Privatization: The Jordanian Success Story

Background
1. The World Bank Group has been assisting Jordanian privatization since 1995 in collaboration with other development partners. The World Bank Group actively assisted Jordanian government in crafting a privatization strategy and designing an institutional framework for implementing the program.

2. The Jordanian state-owned enterprises were concentrated mainly in the infrastructure sectors (transport, electricity, water, and telecommunications). Furthermore, through the Jordanian Investment Corporation (JIC), the state-owned investment agency, the Government had substantial share-ownership in mining and cement companies listed on the stock-market, and minority share-holdings in a number of small and medium-sized companies across several sectors, including various financial institutions.

3. The Government’s privatization program aimed at raising enterprise efficiency. Sale of shares to reputable strategic investors would improve the operational performance of the PEs that suffered from administrative interventions, limited autonomy, inadequate investment capital, and poorly designed incentive structures. Other objectives of the divestitures was to develop the securities market through public share offerings by increasing investment and diversification opportunities to both institutional and retail investors, and to consolidate public finances by reducing subsidies and fiscal drain, and by increasing the tax base.

4. The privatization program was supported by Institutional Development Fund (IDF) grant in the order of $488,000. The program was also supported by the Second Economic Reform and Development Loan (ERDL-II), a single-tranche structural adjustment operation that was presented at the Board in December 1996 in the order of $120 million. Subsequently the privatization program was supported by ERDL-III, presented at the Board in June 1999 in the order of $120 million.

Capacity Building
5. Implementation of the privatization program in a transparent manner was a key objective of the Government. The Cabinet appointed an inter-ministerial committee, headed by the Prime Minister, to steer the overall privatization plan. The Cabinet also approved establishing an Executive Privatization Unit (EPU) in the office of the Prime Minister to provide implementation assistance for privatization activities.

6. The IDF grant has supported the building of institutional capacity at the EPU to implement the program. The main responsibilities of the EPU include: (a) coordination of the preparation of the divestiture transactions; (b) management of the teams of technical experts and short-term external advisors; (c) management of the marketing efforts of enterprises being divested; (d) negotiations with various groups of stakeholders;
(e) execution of transactions; and (f) dissemination of information regarding the progress of the program.

7. The IDF and the Government financed the hiring of qualified local and foreign experts to implement transactions and the training of professional staff at the EPU: (i) a core group of experienced privatization professionals to help the Unit develop its work program, lay out its staffing needs, and identify suitably individuals for longer term appointments, and provide on-the-job training; (ii) other short-term international experts on specialized privatization-related topics; and (iii) local consultants with strong financial, accounting, legal and database management skills to assist with specific transactions and tasks on an ad-hoc basis.

8. For the larger and more complex privatization transactions and for preparation of the regulatory framework, such as the privatization of the Jordan Telecommunications Corporation (JTC), technical assistance was financed through a $15 million Trust Fund from USAID and direct donor support.

Outcomes

![Privatization Transactions](image)

- 9. Out of the 40 companies originally targeted for privatization, 34 have been privatized. More importantly, six of the eight major transactions have actually been completed: JTC, Jordan Cement Factories (JCF), Public Transportation Corporation (PTC), Water Authority of Jordan (WAJ), the Ma’in Spa, and the Aqaba Railway Corporation (ARC). In addition, 28 of the Government’s smaller holdings in the portfolio of JIC have been divested. Of the two remaining major transactions, Royal Jordanian Airlines is well underway and expected to be completed this year, while restructuring of the power sector is moving along, with the introduction of an independent power producer (IPP) expected in 2000 also.

Execution

10. This is a significant achievement in a country, where public opinion until recently was resoundingly against privatization, where there is a strong tradition of dependency on Government employment especially among white collar professionals, and where labor also has a relatively strong voice.

11. The Government’s privatization strategy had a multi-track approach with appropriate modes for each situation: capital sales e.g., IPO, divestiture etc.; sales to
strategic investors; concession agreements; management contracts; franchising; and other modes including BOT, BOO, and BTO schemes

12. As mentioned, an organizational structure was created to set policies, provide oversight and implement Jordan’s privatization program. Key elements of this organizational structure included the Higher Committee for Privatization (HCP), the EPU and the Privatization Steering Committees.

13. In spite of the strategy and the institutional arrangements having been put in place, progress in privatization was slow and only began in earnest after August 1998. The main issues slowing down the program in Jordan, included the question of the absorptive capacity of the Jordanian financial market, public preferences on strategic or foreign ownership, public perceptions of the impact of privatization on labor and consumer prices. Before privatization could proceed, these issues needed to be addressed and consensus built.

14. During this difficult period EPU played a crucial role in moving the privatization agenda forward. The persistence and steadfastness of the leadership of the Unit and JIC (see adjacent Box) paid off and the first breakthrough came when some of the impeding issues such as foreign control and valuation of assets were innovatively addressed in designing the JCF transaction and the deal was completed in December 1998. The success of this transaction helped to bolster institutional confidence and the Ma’in Spa transaction was completed quickly thereafter. At about the same time the PTC concessions were signed and WAJ transaction soon followed. One of the country’s largest transactions, JTC, also began to move and was soon in bidding and negotiations. The sale of a 40 percent strategic share for US$508 million was completed in January 2000.

The Lessons

15. A closer look at how Jordan managed to activate a stagnant privatization program and achieve so much in so short a time, holds important lessons for governments as well as privatization practitioners.

16. **Get Support at the Highest Level:** First and foremost, a major underlying and significant contributing factor to these successes was the emerging and unequivocal support at the highest level. This was an essential element without which the privatization program would not have moved in Jordan. This support also allowed some of the more
difficult issues such as labor, valuation, and the “Crown Jewels” issue, to be resolved more easily.

17. **A First Transaction is crucial**: A first major transaction needed to be completed successfully, in order to get the program going. In Jordan’s case this helped to allay many of the apprehensions regarding privatization, provided institutional confidence to pursue other transactions, and demonstrated the benefits of privatization.

18. **Balance Transparency and Effectiveness**: However, in order to complete the first major transaction, it was necessary to resolve one crucial implementation issue that underlies most privatization programs - where to strike the balance between transparency and effectiveness: (i) in setting up the institutional structure for privatization; (ii) in setting up the decision making process; and last but not least (iii) in the design and structure of individual transactions.

- **Institutional Structure**: The main question here was where to locate the responsibility and authority for privatization. Locating the privatization responsibility at each sector ministry would have increased effectiveness (provided there was the will to privatize at the sector ministry) for individual transactions, but reduced it on an overall basis as benefits of experience would not easily be shared. It also could reduce transparency. Transferring the responsibility for a PE privatization entirely to the EPU could also increase effectiveness, but would meet stiff resistance and may reduce transparency. In Jordan, the responsibility was shared between the EPU and the sector ministries, with the EPU providing technical resources and support to the process (thus bringing the benefit of accumulated experience in for example bidding and negotiations) as well as performing an oversight function. This provided just the right balance of effectiveness and transparency needed for the Jordan circumstance.

- **Decision Making Process**: A salient feature of Jordan’s privatization approach has been that it has striven to achieve its objectives through consensus and thus with a high priority on transparency.¹ The consensus approach had both a cost and a benefit. The cost was that progress has often appeared to be slow with large committees and several approval levels. However, the benefit was that, when progress occurred, it was more sustainable and on a more solid foundation with support from most of the major constituencies in the country.

- **Transaction Design and Structure**: Here too effectiveness needed to be balanced with transparency. In trying to ensure that the process is transparent, the program sometimes encountered delays and waste. The selection of financial advisors and other consultants might not always have been optimal, and often process undermined speed, for example when ready buyers had to be put on hold until transactions could

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¹ Transparency generally includes two aspects: ensuring competition in bidding and pricing to get the best deal for the country and the avoidance of side deals.
be advertised. However, the initial investment in transparency paid off in allowing the later stages of transactions to be completed smoothly.

19. **Leadership of the Privatization Unit is Key**: The leadership of the EPU has been a key catalyst contributing to the success of the program. The ability of the Unit to access and influence top decision-makers was crucial in garnering support at the top. Sometimes the Unit was the flag bearer for privatization, especially when progress for one reason or another slowed. At other times, it helped ensure transparency – especially when sector organizations were moving ahead rapidly with privatization on their own. However, the EPU never attempted to dominate the process or be unilateral in its actions, but relied on consensus to mobilize support and resources. These leadership skills have helped the Unit, which started as a protected department within the Prime Ministry, to grow and build within itself the needed technical competencies to support the privatization process better and with progressively less external help.

20. **Ensure Commitment in Sector Institutions**: This institutional approach of sharing responsibility for the sake of transparency required the support and commitment of the sector to ensure effectiveness. This included not just sector ministries, but also the civil service and enterprise management. In every case, wherever and whenever there was not support or interest at the sector level privatization inevitably stalled, and conversely when the sector had commitment the privatization process moved forward rapidly.

21. **Let Privatization expedite the Regulatory Framework**: Regulatory issues needed to be resolved for privatization to be effective. The issue of a regulatory strategy in the context of privatization was a difficult one. Trying to achieve a perfect regulatory environment before starting to privatize, had the risk of sector specialists protracting this process to avoid privatization. On the other hand, not having an adequate regulatory framework in place before privatization might not provide adequate protection of consumer (and investor) interest. Jordan chose to proceed in parallel with privatization and setting up of the required regulatory framework. This strategy forced the sectors to keep up with the privatization pace in putting the regulatory framework together.

22. **Find Solutions for the Employee Issue**: Finally, Jordan had to solve major labor redundancy issues or privatization would not have been achievable. The approach taken in Jordan was interesting and needs to be explored for other countries. The Government tailored its solutions to the labor issue on a case by case basis, but with some common underlying threads. Firstly, the Government set up general rules preserving the rights of employees in all privatized enterprises and institutions. Secondly, in some cases, transition packages including generous compensation (with share ownership in some cases), training and placement assistance helped the workers with the transition. But in most cases, particularly in the more difficult rural areas, where alternative employment opportunities are limited or where skill levels of workers were limited, Jordan decided to privatize first and solve the redundancy problem later. For example in the case of ARC and PTC, none of the employees were to be laid off, but were absorbed at other Government organizations. The redundancy problem would be resolved after the privatization transaction was completed. The implicit logic seemed to be that if the labor
issue prevented privatization, the Government would need to continue to employ these people anyway, so why not at least privatize. That way, at least the expected privatization-led investment and growth could occur in the sector and help to alleviate the employment burden down the road.

The Benefits

23. The Government of Jordan was in a situation, in which many of its PEs were making losses and future development of the economy was hampered by lack of funds for necessary infrastructure development. Cumulative losses in the transport and water sectors alone were by end-1998 more than 20 percent of GDP. The privatization program is now helping to clean up financial balance sheets of PEs and make government assets liquid, is mobilizing foreign and domestic private investment – both directly in the privatized companies as well as related spin-offs, is creating new jobs, and is benefiting consumers in terms of better services.

24. **Privatization proceeds** so far have reached more than $850 million or 11 percent of GDP. Of course, making assets liquid does not in itself change the net worth of the government, and as such, should not affect public expenditure decisions directly. According to the new Privatization Law, privatization proceeds are invested in a separate fund to be used to repay loans owed by the privatized firms to the government and finance economic and social development projects.

25. Privatization is yielding additional direct fiscal benefits for the Government. In the case of ARC, the Government was immediately relieved of some $6.9 million of losses that it had to provide fiscal support for. These losses, in the unlikely event that they continue under private management, would now be the responsibility of the private operator. Similarly, in the case of PTC, the Government will no longer have to make up the $2.1 million of annual losses. In addition, the $0.8 million in annual franchise fees from the new operators will now flow directly to the Government’s budget. Net profit of JCF has increased by 50 percent in the first year alone, contributing an additional estimated $3.5 million in tax revenues. Finally, privatization proceeds have strengthened the (at one point fragile) international reserves position of the Central Bank. Reserves are now at an all time high of $2.6 billion, or 8 months of imports. This has contributed to a significant reduction in interest rates, which may stimulate growth.

26. **Investments** directly related to privatization, both current and prospects for the next four years, are very promising. A second mobile phone company is now being established and is expected to invest $113 million during the next three years, of which $50 million this year alone. JTC itself would invest $27 million in its fixed network, billing system, and data communication network. Another example is privatization in the tourism sector, which has led to a $27 million renovation and expansion in one hotel alone, and $5 million of investments are scheduled for the Ma’in Spa complex.

27. The ARC project will result in overall investments of $120 million in railway tracks to the new Shidiya phosphate mine and to Aqaba port. Even more significant, the
ARC management contract and new tracks is expected to pave the way for a separate $600 million fertilizer production and export project led by Norsk Hydro. The private operators of the four bus route franchises have collectively invested about $12 million in new buses. In the power sector, the IPP is expected to invest a total of $300 million.

28. The WAJ transaction enabled Jordan to obtain a $55 million World Bank investment loan. Furthermore, a new water treatment plant costing $150 million will be funded 50 percent by the private sector on a BOT basis and the rest through donor grants. Also in the water sector, the 320km conveyor of fossil water from Disi to Amman, at a cost of $700 million would be financed on a BOT basis.

29. These privatization related investments, totaling more than $2.1 billion, averaging 7 percent of GDP per year during the next four, become important factors for the revival for the Jordanian economy.

30. Jobs are being created due to the new private sector investments and opportunities. Although it is still early to assess the impact of the privatization program on employment, preliminary evidence indicates that already more than 6000 jobs have been created on a net basis relative to a labor force of about 1 million. As indicated above, according to the strategy, nobody have lost their job involuntarily, but the program may have generated pockets of hidden unemployment. The employees of the old enterprises have either been retained in the new privatized organizations or transferred or absorbed in other agencies either into vacant positions or merely retained pending outplacement opportunities. Nevertheless, the experience clearly shows that opening up sectors such as telecommunication to private sector competition can produce new jobs quickly.

31. Consumer benefits are being reaped from the privatization program. The wait for a telephone line has been reduced from years to weeks, and phone rates, though still high according to international standard, have been reduced significantly. The PTC transaction has yielded immediate results. With private investment buses are more frequent and rider-ship has increased dramatically from 60,000 to 100,000, while the fares have remained the same. On a more qualitative level, the buses are new, clean inside and less polluting. This has been a boon to the average working person whose commute has been significantly reduced, in some cases from two hours each way every day to under half an hour, and has enabled them to seek employment opportunities in locations which were previously difficult to reach except by car or taxi.

32. City water is a very scarce commodity in Jordan delivered once or twice a week. Leakage and illegal connections left
55 percent of water usage unaccounted for. Broken meters and “private arrangements” resulted in inequitable access and cost sharing. Many households were forced to buy water from truck suppliers at much higher prices. The initial benefits of the new management contract for water distribution in Greater Amman are listed in Box 2 below. Water is now flowing again on a more regular basis. Street flooding from water mains, a common sight in Amman before, is now rarely seen.


Conclusion

35. Privatization of major infrastructure PEs is complicated, requires broad-based consensus, and takes time to do transparently. Transactions cannot be micro-managed from outside, nor can strict deadlines be set in advance. The IDF grant and technical assistance provided by the Bank and donors has been instrumental to getting the

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**Box 2: Greater Amman Water Management Contract (LEMA) The First Six Months.**

- Outstanding Leaks reduced from 350 to 130 (benchmark: 20)
- 31,917 leaks repaired to date
- 68% of leaks repaired in less than 24 hours
- Leakage Inspectors - covering an average 75% of the area supplied with water daily - have reported 4530 leaks as of end of February 2000
- 30,804 water meters realigned and rewired or renewed
- Tender evaluation completed for purchasing 15,000 new meters
- Meter reader hand PC tenders evaluated
- Central Complaints & Control Center for all of Amman established and functioning
- Rationing program provides equality of supply
- Tanker management reduces losses from 15% to 1%
- Planned maintenance on pumps reduces breakdowns by 80%
- Planned sewer cleaning introduced, 40km cleaned as of end of February, starts to reduce blockages especially during floods
- Response to complaints for sewerage problems in less than 12 hours
- $1.7 million extra-unexpected revenue from sewage invoiced, $1 million collected
- Illegal storm water connection schedule, 1,450 visited houses, 254 illegal connections of which 74 disconnected
- More than 50 computers have been added to LEMA network to improve communications
- Water Maintenance Management systems (GIS) software re-written
- 219,644 billing database subscribers coded into the GIS so that billing data can be used geographically to manage business
- Collection rate third cycle 96.3%; fourth cycle 89.4%. The rate of collection for January 2000 increases more than 18% compared with this of October 1999 (with 4 working days less)
- More than 8500 disconnection completed with a new internal caps precluding easy illegal use. 4800 reconnections
- 4900 new water connections installed
- A media campaign is carried out on the complaint room unique phone number (for leaking report)
- A computerized accounting system has been purchased, customized and implemented and currently producing monthly reports
- Payments procedures implemented
- Account (profit and loss and cash flow statements) established per cost centers
- First LEMA bonus to employed paid
- Manpower reduced: out of 1350 staff that was transferred to LEMA, 200 were returned (LEMA has the right to return to WAJ up to 50%)
- More than 6564 training hours for 576 staff
Jordanian privatization program started and underway. But the honors go to the Government and people of Jordan for steadfastly dealing with the overwhelmingly complex issues one by one and making the program a grand success. The EPU is a major anchor and driving force behind this success. Now funded through the Government budget, the sustainability of the four year old program is further secured by the expertise and enthusiasm harnessed in the Unit.