008**
III. Domestic revenues	**1675.6**	**2,147.2**	**2,561.8**	**3,164.4**	**3,628.1**	**4060.7**
Ratio to total revenues and grants (%)	64.6	72.6	83.7	91.2	91.4	90.2
Ratio to GDP (%)	23.2	26.5	28.7	31.7	32.3	31.7
IV. Foreign grants	**937.4**	**811.3**	**500.3**	**304.6**	**343.4**	**440**
Ratio to GDP (%)	35.9	10.0	5.6	3.0	3.1	9.8
V. Total revenues and grants	**2613**	**2,958.5**	**3,062.1**	**3,469.0**	**3,971.5**	**4500.7**
Ratio to GDP (%)	59.1	36.6	34.2	34.7	35.4	41.5

Source: Ministry of Finance, Annual Reports (several)

The growth of non-tax revenues was caused primarily by a rise in fee revenues, ensuing from increase in the collection of property registration fees, a parallel rise in licenses, an increase in "interest and profits", and an increase in other non-tax revenues. Interestingly, there is evidence according to the Land and Survey Department that buyers and sellers both suffered from the sudden increase in property estimates, which is determined by the Land Department and used as a basis for the calculation of the registration fees (10% of the value of the property). Therefore, the increase in revenues may not be taken as a signal that the real estate market is still bullish. Furthermore, the government thus avoided having to approach the parliament to increase the percentage.

Budget estimations indicate that domestic revenues increased by JD 529.2 million, or 13.3 percent, in 2008 compared to its level in 2007; totaling JD 3971.5 million. This increase was driven by the rise in tax revenues and non-tax revenues by JD 377.9 million and JD 56.9 million, respectively.

Table 8: Components of Domestic Revenues 2002 – 2008, JD Million

	2003	2004	2005	2006	Preliminary 2007	Budget 2008
Tax revenues	**1083.2**	**1,428.8**	**1,765.8**	**2,133.5**	**2,472.1**	**2850**
Ratio to domestic revenues (%)	64.6	66.5	68.9	67.4	68.1	70.2
Ratio to GDP (%)	15	17.7	19.7	21.3	22.0	22.2
Non-tax revenues	**548.4**	**658.7**	**756.3**	**987.0**	**1,104.6**	**1168.7**
Ratio to domestic revenues (%)	34.2	30.7	29.5	31.2	30.5	29.4
Ratio to GDP (%)	7.9	8.1	8.5	9.9	9.8	9.3
Repayments	**44**	**59.7**	**39.7**	**43.9**	**51.4**	**42**
Ratio to domestic revenues (%)	1.1	2.8	1.5	1.4	1.4	0.4
Ratio to GDP (%)	0.3	0.7	0.4	0.4	0.5	0.1
Total domestic revenues	**1675.6**	**2,147.2**	**2,561.8**	**3,164.4**	**3,628.1**	**4060.7**

Source: Ministry of Finance, Annual Reports (several)

Note that non-tax revenues have been on the rise as a percentage of the GDP. These revenues may be distorting to the business environment. They are mainly transaction based and come as a "cost-plus" addition. In some cases the fees and stamps which make the majority of these revenues also hamper proper planning since they can be imposed in some cases without parliamentary decree. Ideally, fees and stamps are imposed to compensate for the cost of a service. Oft times these fees are not estimated or levied based on the service cost and are used simply to leverage increased government spending.

Table 9: Components of Tax Revenues 2002 – 2008, JD Million

	2003	2004	2005	2006	Preliminary 2007	Budget 2008
As percent of GDP						
Domestic Revenues	23.2	26.5	28.7	31.7	32.3	31.7
Tax Revenues	15	17.7	19.7	21.3	22	22.2
Pension Contributions	0.3	0.2	0.2	0.2	0.2	0.1
Other Revenues	7.9	8.7	8.7	10.1	10.1	9.3
As percent of Domestic Revenues						
Tax Revenues, of which:	64.6	66.5	68.9	67.4	68.1	70.2
Income Tax from Indiv.	11.4	10.1	11.1	13	13.6	13.6
Taxes on Goods & Services	36	39.3	40.4	39.1	40.8	43
Taxes on International Trade & Transportation	13.9	13.7	13	10.9	9.7	8.8
Pension Contributions	1.1	0.9	0.7	0.5	0.5	0.4
Other Revenues	34.2	34.2	30.4	32	31.4	29.4

Source: Ministry of Finance, Annual Reports (several)

Clearly the majority of tax revenues come from taxes on goods and services, which are three times the revenues from the income tax. The latter was less than taxes collected in some years from taxes on trade and transportation (customs duties). The deficit in tax collection of income taxes remains a problem for the Jordanian economy and government as it is less than 4% of the GDP. This has been pointed out by the National Agenda, no significant improvement in income tax structure or collection has occurred yet in spite of various attempts over the years to improve the Income Tax Law.

Total Expenditures

Total expenditures amounted to JD 4586 million during 2007 compared to JD 2542.6 million in 2003, registering an increase of 63.2% or JD 1776.2 million in the period 2003-2007.

Table 10: Main Indicators of Total Expenditures 2003 – 2008, JD Million

VI.	2003	2004	2005	2006	Preliminary 2008	Budget 2009
Current	**2163.7**	**2,377.8**	**2,908.0**	**3,118.1**	**3,744.2**	**4100.8**
Ratio to total expenditures (%)	77	74.8	82.2	79.7	81.6	78.5
Ratio to GDP (%)	29.9	29.4	32.5	31.2	33.4	32
Capital	**646.1**	**802.7**	**630.9**	**794.1**	**841.8**	**1124.2**
Ratio to total expenditures (%)	23	25.2	17.8	20.3	18.4	21.5
Ratio to GDP (%)	8.9	9.9	7.1	7.9	7.5	8.8
Total	**2809.8**	**3,180.5**	**3,538.9**	**3,912.2**	**4,586.0**	**5225**
Ratio to	38.9	39.3	39.6	39.1	40.9	40.7

Source: Ministry of Finance, Annual Reports (several)

This rise in total expenditures was a result of an increase in current expenditures by 73% or JD 1580.5 million and an increase in capital expenditures by 195.7% or JD 30.2 million. Please note that within the capital expenditure category, several expenditure items are also salaries; however, projects are classified as capital expenditure and therefore show as such. A critical analysis, such as the one introduced in the Public Finance pillar of the National Agenda would confirm this finding. For our purposes, it suffices to note that this point had been highlighted in the Jordan National Agenda in 2006.

Current Expenditures

Current expenditures were up by 73% or JD 1580.5 million (81.6 percent of GDP in 2007) during the period 2003-2007. The expansion in current expenditures was a direct result of the increases in most of their components, expenses on defense and security, food subsidies, oil subsidies, wages and pension by JD 501.2 million and JD 417.3 million and JD 217.3 million and JD 164.1 and JD 370.5 million, respectively. It was also due to the increase in interest payments by 35.9% or JD 97 million, which came as a result of an increase in domestic interest payments by JD 107.8 million and a decrease in external interest payments by JD 10.8 million. This composition reflects the current fiscal policy stance, which focuses more on internal borrowing in financing Jordan's budget deficit. It is estimated that Current Expenditures will be increased by JD 356.6 million in 2008 compared to its level in 2007 to total JD 4100.8 million.

After the early debt repurchase agreement was executed by the government with the Paris Club in March 2008, external debt fell to 28% of the GDP. However, internal debt continued to grow and is now in excess of 32% of GDP subsequent to the government borrowing JD800 million in May 2008 to cover part of its deficit account at the Central Bank of Jordan. It is worthy to note that such borrowing, at the current high interest rates set by the Central Bank, has been crowding the private sector out of the liquidity market as banks prefer to lend to the most credit worthy borrower in the economy, the government, instead of the private sector. The CBJ claims that banks have over JD600 million in excess funds that the private sector has not sought for credit purposes. This is possibly due to high interest rates and the government crowding-out effect.

Table 11: Main Indicators of Current expenditures 2003 – 2008, JD Million

	2003	2004	2005	2006	2007 Prel.	2008 Budget
	In Percent of GDP					
Total expenditures	**38.9**	**39.3**	**39.6**	**39.1**	**40.9**	**40.7**
Current Expenditures	29.9	29.4	32.5	31.2	33.4	32
Capital expenditures	8.9	9.9	7.1	7.9	7.5	8.8
	In Percent of Total Expenditure					
Current expenditures	**77**	**74.8**	**82.2**	**79.7**	**81.6**	**78.5**
Wages, Salaries & Allowances	15.7	14.6	14.5	13.8	13.4	12.7
Interest Payments (commitment basis)	9.6	7.2	7.5	8.1	8	7.4
Subsidies	6.2	10.1	18.3	9.6	11.6	5.9
Social Benefits	14.1	13.8	15.5	18.7	16.7	19.6
Military Expenditures	23.1	20.5	19.7	20.3	25.1	25.3
Capital Expenditures	**23**	**25.2**	**17.8**	**20.3**	**18.4**	**21.5**

Source: Ministry of Finance, Annual Reports (several)

A quick calculation of the total expenditures by Jordan on defense and public order and security would determine this component as the largest expenditure item, JD1270 million in 2008, more than double its level in 2003. On the other hand, spending on health and education is currently budgeted at 66% of the defense and security spending and only increased at a rate of 52% for the same period. Jordan, consequently, is listed among 12 countries in the world that spends more on arms and security than on health and education; a dangerous trend. Another important development is the expenditure on environmental protection, which is budgeted at exactly one third the level in 2003, the year the Ministry of Environment was established.

Table 12: Distribution of Current Expenditures of Budgetary Central Government According to Functional Type, JD million

	2003	2004	2005	2006	2007 Preliminary	2008 Budget
General public services	352.3	356.9	387	572.9	652.7	748.9
Defense	413.8	396	408	474.4	729.5	871.1
Public order and safety	204.4	218	247	279.9	335.4	397.4
Economic affairs	38	45	46	47	52.4	69.2
Rescheduled interest	99.6	67.9	60	51.8	0	0
Environmental protection	3.3	1	1	0.9	0.9	1.1
Housing and community amenities	9.5	3	3	3.5	3.6	18.2
Health	194.1	225	237	317.5	334.5	369.8
Recreation, culture and religion	37.8	38	46	38.6	47.6	79.7
Education	333.9	356	384	411.1	562.3	437.7
Social protection*	477	671	1089	920.5	1025.3	1107.7
Total	**2163.7**	**2377.8**	**2908**	**3118.1**	**3744.2**	**4100.7**

Source: Ministry of Finance, Annual Reports (several)

Capital Expenditures

Capital expenditures rose by 195.7% or JD 30.2 million during the period 2003-2007; amounting to JD 841.8 million, or 7.5 percent of GDP. However, the actual capital expenditures came below their estimated levels in the budget. In effect, the accomplishment ratio, measured by the ratio of actual capital expenditures to the estimated capital expenditures in the Budget Law and its supplementary annexes, fell to 83.9 percent in 2007. This development was due to the reduction in foreign grants, as the financing of capital projects is usually dependent on the flow of this source of funding. In other words, several of the capital expenditure projects which contain approximately 75% of their expenditures on salaries are financed only to meet the current commitments. Purchases of equipment and structures and other types of capital outlays are financed through aid, which explains the dearth of government financed capital projects. Further, capital expenditures accounted for about 18.4 percent of the total public expenditures in 2007; a decline of 4.6 percentage points compared with 2003.

Table 13: Distribution of Capital Expenditures of Budgetary Central Government, JD Million

	2003	2004	2005	2006	2007	2008 Budget
General public services	104.8	247	95.8	100.2	118.2	113.6
Defense	20	20	20	23	16	15
Public order and safety	35.5	42.4	40.9	47.5	51.5	81.9
Economic affairs	149.3	238.8	237.3	279.3	275.1	441.6
Environmental protection	26.6	4.1	5.6	13.4	14.4	7.7
Housing and community amenities	118	27.9	21.3	24.4	33.3	158.2

Health	55.4	61.9	50.6	110.8	115.7	143
Recreation, culture and religion	20.5	16.1	21.1	11.1	17.7	27.2
Education	72.2	73	68.5	101.7	110	94.6
Social protection*	43.8	71.5	69.8	82.7	89.9	41.3
Total	**646.1**	**802.7**	**630.9**	**794.1**	**841.8**	**1124.2**

Source: Ministry of Finance, Annual Reports (several)

In a recent study that was published in the local press, so far this year, only 20% of the allocations to capital expenditures have been spent by the ministries and departments that benefit from these projects. The reason must be due to a mixture of lack of technical capacity in these organizations in the utilization of capital projects and the reluctance of the Ministry of Finance to push for early disbursement and spending on these projects. The allocations are then transferred to current expenditures, which is a typical practice by governments in many under developed economies that have to meet the more pressing targets of current expenditure commitments while postponing the not so urgent projects listed in the capital expenditure category.

Again, as shown above, in terms of capital expenditures, spending on education increased by only 31% during the period, while spending on defense and security increased by 110%. Capital expenditures on the environment decreased by 71% during the period.

Overall Deficit/ Surplus

The above mentioned fiscal developments have resulted in an overall after-grants budget deficit of JD614.5 million in the 2007, compared to an overall deficit of JD161.4 million during 2003. Excluding foreign grants, the overall budget deficit amounted to JD957.9 million against a deficit of JD99.6 million during 2003. The trend, as stated earlier, is on the rise and warrants the attention of policy makers.

Allocations of 2008 Budget

According to the budget statement, total revenue in 2008 is projected at JD4501 million (including grants of JD440 million), up 12.8% on the revised figure of JD3989 million (including grants of JD346 million in 2007).

The projected increase in locally generated revenue was due to an increase in economic activity and better tax collection. Total expenditure is estimated at JD5225 million – JD 4101 million for ordinary spending and JD1124 million for capital expenditure – an increase of 13.4% over the revised figure of JD 4608 million in 2007. Ordinary expenditures in 2008 will account for 39.1% of GDP, compared to 33.2% in 2007, while capital expenditure in 2008 will account for 8.8% of GDP, compared to 7.4% in 2007. The resulting deficit of JD724 million in 2008 represents 5.6% of GDP, compared to JD616 million in 2007, or 5.4% of GDP in 2007. The budget deficit is projected to fall to 4.8% of GDP in 2009 and to 3.9% in 2010.

Without the grants, the deficit in 2008 would rise to JD1164 million or 9.1% of GDP in 2008, compared to JD962 million, or 8.5% of GDP in 2007. However, the Ministry of Finance asserts that despite the rise in the deficit in 2008, locally generated revenues in 2008 will cover about 99% of ordinary expenditure, up from 91% in 2007. This is doubtful since deflationary pressures will most likely decrease consumption tax revenues.

Expenditure in 2008 includes allocations of JD86 million for housing projects, JD581 million for development of human resources, JD513 million for health services, and JD148 million for water, gas network and renewable energy projects. The budget, the statement adds, will aim to create a suitable investment climate with the necessary incentives to encourage local and foreign investments. According to the 2008 budget projections, GDP will grow at 6% in real terms and inflation will rise to 8-9% as a result of world inflation and the withdrawal of subsidies on some commodities. The deficit on the trade balance is expected to stand at 14% of GDP, while the external debt-to-GDP ratio is projected to fall by 13%. However, these assumptions are being revised since the inflation rate was much higher than originally expected and collections have increased due to the inflationary impact on prices and wages.

Table 14: Budgetary Central Government Domestic Revenues, JD Million

	2003	2004	2005	2006	Preliminary 2007	Budget 2008
Tax Revenues	1083.2	1428.8	1765.8	2133.5	2472.1	2850
Taxes on Income and Profits, of which:	191	217.9	283.7	411.4	494.9	551
Income Tax from Individuals	62.7	70.9	86.4	91.3	98.5	127
Individuals	38.6	39.3	45	47	51	69
Salaried Employees	19.3	25.6	33.8	36.2	38.5	47
Social Service Tax	4.8	6	7.6	8.1	9	11
Income Tax from Companies & Projects, of which:	128.3	147	197.3	320.1	396.4	424
Banks and Institutions	27.7	44.9	70	145	188.5	
Taxes on Financial Transactions (real estate tax)	30.3	45.9	79.4	97.7	101.7	135
Taxes on Goods and Services	603.4	844.7	1034.8	1238.8	1479.8	1748
General Taxes on Goods and Services:	596.3	827	1023.4	1219.1	1464.5	1726
Sales Tax on Imported Goods	233.8	362.8	497.8	596.7	680.1	847
Sales Tax on Domestic Goods	229.6	265.2	273.4	328.4	405.3	486
Sales Tax on Services	103.4	153.8	189.1	211.1	223.9	281
Sales Tax on Commercial Sector	29.5	45.2	63.1	82.9	155.2	112
Tax on Air Tickets	7.1	17.7	11.4	19.7	15.3	22
Taxes on International Trade & Transactions	232.9	294.1	334	345.7	351.3	359
Customs Duties Fees	209.4	277.9	304.9	315.6	312.1	336
Departure Tax	23.5	27.2	29.1	30.1	39.2	23
Other Additional Taxes	25.6	26.2	33.9	39.9	44.4	57
Pension Contributions	18.9	18.3	18.1	17.1	18.2	16
Other Revenues	573.5	700.1	777.9	1013.8	1137.8	1194.7
Revenues from Selling Goods & Services, of which:	281.2	365.5	472.1	556.8	612.9	646
Land Registration	51.7	78.7	143	187.8	199.5	217
Revenues Stamps	66.1	81.1	101.8	124.5	128.3	137

Property Income	159	163.2	108.5	167.4	225.8	295.5
Interests	21.6	18.9	19.5	19.3	22.7	15
Financials Surplus	99	99.9	78.4	122.2	165.1	268.5
Interest on Privatization Proceeds	38.4	44.4	10.6	25.9	38	12
Miscellaneous Revenues, of which:	133.3	171.4	197.3	289.6	299.1	253.2
Mining Revenues	14.3	14	23.6	22	22.6	24
Repayments	44	59.7	39.7	43.9	51.4	42
Total Domestic Revenues	1675.6	2147.2	2561.8	3164.4	3628.1	4060.7

Source: Ministry of Finance, Annual Reports (several)

Table 15: Budgetary Central Government Expenditures JD Million

	2003	2004	2005	2006	2007* Preliminary	2008 Budget
Current expenditures	**2163.7**	**2377.8**	**2908.0**	**3118.1**	**3744.2**	**4100.8**
Compensation of employees	**441.9**	**464.1**	**511.8**	**539.8**	**614.2**	**661.1**
Wages, Salaries and Allowances	418.5	442.5	489.9	514.3	582.6	620.5
Social Security	23.4	21.6	21.9	25.5	31.6	40.6
Purchases of Goods and Services	**92.5**	**105.3**	**110.1**	**115.1**	**135.3**	**237.3**
Interest Payments (Commitment Basis)	**270.3**	**229.0**	**267.1**	**317.8**	**367.3**	**388.0**
Internal	61.4	63.6	94.2	132.8	169.2	240.0
External, of which:	208.9	165.4	172.9	185.0	198.1	148.0
Rescheduled Interest	99.6	67.9	60.0	51.8	46.5	0.0
Subsidies	**173.3**	**321.5**	**649.0**	**375.1**	**529.9**	**307.9**
Subsidies for Non Financial Public Institutions, of which:	84.6	59.1	48.9	83.0	23.9	137.9
Emergency Expenditures	45.8	22.3	13.6	51.9	15.5	100
Subsidies for Non Financial Private Institutions, of which:	0.0	0.0	0.0	0.0	0.0	5.0
Goods Subsidies	88.7	262.4	600.1	292.1	506.0	165.0
Foods Subsidies	0.0	0.0	69.3	78.1	200.0	165
Oil Subsidies***	88.7	262.4	530.8	214	306	0
Grants	**55.8**	**55.2**	**57.6**	**49.7**	**66.8**	**86.6**
Social Benefits	**397.4**	**439.6**	**547.7**	**732.8**	**767.9**	**1,025.00**

Pensions and Compensation	345.7	377.4	416.7	490.6	516.6	571
Social Assistances	51.7	62.2	131	242.2	251.3	454
Social Safety Net	0.0	0.0	0.0	113.0	137.3	303
Miscellaneous Expenditures, of which:	**83.0**	**110.1**	**65.9**	**192.7**	**112.1**	**72.1**
Scholarships and Training	17.7	24.2	22.7	34.7	32.2	0.1
Military Expenditures	**649.5**	**653.0**	**698.8**	**795.1**	**1,150.7**	**1322.8**
Capital Expenditures	**646.1**	**802.7**	**630.9**	**794.1**	**841.8**	**1124.2**
Total Expenditures						
Commitment Basis	**2809.8**	**3180.5**	**3538.9**	**3912.2**	**4586.0**	**5225.0**
Cash Basis	**2710.2**	**3112.6**	**3478.9**	**3860.4**	**4539.5**	**5225**

Source: Ministry of Finance, Annual Reports (several)

Table 16: Distribution of Current Expenditures of Budgetary Central Government According to Functional Type, JD Million

	2003	**2004**	**2005**	**2006**	**2007 Preliminary**	**2008 Budget**
General public services	352.3	356.9	387	572.9	652.7	748.9
Defense	413.8	396	408	474.4	729.5	871.1
Public order and safety	204.4	218	247	279.9	335.4	397.4
Economic affairs	38	45	46	47	52.4	69.2
Rescheduled interest	99.6	67.9	60	51.8	0	0
Environmental protection	3.3	1	1	0.9	0.9	1.1
Housing and community amenities	9.5	3	3	3.5	3.6	18.2
Health	194.1	225	237	317.5	334.5	369.8
Recreation, culture and religion	37.8	38	46	38.6	47.6	79.7
Education	333.9	356	384	411.1	562.3	437.7
Social protection*	477	671	1089	920.5	1025.3	1107.7
Total	**2163.7**	**2377.8**	**2908**	**3118.1**	**3744.2**	**4100.7**

Source: Ministry of Finance, Annual Reports (several)

Table 17: Distribution of Capital Expenditures of Budgetary Central Government, JD Million

	2003	**2004**	**2005**	**2006**	**2007 Actual**	**2008 Budget**
General public services	104.8	247	95.8	100.2	118.2	113.6
Defense	20	20	20	23	16	15
Public order and safety	35.5	42.4	40.9	47.5	51.5	81.9
Economic affairs	149.3	238.8	237.3	279.3	275.1	441.6

Environmental protection	26.6	4.1	5.6	13.4	14.4	7.7
Housing and community amenities	118	27.9	21.3	24.4	33.3	158.2
Health	55.4	61.9	50.6	110.8	115.7	143
Recreation, culture & religion	20.5	16.1	21.1	11.1	17.7	27.2
Education	72.2	73	68.5	101.7	110	94.6
Social protection*	43.8	71.5	69.8	82.7	89.9	41.3
Total	**646.1**	**802.7**	**630.9**	**794.1**	**841.8**	**1124.2**

Source: Ministry of Finance, Annual Reports (several)

The Relevance of Capital Expenditures

Lack of capital expenditures or the small size of its allocation within the budget has a significant adverse impact on productivity and the future of the economy. The following subsections address the impact of such a malaise on several relevant sectors in the economy and the cost of supplying necessary goods and services.

Transportation[9]

One area that has impacted Jordanian demand for oil and demonstrates the lack of government spending on public transportation networks has been the transportation sector, where commuters have to rely on own transportation vehicles or use low quality transportation means. Similar problems apply to shipping which also affect the transport and delivery of goods within the Kingdom.

Over 50% of public transportation vehicles are considered fully depreciated and old. Over 2.5 million commuters in Jordan use 14893 taxis and 4273 "service" or taxi-share while others use 5485 buses. Moreover, of the 2.03 million residents of Amman, only 32% use public transportation; of these 17% use taxis. The conditions of public transportation system are not considered adequate (lack of reliability, old age of vehicles, non-consistent arrival and departure schedules, etc.); thus, whenever possible commuters prefer to use own vehicles.

The drive to institute railway as a means of transportation between Amman and Zarqa (a 28 kilometer commute between the two most heavily populated cities of Jordan), which would decrease the demand for oil derivatives and is considered cleaner environmentally than taxis and buses, has failed yet again this year. The first bid was issued in November 2005, then 2006 and finally this year.

Jordan has a fleet of 12000 trucks, which are heavily in use due to the absence of rail transport, and is badly in need of modernization. The government provided incentives for fleet modernization: an exemption from the sales tax and registration fees for replacement vehicles that are at least 3 years old or less. However, the incentive scheme is to take effect January 1 2009 and until December 31, 2009, so it is too early to estimate its impact on the modernization of the sector.

Land shipping fees between Amman and Aqaba currently range from JD300-JD320 per trip, down from JD430 per trip at the beginning of 2008. A ton of oil costs JD13200 to transport from Aqaba to Amman. Moreover, drivers suffer from delays at the Port of Aqaba, and wholesalers/shippers suffer also from these delays and additional delays caused by driver tardiness.

[9] Report cited in Alghad Newspaper, 3 January 2009, Jordan.

Agriculture

In the agriculture sector, Jordan, considered one of the ten most water poor countries in the world is yet to have large projects for providing water; consequently, the agriculture sector which comprises 66% of the water demand while contributing less than 3% to the GDP, is badly in need of funding for water projects such as the Red-Dead Canal and the Disi Aquifer. Both projects are faced with constraints since both rely on donors; outside special interests from Israel and Saudi Arabia, respectively, have derailed the implementation of both projects.[10]

Projects aimed at enhancing the agriculture sector also demonstrate the lack of capital expenditures in this regard. Table….below shows that only 21 projects are aimed at enhancing the productivity of the sector and with a funding level of only JD36 million.

Table 18: Agricultural Sector Projects

Type of Project	No. of Projects	Estimated cost (JD Million)
Soil & water	3	10 +
Field crops	2	1
Diversification of production	4	17
Small livestock	7	5.5
Income generation	5	2.5
Total	**21**	**36**

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Enhancing the Productivity of Industrial and Service Sectors

Beyond Jordan Enterprise (JE), which benefits from several EU sponsored initiatives that only became effective recently, there is very little effort aimed at enhancing the competitiveness of the Jordanian economy. In fact, relative to the funds availed by the EU, the government funding of JE would be miniscule in comparison. There are other prominent projects such as NAFES (funded by JAICA), and Siyaha and SABEQ, both funded by USAID.

The inability of the government to direct funds toward upgrading and modernization efforts can best be explained by the relative lack of capital expenditure allocations within the budget. This leads to an over reliance on aid, which can be volatile as shown above and a non-permanent source of funding.

[10] "The Securitization of the Disi Aquifer: a Silent Conflict between Jordan and Saudi Arabia", CNR Italian Centre of National Research ISSM Naples Italy http://www.soas.ac.uk/research/our_research/projects/waterissues/papers/38415.pdf

5. INFORMATION AVAILABILITY REGARDING GOODS AND SERVICES

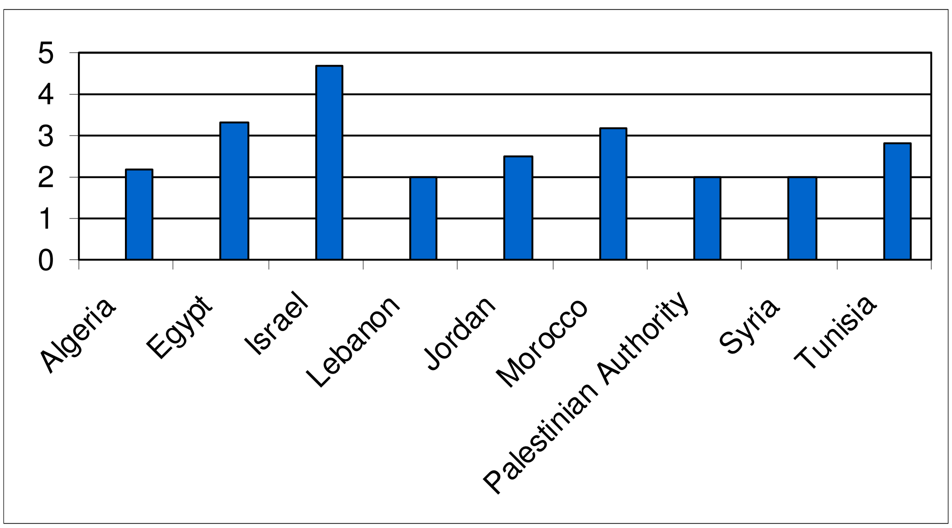
Information on necessary goods has become more available since the Ministry of Industry and Trade (MIT) started to publish indicative prices of certain necessary commodities in newspapers. However, the overall approach to information dissemination is still lacking. For example, 17 gas stations went bankrupt when the government failed to alert them before hand that the new pricing policy of fuel derivatives would decrease the price of their products. Some, benefiting from insider information, became wealthy while others who had filled their storage tanks with expensive fuel derivatives had to sell it later as the government set lower prices. Many refused to fill their pumps or shut down. Several were fined and long lines of consumers were formed as the supply dwindled. A properly communicated policy that informed the public how fuel derivatives were priced and the methodology of pricing would have averted what seemed as an unnecessary crisis.

The Department of Statistics (DOS) has a wealth of raw data on industry and consumption behavior. However, this data is still, and in spite of recent improvements that started in the 1990s with the onset of economic reforms is beyond the reach of producers. Searching for this data requires expertise that is not readily available to producers and consumers and many have to rely on DOS executives, sometimes even hire them to obtain the data.

In the course of the conduct of this study, it was also evident that data was fragmented and incomplete within a source, such as the MIT. One had to search beyond MIT sources to garner a full view that is tasked in the eye of the public with pricing certain commodities and safeguarding consumer and producer interests.

Figure 4 shows Jordan's rank in comparison with other countries in the region. Jordan obviously does not place well among the Arab countries.

Figure 4: A Comparison of Several Countries in MENA regarding Information Dissemination to Enterprises



Source: 2008 Enterprise Policy Assessment

The overall picture in Jordan is mixed in terms of availing information to enterprises. Basic economic and legislative information is available and disseminated, primarily through the network of the chambers of commerce and industry. More sophisticated economic information (such as the database combining trade and investment data and information, developed with US support) is not yet accessible to users. Information on business and economic activity related to enterprises, albeit scattered, is widely available online.[11]

6. ANALYSIS OF THE COMPETITION STRUCTURE

Market Power

The concept of market power depends on the market structure; whether it is perfectly competitive, monopolistic, oligopolistic, or monopolistically competitive (the last two are used synonymously in the literature). Oligopolistic market structures are the closest in terms of depicting the real market structures in the world.

Under perfect competition, there is large number of firms such that the actions taken by any one firm do not affect the market. Firms are considered small, all firms are price-takers; they produce homogeneous products and have perfect information. The market is dominated by the forces of supply and demand, which determine prices and all firms know the price once set by the market. Therefore, no firm has the power to influence or control prices, and thus consumers are served at the market price. Efficient producers provide goods and services while inefficient ones simply exit or refrain from production. This is an imaginary market type that does not exist anywhere.

Under a monopoly, there is only one firm in the market and the monopolist is a price-maker who can raise prices by reducing supply; thus, the monopolist sets the price according to market demand. At any cost levels monopolist can make profit without losing any market share to competitors. There are few true monopolists in Jordan, such as the Jordan Petroleum Refinery, whose power has been somewhat eroded when the government allowed the import of oil derivatives and promised to liberalize the market in 2008 and then 2009. It remains a de facto monopoly in the fuel derivatives market in Jordan today. Phosphate and Potash are also monopolies controlling the supply of raw materials and downstream industries.

Oligopoly (competition among few large firms, producing similar or related products with great amounts of uncertainty prevailing when competing with each other) is considered the prevalent market structure everywhere. This market type, which lies between perfect competition and monopoly, is considered the most realistic depiction of today's markets and is subject to tremendous research—in Jordan, the unavailability of micro data prevents sophisticated analysis of such structures where market power of firms is determined by the difference between the sale price and the marginal cost. The greatest danger arises under oligopoly when firms collude through tacit (informal) or explicit agreements.

Tacit agreements have prevailed in Jordan since the introduction of competition legislation, first as a temporary law in 2002 and then as a law in 2004. Prior to that, formal cartels were omnipotent and legally sanctioned—there was a tourism bus cartel in 1996 and a cartel was established in 2002 in the steel industry.

Tacit collusion and agreements are easy to enforce in terms of setting prices because consumers have no recourse other than direct intercession by the Minister of Industry and Trade. A Consumer Protection Law is still in the drafting stage and has significant opposition, as would be expected, but also from an unlikely source - the Consumer Protection Society, which, albeit considered ineffective, desires to operate unchallenged as a monopoly in consumer protection in Jordan and gain a semi-official status; thus preventing other societies from being formed. A new society has been formed for consumer protection but it is still not operational. The former remains a dominant force; however, its performance is lack luster and it is considered incompetent in terms of leadership, technical capacity and dialogue with the private sector.

[11] Report on the Implementation of the Euro-Mediterranean Charter of Enterprise, 2008 Enterprise Policy Assessment

Concentration Ratios in Jordanian Industry

Market power is determined by factors other than concentration ratios, such as ease of entry, the potential for entry, technological factors, imports, availability of substitutes, the number of competitors, the size of competitors, and the price elasticity of demand.

In economics, the concentration ratio of an industry is used as an indicator of the relative size of firms in relation to the industry as a whole. The concentration ratio is a way of measuring the concentration of market share held by particular suppliers in a market. It is the percentage of total market sales accounted for by a given number of leading firms. This may also assist in determining the market structure of the industry.

One commonly used concentration ratio is the four-firm concentration ratio, or C4, which consists of the market share, as a percentage, of the four largest firms in the industry. In general, the n-firm concentration ratio, Cn, is the percentage of market output generated by the n largest firms in the industry. A four-firm concentration ratio (CR4) is the total market share of the four firms with the largest market shares. Table 3 shows the C4 for major economic activities, whereby industry at the four-digit ISIC classification is analyzed and related to the CPI percentage change in 2007 and 2008.

As Table 19 below shows, the industrial sector of Jordan is characterized as highly-concentrated of which only three enterprises constituted about 67% in each economic activity (ISIC3 level) during the period (1996-2006). Also there are more than 30 activities out of 85 that the concentration ratios of each exceeded 80%, while 12 activities had concentration ratios less than 40%. Only one activity; “Manufacture of Refined Petroleum Products” had the highest concentration ratio of 100%.

The highest ten economic activities in terms of concentration ratio in the Jordanian manufacturing sector were:

- Manufacture of Refined Petroleum Prod. (100%),
- Manufacture of Cement, Lime & Plaster (99.9%),
- Tanning & Dressing of leather, Manufacture Of Footwear (99.8),
- Manufacture Of Other Purpose Machinery (97.8%),
- Manufacture of Carpets & Rugs (97.4%),
- Manufacture of lifting & Handling Equipment (97.3%),
- Manufacture of Structural Non-Refractory Clay& Ceramic Pro. (96.1),
- Manufacture of Non-Structural Non-Refractory Ceramic Ware (96%),
- Manufacture of Fertilizers & Nitrogen Compounds (95.5%),
- Manufacture of Electric Motors, Generators and Transformers (94.2%).

While the lowest five activities were:

- Manufacture of Builders Carpentry and Joinery (12.5%),
- Manufacture of Bakery Products (14.5%),
- Manufacture of Furniture (17.1%),
- Manufacture of Articles of Concrete, Cement and Plaster (18.5%),
- Manufacture of Plastic Product (19.3%).

Table 19: CPI, Economic Activities with Concentration Ratios of 80% or Greater 2007

ISIC3	Economic Activity	CR4 (%)	CPI (%) 2007	CPI (%) 2008
1513	Processing & Preserving of Fruits & vegetables	84.5	91.6	218.84
1533	Manufacture of Prepared Animal Feeds	87.5	137.36	125.43
1551	Distilling, rectifying & blending of spirits; ethyl alcohol production from fermented materials &Manufacture of malt liquors	99.5	139.90	163.52
1554	Manufacture of Soft Drinks, production of mineral waters	88.5	103.23	293.06
1600	Manufacture of Tobacco Products	93.8	108.47	290.6
1711	Preparation & Spinning of Textile Fibers, weaving of textiles &manufacture of knitted & crocheted fabrics &articles	84.0	110.60	68.15
1722	Manufacture of Carpets & Rugs	94.4	81.57	82.32
1911	Tanning & Dressing of leather, Manufacture Of Footwear	98.9	100.48	47.23
2109	Manufacture of Other Articles Of Paper & Paperboard	83.1	99.73	118.79
2212	Publishing of Newspapers, Journals & Periodical	88.7	108.31	63.31
2411	Manufacture Of Basic Chemicals, except fertilizers & nitrogen compounds	84.6	125.76	113.44
2412	Manufacture of Fertilizers & Nitrogen Compounds	95.5	142.71	105.18
2429	Manufacture Of Other Chemical Products n.e.c	81.4	98.45	90.92
2693	Manufacture of Structural Non-Refractory Clay& Ceramic Pro.	94.0	80.67	95.06
2694	Manufacture of Cement, Lime & Plaster	99.6	195.49	159.95
2720	Manufacture of Basic Precious & Non-Ferrous metals	95.9	133.01	115.17
2915	Manufacture Of lifting & Handling Equipment	95.2	135.84	149.43
2929	Manufacture of Machinery & Equipment n.e.c	80.1	111.89	608.56
3130	Manufacture of Insulated Wire and Cable	83.2	236.32	311.39
3410	Manufacture Of Motor Vehicles	93.1	64.54	88.45
3430	Manufacture Of Parts & Accessories For Motor Vehicles & Their Engines	89.2	164.60	381.32

Source: Jordan Department of Statistics database, WWW.DOS.gov.jo

Inflation and Market Power

Market power means the extent by which a producer can control or set prices as well as affect the market share of other producers. The inflation rate will tend to increase as market power increases. This simple idea can be utilized in an econometric model that assumes a direct relationship between market power represented by the concentration ratio of the industry and the consumer index (CPI) to determine whether most of changes in the CPI were a result of the changes in local production and therefore the rest is explained as foreign inflation.

$$INF = f\ (MP)$$

Where INF denotes to inflation rate (Percentage change in the CPI) while MP to the market power of the industry. So we can transfer the previous function to an econometric equation as follows:

$$INF = \alpha + \beta\ MP + u$$

Where α and β are the estimated coefficients at which β refers to ratio of inflation rate which result from internal sources concerning the changes in local prices and the rest ratio $(1-\beta)$ can be attributed to external factors. The estimated value of α shows inflation rate which is not related the market power, while u denotes to the error term of the regression.

Based on the data in Table 19 and after the diagnosis of the data to determine whether it is stationary or not, the results of the Ordinary Least Square (OLSQ) estimation were as follows:

$$INF = 0.67 + 0.01\ MP$$

The above estimated results show that a 1% increase in the concentration rate in the Jordanian industry will push inflation rate to increase by 0.01%. The result also shows that when there is no tendency for the prices of CPI components to increase, a minimum rate of inflation (0.67%) will occur caused by external factors. This result agrees with what the Central Bank of Jordan found previously when estimated that imported inflation constituted about 54% of the overall inflation.

The estimated coefficient of determination (R^2) between the rates of market power and inflation was estimated at 0.2 which means that 20% of changes in the CPI was explained by the market power of the industry (represented by the concentration ratios), while 80% of those changes are explained by other factors among of which the foreign impacts on inflation.

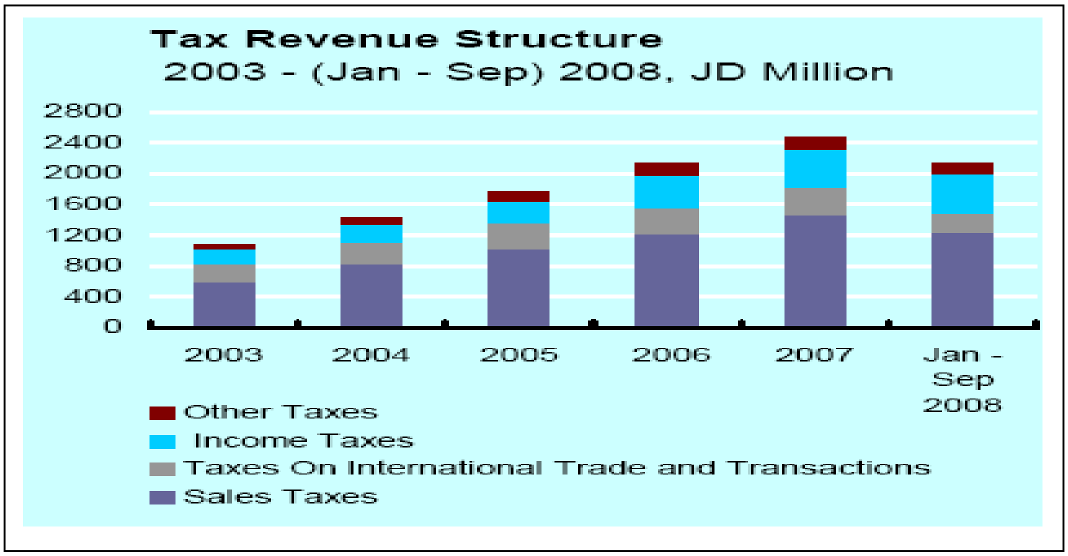
Inflation rate in Jordan represented by the percentage change in the CPI had a positive correlation with the world prices of oil during the period (1998-2008) at which the correlation coefficient was estimated at 0.82. This value of the correlation coefficient is high and means that the cost of imported inputs particularly oil prices caused an increase in the costs of production especially in the last two years when the average world price of a barrel increased dramatically from US$54 per bbl in 2006 to US$96 per bbl in early 2008 and reached US$147 per bbl in the first quarter of 2008 before it fell to below US$40 in the last quarter of 2008 as a result of the global financial crisis.

The impact of market power on inflation in Jordan is obvious and should derive the government to issue all necessary regulations that aim at reducing market concentration and thus, market power, through better implementation of the Competition Law, which, if properly implemented, will reduce monopoly power in many vital industries that produce essential goods and services such as: Manufacture of Cement, Lime & Plaster, and Manufacture of Basic Iron and Steel.

7. REVIEW OF CURRENT LEGISLATION AND TAXES/ CUSTOMS DUTIES ON PRODUCTS AND INPUTS TO PRODUCTION

There are several types of taxation in Jordan, primarily: Corporate Income Tax, Personal Income Tax, and Sales Tax. Figure 5 below shows the growth in revenues from the various taxes.[12] The implementation of the general sales tax started in 1994 and covered importers, manufacturers and providers of certain services.

Figure 5: Growth in Revenues from Various Taxes



On 28 March 2004, the parliament endorsed a 3% increase on the sales tax bringing it from 13% to 16% as part of a government-imposed price and tax hike package negotiated with lawmakers earlier in 2004.[13] Thus, the sales tax has continued to expand in terms of percentage and coverage from the initial 7% and a few luxury goods into 16% covering all types of products and services to cover budgetary deficits. This occurred in spite of the fact that it is a regressive tax, and therefore has a lower impact on the rich than the poor. According to some analysts this is in contradiction with Article 111 of the Constitution.

Reducing customs and sales tax would be a welcome intervention by government since both taxes penalize consumption. However, the government position is to do so for only the basic commodities. The pitfalls of this approach include:

- Selective exemptions lead to distortions and with distortions resources will follow, creating additional market distortions. This is contrary to the tenants of reform drive in Jordan and may be border line violations of WTO commitments which required harmonizing the sales tax on imports and domestically produced goods.
- Consumers will demand similar reductions on other goods and the list of basic commodities will most likely expand.

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[12] Central Bank of Jordan, *Recent Monetary and Economic Developments in Jordan, Research Department, Monthly Report*, January 2008.

[13] "House approves 3% increase on sales tax", *Jordan Times*, Monday, March 29, 2004

- Focusing on specific goods ignores the fact that inflation spreads into other commodities, therefore, regardless of the impact on the poor, the general price level of other commodities will continue to increase, albeit at a slower rate.
- The policy diverts attention from monetary policy as the proper tool for dealing with inflation and places the onus on fiscal policy, which will lead among other things to decreasing government revenues.

The list of customs types and rates is too numerous to insert into this paper, however, below in Table 20 the list of additional taxes imposed by the Customs Department and currently in use is shown.

Table 20: Additional Taxes in Use, Customs Department

Tax	Value*	Unit
Income tax deposit (%)	2.000	value
Additional import duties (%)	2.500	value
Cattle duty	0.200	head
Cattle duty	0.800	head
Social care duty (Goats and sheep)	0.005	head
Social care duty (camels and cows)	0.020	head
Safeguard duty - Tariff	0.055	Number
Safeguard duty - Tariff	0.035	Number
Safeguard duty - Tariff	0.015	Number
Satellite receivers duty	5.000	Number
Duties for radio Receivers /one Channel	0.200	Number
Duties for radio Receivers /three Channel	0.400	Number
Duties for radio Receivers /electric transformer	0.500	Number
Duties for radio Receivers /run by electricity	2.000	Number
Fee of customs certificate to vehicle engine	1.000	Number
Duties for radio Receivers /two Channels	0.300	Number
Export Duties on iron and other metals scrap	30.000	net register ton
Safeguard duty - Tariff	0.040	kilogram
Safeguard duty - Tariff	0.110	kilogram
Safeguard duty - Tariff	0.075	kilogram
Safeguard duty - Tariff	0.080	kilogram
Safeguard duty - Tariff	0.060	kilogram
Mining duty	0.050	kilogram
Youth support duty	0.200	kilogram
Youth support duty	2.000	kilogram
Youth support duty	0.100	Liter (1 cubic decimeter)
Safeguard duty - Tariff (Shoes)	1.450	Number of pairs
Safeguard duty - Tariff (Shoes)	0.950	Number of pairs
Safeguard duty – Tariff (Shoes)	0.450	Number of pairs
Safeguard duty - Tariff (Shoes)	4.250	Number of pairs
Tobacco cultivation duty	0.087	Number of cigarette boxes containing 20 cigarettes
Youth support duty	0.020	Number of cigarette boxes containing 20 cigarettes

* In JD unless otherwise stated; Source: www.customs.gov.jo.

The imposition of customs fees in a sporadic manner adds to the cost of consumption of the consumer. The economic burden of Jordan consuming more than it produces should not be placed upon the consumer alone.

Furthermore, there is an obvious disconnect among ministries in dealing with issues of supply. On the one hand, the Ministry of Water and Agriculture makes policies regarding meat that lead to the creation of a natural monopoly; the Ministry of Finance places fees on such imports in addition to taxes; the Central Bank refuses to lower interest rates and when it does the percentage is so small as to have little to no effect on market liquidity and the cost of doing business; and the Ministry of Energy does not disclose its pricing policy of field derivatives and when it does it is not in communication with the MIT while the MIT receives the brunt of the complaints from producers and consumers as they face rising production and consumption costs. It is clear that there too many players that affect the supply situation in Jordan.

8. ANALYSIS OF THE GOVERNMENT INCENTIVE STRUCTURE FOR ENHANCING PRODUCTIVITY

Enabling the private sector to enter and exit the market easily can expand the productive base in the economy and encourage competition. The ranking of Jordan in the Doing Business Report of the World Bank has regressed substantially in the last three years. The Table 21 below shows where Jordan's rank has deteriorated, in some areas appreciably.

Table 21: Jordan Ranks in the Doing Business Report

Item	2009 Report Rank* (out of 181 economies)	2008 Report Rank* (out of 181 economies)	2007 Report Rank (out of 175 countries)	2006 Report Rank (out of 155 countries)*	Change in Rank From 2008 to 2009
Doing Business	101	94	78	73	-7
Starting a Business	131	137	133	127	+6
Dealing with Licenses	74	72	70	68	-2
Employing Workers	52	51	30	30	-1
Registering Property	115	110	110	110	-5
Getting Credit	123	116	83	76	-7
Protecting Investors	113	110	118	114	-3
Paying Taxes	22	21	18	16	-1
Trading Across Borders	74	64	78	85	-10
Enforcing Contracts	128	127	75	72	-1
Closing a Business	93	90	84	79	-3

Source: *Doing Business Report 2009*, World Bank www.doingbusiness.org

*Note: 2008 figures have been recalculated to reflect changes in methodology and the addition of three new countries

The analysis of government programs and bodies that are in charge of enhancing capacity at the enterprise level has been presented in other chapters of this study. Therefore, we will move directly into a detailed assessment of the Social Safety Net in Jordan, an important factor in enhancing the productivity of the poor; the segment of society that is most affected by rising commodity prices and supply conditions.

9. THE SOCIAL SAFETY NET (SSN)

There are many organizations involved in the provision of safety net programs in Jordan. The organizations within the system can be classified into three general categories[14]:

- Income support to poor and vulnerable families: The two key institutions for this type of aid is the National Aid Fund (NAF) and the Zakat Fund (ZF). The National Aid Fund is a government agency operated by the Ministry of Social Development and is also listed as a component of the Social and Economic Productivity Program under the Ministry of Planning and International Cooperation; the Zakat Fund is operated by the Ministry for Islamic Affairs and receives private financial support.
- Social care services to specific groups, such as people with disabilities, children youth, families and women in distress, etc.
- Economic empowerment through improvement in human capital, usually in the form of skills and asset development: the foremost program in this group is the Economic and Social Productivity Program (ESPP) a joining of the Social Productivity Program and the Enhanced Productivity Program. It is operated under the Ministry of Planning and International Cooperation.

The National Agenda remains the basis of the government's poverty alleviation initiatives and road map for its development activities. However the National Agenda seems to have lost favour once it was announced as an indicative programme, not a blueprint for the nation for the coming decade.

Total public spending on safety nets is estimated at more than 1 percent of GDP, with 50% spent through the National Aid Fund (NAF), and over 25% on the ESPP. The total number of beneficiaries is estimated at about 8-10 percent o f the population.[15]

The National Aid Fund: The National Aid Fund conducts four programs: recurrent financial aid, handicapped care aid, emergency aid and physical rehabilitation aid for the following population groups:

- Orphans under the age of 18 and their families
- Disabled, physically or mentally, and their families
- Detainees, prisoners and their families
- Elderly and their families
- Unsupported women, being divorced, over 18 or widowed
- Foster families for each child or minor under their custody

Income supplementary assistance accounted for 93.1 of all NAF expenditures, the handicapped program, 5.8 percent, physical rehabilitation 0.2 percent and “emergency and extraordinary aid” 0.9

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[14] Milazzo, Annamaria and Margaret Grosh *Social Safety Nets in World Bank Lending and Analytical Work FY2002 – 2007* ,May 2008

[14] Milazzo, Annamaria and Margaret Grosh *Social Safety Nets in World Bank Lending and Analytical Work FY2002 – 2007*, May 2008

[15] *Social Protection Enhancement Project Appraisal Document*, World Bank, Washington, D.C. 2008

percent. An amount of JD 2.0 million has been spent on providing health insurance for the beneficiaries of the aid fund, and JD 300,000 was spent as a subsidy to compensate for the increase in the prices of oil derivatives[16]

In 2006, 8.8% of rural household members received NAF assistance; only 4.4% of urban household members received assistance. Ajlun at 14.6% of households receiving NAF assistance, followed by Jerash at 11.6%, and Mafraq, Tafiela, and Karak at 10.5%, 10.4%, and 9% respectively rank as the five highest governorates in terms of households receiving NAF aid in 2006.

According to the Household Expenditure and Income Survey 2006, during the same time period, Mafraq had 23% of the population under the poverty line, followed by Karak at 21.7 %, Tafeileh at 19,1%, Ajloun at its 17.7% and Jerash at 16.7%. The 5 governorates having the highest poverty rates are those with the highest percentage of households receiving NAF assistance.

In 2006, there was a total consumption shortfall of JD 91 million for those households operating below the 2006 poverty level of JD 504. Overall NAF assistance alleviated only JD 15.4million of the shortfall or approximately 17%. NAF did however, decrease the shortfall a greater percentage in <JD312 households; the shortfall fell by 39.7% for this group as opposed to 21.6% for <JD 390 households and 12.87% for <JD 504 households.

The Zakat Fund: The following population segments are eligible for aid or expenditures from the Zakat Fund poor and needy citizens,[17] poverty-affected students, orphans, senior and disabled citizens and the organizations aiding them, poor patients and the organizations aiding them, and citizens affected by natural disasters such as floods, fires or earthquakes..

The Zakat Fund runs a myriad of programs that reach the entire gamut of service provision and charity such as:

- Recurrent monthly financial aid
- Emergency aid
- Orphan support
- Constrained Zakat payment:
- Occupational rehabilitation: projects such as sheep and cow farming, apiculture, sewing and pickle production.
- School Bag Initiative: at the beginning of each school year 5,000 school bags and accompanying necessary items are provided to needy students
- Provision of Miscellaneous goods: 18762 Islamic women's dresses, 14000 food packs and 27 tons (JD 150,000 in worth) of dates were disseminated.
- Meat donations: slaughtered lambs provided during the Haj season by the Islamic Bank for Development are forwarded to the poor families.
- Fitr Donation: Fitr donations are received during Ramadan and distributed among the poor in the time Islam has set
- Charity Market: held annually, this market offers goods produced by the families receiving aid under the occupational rehabilitation program. The revenues benefit the poor and needy families participating.
- Medical Care and Medication is provided free of charge in the Fund's nine medical centers.
- Special medical care for disabled citizens in four specialized centers
- 25 medical campaigns are conducted yearly.

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[16] A definition of "poor" and "needy" is not provided

The similarity between the activities of the National Aid Fund and the Zakat Fund is in their service delivery programs providing means to meet immediate needs.[18] The Economic and Social Productivity Program, delineated below, provides a more long-term solution to meeting the needs of the low-income.

Economic and Social Productivity Programme: The ESPP is the combination of the Social Productivity Program (SPP), which was launched in the late 1990s by Government of Jordan, and the Enhanced Productivity Program (EPP) is a government-funded development project created by Cabinet Decree in 2002. It is conducted under the auspices of the Ministry of Planning and International Cooperation

Combined project goals include: impact the poor through increased access to public services, to raise households above the poverty line, to provide productive employment for sustainable incomes, and to raise the living standards of the poor in rural and disadvantaged areas by creating and increasing opportunities for productivity gains in the different governorates.

Its programming included the following programs: Housing Projects for the Poor, Qudorat/Capacity Building to Community Based Organizations, Village Clusters and Pilots, IRADA, Small Grants and Direct Intervention, and the Poverty Pockets Project.

Under the old adage, the National Aid Fund and the Zakat Fund provide the "fish", the ESPP, teaches project participants "how to fish." The projects operating under the ESPP umbrella are human capital development activities which promote long-term solutions to poverty. The projects center on skills and private sector development

Problems with the SSN

Jordan's SSN programmes have had little impact on poverty reduction for three basic reasons.[19]

- The impact of cash transfers is not significant because the program does not reach a major segment of the poor and there is substantial leakage to the non-poor.
- There is significant unmet demand for social care services.
- Many of the programs designed to create and enhance economic opportunities for low income segments of the population are garnered by the non-poor.

The three impediments to efficiency and effectiveness of the SSN programs listed above is a function of the following factors present in Jordan: [20]

- an incomplete and somewhat incoherent policy and institutional framework;
- overlapping institutional mandates;
- fragmentation and duplication of programs;
- inefficient and ineffective targeting methods;
- some programs, such as community social work and care services are mostly missing;
- discretionary decision making and weak technical, institutional and human resources capacity resulting in inefficient and ineffective implementation;

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[18] Except in the case of the Zakat Fund Occupational Rehabilitation, which is a long-term measure.

[19] Milazzo, Annamaria and Margaret Grosh. *Social Safety Nets in World Bank Lending and Analytical Work FY 2002 – 2007*, World Bank, Washington, D.C., May 2008

[20] *Social Protection Enhancement Project Appraisal Document*, World Bank, Washington, D.C. 2008

- weak monitoring mechanisms,
- lack of referral systems to cross-link various programs
- explicit exclusion of working poor from cash assistance programs
- modest use of MIS in managing programs
- monitoring is not systematic or diligent[21]

The overlapping of programs between the NAF and the Zakat Fund is shown to be significant. Both serve the same segment of the population with almost the identical services. While this duplication of services in not in and of itself detrimental, a coordinated front, be it formal or informal, would result in more and better coverage of the beneficiary base.

Of the three programs, only NAF has been fully evaluated. However if poverty gap and extreme poverty is used as the benchmark for NAF success in keeping poverty stable over time or in actually decreasing the number of households living in poverty the results are mixed. When compared to 2002/2003, the change in poverty is not uniform across the Kingdom. The overall poverty gap decreased by 2.4 from 2002 to 2006; however extreme poverty has actually risen in Karak, Tafileh, Ajloun and Aqaba while remaining constant in Amman.

One important factor that limits NAF's effectiveness is its targeting mechanism[22]. According to the World Bank, most of the poor are not included in the program because 1) pre-set social categories determine eligibility, 2) the family is the target unit and 3) income is not an accurate indicator of welfare in Jordan.[23]

Other factors cited that limit NAF's effectiveness is a weak administration, as well as subjective eligibility testing and benefit awarding process, the limited use of ICT for monitoring, and no capacity for evaluation. [24]

There is no evaluation of the Zakat Fund available. However, the scope of services from the local Zakat Fund local offices is needs based and community driven. In that aspect, they fulfil criteria of relevancy that NAF, as the government "welfare" agency cannot. As such, it is expected that the efforts of the Fund duplicate the efforts of other "charity" organizations. There is no mechanism in place to evaluate the work that the Fund does.

The official evaluation of EPP component of the ESPP is currently underway. The methodology for the assessment was to be developed by October 2008. Evaluation financing is shared between UNDP and Government of Jordan (GOJ); UNDP will finance $ 250,000 of the cost and GOJ JD370,000. [25] The objective of the assessment is to evaluate the development effectiveness of the program and conduct a review of its management and operational procedures.

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[21] These deficiencies have been noted consistently in assessment documents like the World Bank Poverty Assessment 2004 and the National Agenda, 2006

[22] *Social Protection Enhancement Project Appraisal Document*, World Bank, Washington, D.C. 2008

[23] *Social Protection Enhancement Project Appraisal Document*, World Bank, Washington, D.C. 2008

[24] *Social Protection Enhancement Project Appraisal Document*, World Bank, Washington, D.C. 2008

25 http://www.undp-jordan.org/Default.aspx?tabid=113

Challenges and constraints to SSN effectiveness and efficiency

Beyond the challenges and constraints caused to poverty alleviation efforts by inaccurate program targeting, inefficient delivery of service and lack of coordinated services noted earlier in this study, economic factors play an important role in challenging and constraining the SSN:

1) The current global credit crisis, while not affecting Jordan in the extreme, hit the Gulf countries hard and led to decreased remittances to Jordan. The gap in income caused by the decreased remittance income has to be supplemented by existing poverty programs.

2) Internal economics trends such the removal of fuel subsidies and increased global fuel prices, decreased real income levels and disproportionately impacted the poor because their income is spent on meeting basic needs.

3) The generation of low income employment opportunities constrains the ability of poor households to become self-sufficient. A 2004 poverty study the household incomes generated from capital are two times higher than that generated from labor. [26]This implies that families depending on wages and salaries are more likely to be poor than those in other sectors. Labor income is concentrated in those sectors that are wage and salary predominant: the government, agriculture, and construction sectors of the economy.

4) Government deficits directly constrain the funding of poverty programs. The effectiveness of programs such as NAF, ESPP, and the forth coming World Bank Social Protection Enhancement Project are dependent upon government revenues, totally or in part, for funding. Even the Zakat fund, although funded by voluntary contributions, still relies on the Ministry of Islamic Affairs for administrative support.

Needed improvements to affect efficient functioning and delivery of the overall SSN

Utilizing the list of factors presented above that contribute to the inefficiency and ineffectiveness of the SSN, a checklist of need improvements can be compiled as follows:

- A coherent and complete policy and institutional framework;
- Well defined institutional mandates;
- Well designed complementary, complete and non duplicative programs;
- Revise targeting methods be efficient and effective (include working poor into cash assistance programs)
- Creation of programs to address gaps in community social work and care services
- Implement clear guidelines for decision making
- Support training in institutions in the field
- Strengthening monitoring mechanisms and implement evaluation designs; build in monitoring and evaluation into the design of any new programs,
- Develop a referral systems to cross-link various programs
- Increase use of ICT to document and track beneficiary populations.

Most of the list above has been cited in other works in some form. In terms of needed reforms with NAF, three World Bank Studies over the last 4 years have documented the ineffective targeting mechanism and leakage of resources to the non-poor. Moreover, a plethora of documentation on what works for a successful conditional cash transfer system is easily accessible. According to

[26] Al Zu'bi, Bashir. *Poverty Alleviation Policies and Studies in Jordan*, Arab Planning Institute, 2004.

Schofis, and the myriad of other studies on the topic, for the cash transfer system to work, the follow must occur:

- Better Targeting
- Simultaneous intervention in 3 key sectors : Heath, Education, and Welfare
- Conditioning cash transfers to regular school attendance and visits to health centers
- Cash transfers given to mothers
- Parallel support on Supply Side (schools & health centers) [27]

While NAF does use conditionality for assistance, the absence of the other four factors listed above renders the conditionality of school attendance and immunization requirements ineffective.

The Social Protection Enhancement Project (SPEP) is designed to eliminate and rectify the weakness inherent in Jordan's SSN and the reasons for the deficiencies in the system as noted above. The SPEP is a 5 year, 2008-2013, World Bank Project with an overall budget estimated at US$10.9 million, of which the IBRD finances US$4.0 million. The project will be implemented by MoSD, NAF, CCSS and DOS.

Again, a caveat is due here: There have been a myriad of programs, such as the Social and Economic Transformation Program (SETP), set in motion with the aim of rectifying the inability of the SSN to reduce poverty levels. This may just be one more of such programs unless reforms within each organization are taken, such as the implementation of key performance indicators (KPIs) to which to project funding is tied.

10. THE ROLE OF THE GOVERNMENT IN PROTECTING CONSUMERS AND ENSURING A SOLID AND DEPENDABLE SUPPLY

Food imports are critical to the supply of food in adequate and affordable prices. At present, the Ministry of Industry and Trade imports around 99% of the wheat and barley[28] imported into Jordan.[29]

Procurement methodology relies on spot market rates. The average (over the past five years) annual total amounts purchased were 1.5 million tons: 800,000 tons of wheat and 700,000 tons of barley. Purchases are made monthly. The price during the first quarter of 2008, ranged between US $ 500-US$ 550 per ton for wheat and barley, have dropped recently to under US$ 300 per ton. Stocks are being built up, with the stated aim of reaching a level of about six months' demand. However, the storage capacity is not sufficient to meet this goal (0.5 million tones short).

The government has supported the Consumer Protection Society (CPS) in the past; however, the CPS is only one player and lacks competition to keep it efficient and effective. Furthermore, due to lack of capacity, the CPS has failed on many occasions to effectively advocate proper consumer practices and policies. A Consumer Protection Law is still in the drafting stage and may be subject to the backlash from the CPS since the latter does not see value in having a competitor to it in consumer protection.

Government efforts lack coordination among stakeholder ministries, which is extremely important for creating a stable supply condition of necessary commodities at affordable prices. Initiatives by one ministry are many times countered by actions of other stakeholder ministries with an obvious tug of war among stakeholder ministries.

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27 Emmanuel Skoufias, Conditional Cash Transfer Programs: Experiences & Prospects. IADB, 2006.

[28] Other foods are imported entirely by the private sector.

[29] This paragraph is based on discussions with MoIT officials.

11. THE DRAFT CONSUMER PROTECTION LAW

The consumer protection law in any country fills a gap that is not necessarily filled by competition legislation. The former deals with other causes of concern to the policy maker in areas such as price gouging, fake or false information and products, and late delivery, cheating and expired products, while the latter is more concerned and focused upon abuse of monopoly power, collusive practices and market concentration. Therefore, under certain circumstances in the Competition Law and to a lesser extent the Companies Law can deal with some of the reported commercial malpractices; however, there is ample room for improvement in consumer welfare through specific consumer protection legislation.

The current draft of the Consumer Protection Law is consistent with international practice. Among the important features is that it:

- Offers a recourse to consumers outside the MIT and the existing Consumer Protection Society
- Allows for the creation of more than one consumer protection society, which is advisable since a law need not create a monopoly
- Maintains consumer protection societies as voluntary organizations with no governmental or semi governmental status, although they may receive subsidies from government, fees from members and donations from inside and outside Jordan as long as such donations do not jeopardize the neutrality of the societies..

However, it is important to design a subsidy scheme for such societies that does not favor one organization over another except in terms of performance. Therefore, it is advisable to base subsidies on key performance indicators (KPIs), and assign an annual percentage of the budget of the MIT to such organizations since, in effect, they do assume part of the monitoring responsibilities of the ministry. This is an important feature that can be included in the design of a by-law or regulation in order to safeguard the neutrality of the consumer protection associations vis government bias. In this respect, only the best performing societies survive and become a lobbying tool for consumers.

12. ASSESSMENT OF CURRENT INTERVENTION MECHANISMS AND THE ROLE OF THE MINISTRY OF INDUSTRY AND TRADE

It is clear that while the MIT is viewed as the office responsible for stabilizing prices and availing adequate supplies of necessary commodities, it is not the only player within the government and therefore can not be held responsible under the present scheme.

For example, the Ministry of Agriculture has significant say in the import of agriculture items and sometimes does not see eye to eye with actions of the MIT. One pertinent case in point has been the obvious role of the Ministry of Agriculture in creating a natural monopoly for meat imports.

The kingdom is a net importer of all red meat types and livestock, as the domestic production only covers 23.8% of domestic consumption. The imports of meat in 2007 are shown in Table 22 below.

Table 22: Meat Imports in 2007

Type of Meat Import	Quantity
Live Sheep and Lamb for Domestic Slaughter	866501 live animals (17329 tons of meat)
Slaughtered Fresh Sheep and lambs (cool stored)	158,000 animals (3205 tons of meat)
Frozen lamb meat	10,060 tons
Live cows imported for slaughter	53,927 animals (10,785 tons of meat)
Calf meat cooled and frozen	15,863 tons

Source: Annual report of the Ministry of Agriculture 2007

The Ministry of Agriculture is the authority responsible for issuing import licenses for livestock and meat. The issuing of these licenses requires fulfilling certain criteria regarding the health of the imported animals, in order to protect the domestic livestock. The Ministry allows the ships carrying livestock to Jordan to stop only at specific ports of countries are also allowed to export meat. Hence, importers ship livestock directly from the country of origin to the port of Aqaba.

Shipping, according to the regulations of the Ministry of Agriculture is limited to financially capable firms with long established records, which has pushed less capable firms out of the market, and allowed for the Hijazi and Ghoshe Company to enjoy a natural monopoly status—the company became such an able low cost producer of the import service that no other firm can compete with it. Reasons for this status are: Hijazi and Ghoshe have a high adaptability to change to comply with Ministry's regulations due to the strong financial stand the company enjoys. Moreover, it owns ships in addition to livestock farms in Australia.

Furthermore, the import of livestock according to the Ministry's regulations requires the import of large quantities of livestock, e.g. a whole shipment, which raises concern among importers of not being able to market and distribute such a quantity or taking a longer time period to do so which then involves providing fodder and veterinarian care. Hijazi and Ghoshe, due to their dominant market position, have the ability to re-export livestock to other countries in the region (if regulations change or if the shipment is too large for Jordanian local demand) like Saudi Arabia, Kuwait, Libya and Egypt.

Unless there is greater coordination between the two ministries, and MIT is empowered to lead the process of importing meat, there will continue to be a natural monopoly in the meat market and pricing of such a commodity, will, consequently, not be efficient.

13. INTERNATIONAL BEST PRACTICES AND EXPERIENCE IN THE FIELD

In neighboring Syria, a semi-socialist economy that is currently moving toward becoming a social-market economy, a mechanism has been established to limit the margins that retailers place on products sold to consumers. However, this mechanism ignores the fact that costs vary from one location to another and can lead to black market practices whereby supplies disappear and only appear when the black market price, which is usually higher than the set price, is transacted. Syria subsidizes several products and has price controls on strategic commodities.

Egypt placed a ban on Egyptian rice exports when domestic and world prices started to rise. However, Jordan, not being an exporter of its needed commodities with few exceptions can only adopt such a policy with a very limited scope.

The Table below shows the Japanese policy toward supply shortages. Note that this is a two- step approach dealing first with temporary shortages and then moving into production when the situation becomes a long term phenomenon as stocks remain insufficient. The wisdom of this approach is that it avoids responding to short term events without permanent solutions that could adversely affect the economy.

Table 23: Degree of Emergency and Major Countermeasures, Japan

Degree of Emergency	Major countermeasures
At the time of temporary or short-term supply shortage, or when the domestic supply/demand situation becomes significantly tight for a considerable period (early stage)	• Monitoring price and supply/demand moves • Release stock piles • Secure imports
When released stock piles are not sufficient to meet the national requirements	**The next step is Production**: • Urgent production increase of rice, wheat and other products • Production conversion to products of high calorie efficiency • (Price and Distribution) Monitoring price and supply/demand moves • Legal actions under the two major Laws on National Life, Food Laws and other relevant legislation

Source: Ministry of Agriculture, Forestry and Fishing, Government of Japan http://www.maff.go.jp/hakusyo/kaigai/ezuhyou/5.htm

Table 24 summarizes the practices of five European countries in dealing with supply emergencies. Stockpiling is a major element in all these countries; some even require the business sector and homes to undertake stockpiling in addition to government. Sweden introduces rationing in the case of an emergency and Norway calls for the diversification of countries of imports at a time of emergency.

Table 24: Outline of Food Security Policies in Major Foreign Countries

Country	Underlying Laws	Target Food Supply	Outline of Food Security Policies
Germany Population: 8,2130,000 Grain self-sufficiency: 128%	Stable Food Supply Law (1965) Emergency Food Law (1990)	Intake basis: 2,400lcal/day/person (at peacetime: 3,500kcal/day/person)	• Implement national stockpiling (target volume: one month worth), encourage in-home stockpiling (two weeks worth) • As emergency measures, necessary regulations can be issued under laws and orders relating to production, shipment, supply and rationing of agricultural products. Enacted at present is a law to control food supply by distributing rationing cards (Food Control Order: 1979)
Switzerland Population: 7,300,000 Grain self-sufficiency: 65%	Article 31 of the Constitution, Federal Law concerning National Economic Commodities Supply (1982)	Intake basis: 2,300lcal/day/person (at peacetime: 3,300kcal/day/person)	• Implement mandatory stockpiling at business establishments (basically 6 months worth), encourage in-home stockpiling (two weeks worth) • The "Food Supply Plan" , a combination of domestic production, importing and stockpiling measures, is developed for emergencies (rationing, domestic production increase by product conversion and others)

Sweden Population: 8,880,000 Grain self-sufficiency: 129%	Article 13 of the Constitution and Diet Resolution	Intake basis: 2,900lcal/day/person (same as at peacetime)	• Implement national stockpiling (volume regarded as a military secret), encourage in-home stockpiling (national stockpiling system is planned to be abolished within 5 years after 1997) • Rationing, production and diet conversion from animal foods to vegetable foods at the time of emergency
Finland Population: 5,150,000 Grain self-sufficiency: 126%	Supply Security Law (1992)	Intake basis: 2,800lcal/day/person (same as at peacetime)	• Implement national stockpiling (one year worth of food grains, 6 months worth of feed grains), encourage home stockpiling
Norway Population: 4,420,000 Grain self-sufficiency: 66%	Grain Supply Law and others	Intake basis: 2,900lcal/day/person (same as at peacetime)	• Implement national stockpiling, encourage home stockpiling • Enlargement of agricultural land area, diversification of country of imports and others at the time of emergency

Source: Ministry of Agriculture, Forestry and Fishing, Government of Japan
http://www.maff.go.jp/hakusyo/kaigai/ezuhyou/5.htm

14. RECOMMENDATIONS

1) **Improve coordination among the stakeholder ministries to achieve food security** in Jordan (MIT, Ministry of Water and Agriculture, Ministry of Energy, Ministry of Transportation, Ministry of Social Work, Ministry of Finance, CBJ, Ministry of Planning, and the Ministry of Health); and the delegation of a champion from the ministries. **The most likely champion would be the MIT** for the following reasons:
   - MIT is the heir of the Ministry of Supply—it inherited the staff of the Ministry of Supply when the latter was phased out during the reform years in the 1990s
   - MIT combines data on trade, industry, investment and consumption
   - The Minister of Industry and Trade is the Chairman of the Board of JISM (the standards and quality assurance body), JE (the enterprise and productivity enhancement government organization), the Competition Directorate, the Supply Directorate and the counterpart and responsible government body for the execution of the Consumer Protection Law when agreed by the parliament
   - MIT is responsible for the enhancement of both production and consumption in Jordan.
   - MIT is the primary party in trade negotiations, trade policy and has direct contacts with NGOs and the public at large
2) **Expand MIT coordination with NGOs and donors** (through the Ministry of Planning and International Cooperation) regarding aid and supply emergencies. All approaches should employ synergistic measures and coordination across sectors and stakeholders.
3) **Expand storage capacity** in order to increase the supply of reserves.

4) **Employ methods other than spot purchases of commodities** (long term purchase contracts—futures, price hedging, insurance schemes, etc.). This requires that the Supply Directorate role be qualitatively enhanced and expanded.

5) **Diversify imports to avoid monopsonies** and bottlenecks caused by a limited number of suppliers.

6) **Enhance the capacity of the Competition Directorate and convert it into a supra commission** with competition regulatory powers across all sectors. This would save funds as sectoral commissions become obsolete or downsized, and enable better control and coordination of competition issues throughout the economy.

7) **Revise existing legislation** that helps create natural monopolies in certain sectors such as the meat sector.

8) **Adopt a comprehensive Consumer Protection Law** to grant consumers the power to litigate and contest price-gouging practices, and allow for the creation of several consumer protection bodies organized and operated by the private sector. This would entail revising the current draft to introduce proper implementation structures.

9) **Adopt a more transparent policy in pricing** to allow wholesalers, retailers, and consumers access to the data and price formulation methodology. Transparency and sharing reduces the cost of asymmetric information to the economy and enables proper planning and reduction of efficiency losses.

10) **Empower NGOs to conduct policy analysis and research** in order to encourage government to conduct policy impact assessments. Currently economic policy is conducted without impact assessments showing costs and benefits. In addition, there are no public sector think-tanks that can conduct such studies. There is a dire need for assessment of public policy and the private sector and NGOs should be encouraged to do so.

11) **Institute a coherent programmatic plan for crisis prevention, mitigation, social protection and emergency assistance**. This should be coupled with a longer-term, coordinated and multi-actor plan for building maximum resilience and self sufficiency in borderline and at-risk populations throughout the economy.

12) **Invest in developing a coherent program of crisis prevention, mitigation and preparedness for emergency assistance**. A number of valuable resources may be drawn upon for developing a consolidated approach to early warning systems (EWS) and food insecurity. See for example the Food and Agriculture Organization (FAO) handbook for defining and setting up a food insecurity information and early warning system (FSIEWS) and the FEWS Network (FEWS NET) set up by USAID. Measures should include:

    - Strengthening the capacity for establishing an early warning system for food crisis prevention and emergency preparedness; knowledge management and information system development including technical support to the planned interventions (by the National Crisis Center) of establishing computerized databases in ministries, as well as the municipal levels;
    - Instituting techniques and tools for developing a consensus on urgent, longer-term and contingency requirements for preparedness; mapping out of a plan for all food security and crisis mitigation interventions required against the back drop of initiatives already being undertaken throughout the country; systems development for making information broadly available to all stakeholders (Government, Donors, aid agencies, national and international NGOs, partner consumer protection societies, and the relevant private sector partners);
    - Enhancing upstream advocacy and policy building for a common, multi-sectoral, multi-stakeholder strategy that links protection, resilience and longer-term development.

13) **Institute "smart cards"**, if food aid is to continue, to enable beneficiaries to "purchase" their commodities through selected local grocery store chains, or coop partners. This will reduce transportation costs, maintain citizen dignity by receiving aid through local regular stores, and reduce queuing costs and time-waste.

14) **Revise the Social Safety Net** in order to properly accommodate food and energy supply shortages and encourage livelihood enhancement and diversification schemes with due focus on the underprivileged.

15) **Develop public-private partnerships promoting improvements** in agricultural research; linkages for enhanced technology transfer and broad adoption of improved practices, and encourage storage.

16) **Reduce customs duties, sales tax and other taxes on basic commodities.** Taxes that directly impact consumption should be revised. The revision should include a wide spectrum of goods and commodities that are primarily consumed by the poor and low income groups.

17) **Publish indicative and wholesale prices in the newspapers on weekly basis**. In this way the Government can help reduce market information asymmetry. These prices are simply indicative and non-binding on retailers. This way, consumers are made aware of the price differentials and become partners in monitoring the market.

18) **Allow imports of goods that suffer from domestic protection.** All goods that have enjoyed protection under current regulations should be allowed to compete with imports. Competition has the basic advantage of lowering the price or improving the quality.

19) **Expand alternative markets (co-ops and bazaars).** Expand the MOPIC initiative and continue the policy of availing goods at co-ops. Alternative markets allow options, increase competition, and transfer savings directly to the consumer. This action should be implemented in combination with other actions to avoid heightened pressure at co-ops. Bazaars are to be expanded and properly regulated in order to allow entry by the private sector and alleviate some of the pressure on co-ops. The savings from set up costs should translate into lower prices to consumers.

20) **Consider the creation of import-boards to help break import monopolies (monopsonies).** The Ministry of Industry and Trade (MIT) through JE has a significant experience in creating import and export boards; that is, encouraging a cluster of companies to export or import jointly in order to benefit from economies of scale. In this case, the MIT can help create import boards so that a group of importers can purchase large quantities of certain products and receive the relevant quantity discounts, which translate into savings to consumers in the form of lower prices.

21) **Improve the broader business environment** to enable easy market access and break any local or regional monopolies created through local advantages and encourage competition.

22) Institute a Supply Policy:

Example of a policy statement .for a Supply Policy

"The Government of Jordan has formulated a supply policy to achieve the following specific objectives:

- *Procuring essential commodities continuously and in sufficient quantities for all markets.*
- *Providing supply items at reasonable quantities and prices.*
- *Expanding consumer choices.*
- *Encouraging fair competition among suppliers.*
- *Establishment distribution chains and upgrading the level of commercial services in general.*

- *Promoting better understanding and cooperation between the commercial sector and government.*

Further, the supply policy is based on the following principles:

- *Reliance on the private enterprise system under normal conditions.*
- *Government intervention is only deemed necessary under abnormal conditions and when it is absolutely necessary.*
- *Price ceilings are fixed for a selected number of basic supply and food items in order to make these available to the majority of consumers and also to protect the consumers from volatile international market prices of commodities. At the same time, an appropriate subsidy scheme comes into force to compensate importers of supply commodities when the cost of importation exceeds local price ceilings.*
- *Fix profit margins in the trade of groups of essential commodities under emergency situations.*
- *Monitoring and regulation by government of import storage and warehousing operations carried out by the public and private sector with respect to basic commodities.*

Consumer Protection Objectives and Functions

Main objectives are:

- *Protect consumers from commercial fraud while keeping the average consumer and to keep him well-informed.*
- *Prevent the rise of monopolies and the abuse of monopoly power.*
- *Contribute to the stability of prices and living standards.*
- *Maintain better quality control in locally produced and imported foods and other consumer products by checking on specifications and standards adopted by JISM.*
- *Ensure the commercial application of standardization rules with respect to volumes, weight, and measures."*

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