



Mid-Term Review of the Social and Economic Transformation Programme (SETP)

Submitted To

**The Government of the Hashemite Kingdom of Jordan
Ministry of Planning and International Cooperation**

FINAL REPORT EXECUTIVE SUMMARY

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Submitted by

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EXECUTIVE SUMMARY

I. Background

The Jordanian economy has undergone a major structural transformation in the past 15 years matched by few developing countries. A number of difficult stabilization and structural reform measures adopted during the 1990s with the support of the IMF and the World Bank helped stabilize the economy and resume growth. Real annual average GDP growth increased sharply to over 3% during this period of stabilization but there were marked volatility in real growth rates and the Real GDP index in 2001 was still only 83.2% of the 1987 level. Moreover, the absolute number of poor actually increased by about 40,000 in spite of substantial reductions in the inequality of per capita consumption expenditures as measured by the Gini coefficient from 0.4 to 0.36 (World Bank, CAS 2002). This slow pace of poverty reduction was a key factor prompting the Government to strengthen its efforts at regionally focused social development through a major new policy and institutional reform initiative called the Social and Economic Transformation Program (SETP).

SETP has two principal objectives: 1) to improve the quality of life of the people, particularly the poorer segments of the society, and 2) to encourage increased private investment, domestic and international, to create greater employment opportunities for the Jordanians. These objectives are to be achieved through a three-pronged program of: 1) measures to improve institutional and regulatory framework to enhance the climate for private investment, 2) implementing a significant program of policy and legislative changes aimed at improving the functioning of the economy and of the various public and private sector agencies responsible for the delivery of public services, and 3) a public investment program totalling JD 579.3 million over three years in human resource development, basic government services, rural development and poverty alleviation, and institutional and structural reforms. SETP covered virtually every key economic and social sector – education, training, youth, culture, health, water, infrastructure, information and communications technology (ICT), tourism, agriculture, environment, social welfare and civil defence. Judicial reforms were a key part of the institutional and structural reform agenda.

The bulk (93%) of the funding for the program was financed largely from bilateral donors as grants and a small amount of approximately 7% (JD40 million) from the privatization proceeds. The United States was the largest contributor, accounting for almost 58% of the program funding.

In view of the innovative nature of SETP, MOPIC commissioned in early-2005 an independent “third party” Consortium of experienced international and national consultants to conduct a mid-term assessment of this mega Program. MOPIC was specifically interested in drawing lessons that could be used for a mid-term re-orientation and for any follow-up interventions. The Consortium started its work in March 2005 and submitted this final report on August 25, 2005.

II. Evaluation Approach and Methodology

This Mid-Term Evaluation Report has been prepared by the consortium of two international and one domestic firm¹. The evaluation was carried out by a team of experienced international and national experts with extensive training and experience in all SETP sectors. All of the international consultants had significant experience of evaluation work with the World Bank and other international organizations. The national experts contributed by the local Consortium partner functioned as team members with each of the expatriate consultant and added considerable supporting expertise in carrying out field surveys, data analyses, and project and sector reviews.

The evaluation was based on a review of extensive background documentation, discussions with government officials, donors, private sector, and NGOs. For the evaluation of the investment component of SETP, a sample of representative projects representing 53.4% of the total SETP costs was selected for in-depth evaluation through site visits and formal beneficiary surveys or focus group discussions. Cumulatively, all these sources of information provided a substantial basis for the assessments by the experts of each of the three SETP components. The experts worked closely with MOPIC staff in order to also provide training to them in conducting similar evaluations in the future for this or other programs. Towards the end of the study period, two days of formal training workshops attended by relevant MOPIC staff were held to ensure technical knowledge transfer.

The evaluation of the investment component of the Program followed the standard evaluation methodology used by the World Bank and other international organizations. Each project in the sample was evaluated against 5 different criteria designed to assess whether it was of high priority, implemented efficiently, likely to meet its objectives, can be operated efficiently upon completion, and have a long-term impact on the development of the sector. These ratings from the project level were aggregated to arrive at a judgment about the program as a whole. In addition to the project evaluations, this exercise also performed an independent performance evaluation of the sectors addressed by SETP. These evaluations took in to account development activities that took place in the sectors during the period under review, irrespective of the fact whether they were funded by SETP sources or from without.

It is important to point out that this evaluation was not a financial audit of the program. The TOR for this evaluation did not call for the analysis of the appropriateness of the financial management of the funds expended on various project activities under SETP. This review also did not look into the detailed process through which the projects were selected. The information collected through interviews with the officials of MOPIC and sector ministries indicates that MOPIC essentially assigned priorities to the projects using a prioritization model based on the information provided by the sector ministries. Our preliminary analysis of the prioritization model* revealed that it is built upon very flexible and subjective parameters. (**Please refer to the Grant Thornton Report -SETP Management Process Assessment for the Government of Jordan – July 2004*)

¹ **Consortium members:** The Evaluation Partnership Limited (TEP), International Development Partners and Associates (IDPA), MMIS Management Consultants (MMIS)

III. SETP Evaluation Results

Each of the three components of SETP was evaluated separately, while keeping in mind the inter-relationships among all three. The results for each follow.

Component 1: Private Sector Development

Private sector development objective of SETP included increasing domestic and foreign private investment in industry and to increase exports. There were three major initiatives undertaken for this purpose. First, a number of measures were taken to improve the environment for business by removing regulatory impediments to starting businesses and streamlining of some of the regulations. These measures resulted in Jordan being ranked among the top countries in the region for doing business. Second, the privatization program was pursued systematically under an appropriate legal framework to provide, in addition to significant revenue for the Government, a clear signal about increasing role of private sector in the economy and limiting the Government to only those areas that cannot be undertaken by the private sector. Third, SETP invested some JD 20 million in the ASEZA, which has rapidly become an important investment destination in the country.

The results of these initiatives have been highly successful as judged by the following achievements:

- Significant FDI flows reaching \$330 million in 2003 and \$440 million in 2004. Portfolio flows also registered a significant increase
- Significant new business entries averaging about 5,000 per annum with annual investments increasing to JD 120 million in 2002 and 2003 to JD 273 million in 2004.
- A healthy growth in exports, particularly in the textile sector from QIZs, creating some 45,000 new jobs.
- Registration of 350 companies in Aqaba with over \$1 billion of investment contracted.
- Privatization of 64 enterprises (including 52 companies in which shares were held by the Jordan Investment Corporation) has been completed yielding around US\$ 1,270 million. The privatized companies are estimated to have created 12,000 new jobs.

Component 2: Policy and Legislative Framework

The government of Jordan has been consistently pursuing a structural reform agenda involving legislative, policy and regulatory reforms for more than a decade. This reform program received a new impetus in 1999 when His Majesty King Abdallah II launched new initiatives to enhance the lives of Jordanian people through establishing an enabling economic environment conducive to the growth of the private sector. This Mid-Term review focuses on some key legislative reforms in key sectors that are directly linked with the overall objectives of SETP. A total of 67 new or amended laws were issued as temporary laws under a Royal Decree. Additionally, a total of 135 regulations were issued with a Royal decree. A summary of key legal and regulatory reforms undertaken and their expected impact within each of the affected sectors are:

- Amendment of the Investment Promotion Law facilitated investments in all sectors bringing in JD 418 million in 2004 of which JD96 million came from foreign investors.

- Modification of the military and civil Pensions Law and related regulations are expected to yield substantial budgetary savings and decrease unemployment.
- Laws relating to Financial Securities and Jordan Investment Corporation have yielded major incentives for privatization and broader private sector participation in various economic sectors.
- The government was able to control current expenditures and increase revenues through the process of integrating both the Income Tax and Sales Tax Directorates.
- The current expenditure relative to total expenditure was reduced to (79.4%) which is the lowest in several years. 91.9% of the current expenditures were covered through the national revenue.
- Under the investment encouragement law, the government exempted 1440 additional articles from customs duties. Custom duties were decreased on certain other items imported for commercial use.
- The process of decentralizing the government decision making was speeded up enacting needed legislation.
- Legislation was amended to ensure independence of regulatory bodies.
- Civil Service law was amended to provide flexibility in rewarding competent employees based on their performance.
- The Central Electricity Generating Company is in the process of being privatized. It has received a JD100 million loan to boost its capital.
- A key part of the legislative and policy change required at the sector level has been the linking of higher education to labour market needs.
- Improvements in regulations for organising the Jordanian labour market were addressed through legal reform, with the approval of a new organising law.
- A unified health insurance card bearing the individual's photograph has been introduced to minimise the illegal use of services. All health insurance directorates have been computerised to link up their accounting and record keeping to better track its expenditures and revenues.
- The e-Transactions law – this law sets the rules and provides legislative authorization for electronic transactions and technology-related and authorizes the equivalence of technical tools with paper work and manual transactions.

Component 3: Public Investment

A total of JD 579.3 million had been allocated under the SETP to 181 major projects in 21 sectors and sub-sectors by the end of FY2004. During the formulation of the Program, the Government decided that SETP investments should be geographically dispersed and provide coverage of all governorates.

The largest funding allocation under the program (29.3%) was provided to the Rural Development and Poverty Alleviation sector. Education comprising, General Education, Higher Education and Vocational and Technical Education received about 23%, Infrastructure sector received 21.4% of the total SETP allocations. This allocation indicates the funds were allocated broadly in line with the SETP's overall objectives. This allocation also indicates the overall importance given to poverty alleviation and human development under the program. Water is the most important sector in the Basic Government Services Component in a country whose land area is mainly desert and this is reflected in the SETP allocation. Finally the ICT sector allocation (3.9%) demonstrates the Government's recognition of the overarching importance of this area in enabling Jordan to compete in a globalized economy.

In terms of regional distribution, the governorates on the average received JD108 per capita, with the governorates of Aqaba, Tafila, Balqa, and Karak, receiving significantly higher per capita amounts; The middle region comprising the governorates of Amman, Zarqa, Balqa and Madaba received a total of approximately 39% of the total investments while the southern governorates of Karak, Ma'an, Tafila and Aqaba received the second highest or about 22% of the total funds spent under SETP, reflecting their weaker socio-economic situation. About JD143.2 million was allocated for nationwide programs that benefited the entire country. These included investments in health, water and education sectors whose benefits were divided quite evenly across all governorates.

Our approach to the evaluation centred on our best judgements of the quality of these investments. These judgements were based upon our review of documentation, interviews with key stakeholders, surveys and questionnaires, and focus group discussion groups. These findings were distilled and faced off against the five basic evaluation criteria described below. For the purpose of aggregating and identifying certain common patterns of outcome within the three main components of the program, we have classified all sampled projects within the 16 main sectors and sub-sectors.

Our evaluation of the quality of the investments against the 5 basic evaluation criteria indicated the following:

- In terms of '**Relevance**' (i.e., development priority of the investment), virtually all sectors are rated as being satisfactory to highly satisfactory, rated at **3.1**. This indicates that by and large most investments funded from SETP have been of high priority and supportive of the overall objectives. Indeed, 94% of all SETP investments in 15 of the 16 sectors/sub sectors are in this range. This provides reassurance that SETP investments were useful and not for unnecessary or low-priority projects.
- In terms of '**Effectiveness**' (i.e., prospect for an investment to meet its stated objectives), 8 sectors have ratings in the satisfactory range, rated at **2.6**. These represent some of the critical sectors/sub-sectors such as higher education vocational and technical training, youth care, water resources, ICT, civil defence, rural development and poverty alleviation, and social development. This means that some of the most important sectors are expected to fulfil their development objectives. On the other hand, seven sectors / sub-sectors are rated below average. These include some important sectors such as general education, health, infrastructure, governorate development, agriculture, municipalities, and judicial reforms. The reasons for the lower ratings were generally because of weaknesses in implementation.
- In terms of '**Efficiency**' (i.e., prospect of project completion within reasonable cost and time constraints), 7 sectors are rated in the satisfactory to highly satisfactory range. Among the major sectors where ratings are marginally satisfactory or unsatisfactory include the eight sectors that also rate low. The main reason for low ratings in these sectors are related to poor implementation, lack of capacity (municipalities), excessive designs and adoption of higher cost options (health), and benefit leakages to non-targeted groups (FIS).
- In general, implementation of projects and the associated policy reforms have proceeded slower than planned. Based on discussions with some of the donors, slow implementation seems to be a more general problem in Jordan and the SETP project experience may simply reflect this general situation. But it seems that some SETP projects were approved at an early stage without adequate project preparation, including

designs and implementation arrangements. GOJ needs to pay special attention in the future to expediting implementation. The overall average for efficiency is **2.2**

- The ratings for '**Sustainability**' are in the acceptable range for general education, higher education, youth, water resources, infrastructure, civil defence, municipalities, agriculture and judicial reforms. They are on the low side for vocational training, health, ICT and rural development and poverty alleviation. In most of these cases, low ratings reflected the evaluators' views about the uncertainty of availability of additional funds in the future for operations and maintenance of the assets built under SETP in the tight budget environment facing Jordan. The FIS program, where costs appear to be escalating, is of serious concern in terms of sustainability. For the overall SETP, weighted average sustainability is in the satisfactory range since a number of large investments such as in infrastructure and water have more secure sources of O&M budgets. The overall average sustainability rating is **2.6**.
- The ratings for '**Impact**' should be used cautiously since these incorporate judgements on longer-term actions that are often difficult to predict. Impact ratings are low for health (because of potential problems with future staffing; marginal role of new investments in the sector), agriculture (because of potential movement out of agriculture; transformation of agricultural lands) and municipalities (the difficult challenge of strengthening local government). Overall for the SETP program, the rating however is fully satisfactory. The overall average impact rating is **2.9**

In terms of overall assessments by each sector, it is heartening to note that general education, higher education, vocational training, youth care, water, ICT, civil defence, agriculture and judicial reforms are all rated above average. These are critical sectors for Jordan's future development and also represent a significant part of the sampled SETP public investment projects (about 54%). In this sense, SETP has made a reasonably sound contribution. The main areas of concern are the investments in, health, infrastructure, municipalities, and environment, which reflect about (12%) of total sampled SETP public investment projects (245.599 JD Million), where the overall sector ratings tend to be on the lower side. The remainder (34%) is in the rural development and poverty alleviation, where the rating is in the moderate category. The key challenge in this sector is to improve the performance of FIS, while building on the good performance of EPP.

Overall, the SETP investment program is rated as "Satisfactory" at **2.7**. The SETP investments were generally earmarked for high priority projects that were important from the perspective of SETP objectives and/or to further the objectives in the particular sector. In simple terms, this means that the funds allocated represent money well-spent provided, as noted below, concerns about implementation are addressed.

IV. Overall Assessment and Future Recommendations

The overall conclusions of this evaluation are that the Government's efforts to improve the policy and institutional framework and to mobilize and invest additional resources through the SETP address some of the important priorities of the country. Continued effective program implementation, supported by the measures indicated for each of the sectors, has the potential to improve the quality and quantity of basic services available to the poor; generate additional employment through market relevant training programs; improve the quality and access to higher education to bring Jordanian youth up to the standards of excellence; assist the poor in establishing small businesses; and more generally, encourage the private sector through improved business environment and regulations. These would be important accomplishments.

The challenge is to focus much more squarely on accelerating implementation of the projects and reform initiatives already started under SETP.

While commending the overall success of the program, the investment component of SETP also raises some concerns that should be addressed by the Government in any mid-term corrective actions and its future efforts. These include: concerns about inadequate attention to establishing inter-sectoral priorities and focusing the investments only in the most critical areas that had the highest potential pay-back; diffusion of SETP objectives; and the need to strengthen project monitoring and reporting, particularly in the sector ministries.

The approach of launching a major investment program outside chapter one budget also needs to be re-considered, although we appreciate that in 2001, this may well have been necessary to attract additional donor funds. Jordan is likely to continue to face severe budget constraints for some time. It maybe useful to consider developing a medium-term budget framework (MTBF) that provides some room for new investments each year, and donors should be asked to consider providing annual budget support towards a well-formulated MTBF.

In the short-term, MOPIC may wish to consider mid-term re-allocation of resources within sectors based on the results of this review, moving funds away from lower performing or lower priority projects towards the better performing projects/sectors.