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EMPLOYMENT ISSUES IN PRIVATIZATION: CASE STUDY OF JORDAN

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- Issued as submitted.

- The views expressed in this paper are those of the author and do not necessarily reflect those of the Economic and Social Commission for Western Asia.

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Abbreviations

AFM Amman Financial Market
DEF Development and Employment Fund
EPU Executive Privatization Unit
ESCWA Economic and Social Commission for Western Asia
EU European Union
GCC Gulf Co-operation Council
HMCP Higher Ministerial Committee for Privatization
IDB Industrial Development Bank
ILO International Labor Organization
IMF International Monetary Fund
JD Jordan dinar
JIC Jordan Investment Company
JTC Jordan Telecommunications Company
NEPCO National Electric Power Company
PE Public Enterprise
PETRA Private Enterprise and Technical Resources Assistance project
PTA Public Transport Authority
PTC Public Transport Corporation
RJ Royal Jordanian airlines
TCC Telecommunications Corporation
USAID United Sates Agency for International Development
WTO World Trade Organization

Chapter One: Introduction

The process of transforming Jordan into a market economy started in earnest in 1989 with the Jordanian government's Letter of Intent to the International Monetary Fund (IMF). The emergency conditions created as a result of the Gulf conflict which began in 1991 interrupted the reform process, but it resumed in the following year. Based on a new commitment to the IMF and on other international factors including the need to conform to "conditionalities" and other terms -- formal or otherwise -- of the World Bank, the European Union (EU), the United States, etc, economic change and structural adjustment in various sectors have gained momentum. This has been particularly true of reforms which would facilitate or at least permit privatization to take place (1). At the same time, calls for change from within the country's business and civil sectors have grown.

These developments have occurred parallel to important developments in the regional and global economies, e.g. peace with Israel and an imminent Partnership agreement between Jordan and the EU, as well as the not distant prospect of accession to the World Trade Organization (WTO). With the trend towards globalization, a new pattern of international economic relations for Jordan is being created, and the Jordanian private sector is encouraged to play an increasingly important role in this transformation.

Privatization is now presented as a significant component of this process of economic change in Jordan. The government has established a mechanism, including an Executive Privatization Unit (EPU), to oversee the privatization process, though a detailed program is not necessarily in place and a privatization law does not exist. In some sectors, the government has gone ahead with a certain amount of divestiture (e.g. in tourism), announced details of doing so (telecommunications) introduced a legal framework to facilitate privatization (electricity), practiced privatization by accretion (education) and/or formulated plans for the implementation of privatization initiatives (urban transport). Other government plans however are still in the preparatory stages and have not gone much beyond declarations of intent (air transport). On the whole, the pace of privatization -- though now accelerating -- has not been fast.

Jordan's structural reform in general and privatization in particular will obviously not be carried out overnight. On the other hand, postponement of change cannot take place indefinitely, and "the implementation of a privatization policy has been under review in Jordan since the mid-1980s." (2) The importance of the fear of exacerbating unemployment in Jordan is seen as crucial to this whole process. Unemployment has plagued Jordan since the early 1990s. The macro-economic causes of this have been important (e.g. weak local demand and an insufficiently strong export sector), but unemployment is also partly due to structural problems in the labor market, including the unwillingness of many Jordanians to take up certain kinds of manual labor. (A result of this has been the employment of a large number of foreigners, draining hard currency reserves and causing other problems.) The overall labor market situation has also not been helped by the country's vocational training system.

At the same time, regional and foreign investors have not generally looked upon Jordan as a lucrative base for their activities. Low foreign direct investment has in turn

(2) ESCWA, Survey of Economic and Social Developments in the ESCWA Region, 1995, Part Two: Privatization in the ESCWA Region, p. 21

(3) The case of the rise in Poland's unemployment in the short-term is covered in, for example, Kandah, A. (1996) "Privatization in Poland, 1985-1995: Its Origins, Development and Initial Impact," PhD Thesis, University of Glasgow. Proof that the Polish lesson has not been lost on Jordanian decision-makers is perhaps illustrated by Dr Kandah's now occupying a key post in the kingdom's EPU.

Chapter Two: Privatization and Related Reform in the Jordanian Economy

A distinctive feature of the economic situation in Jordan has been the predominant role of the public sector. From the founding of the state in the 1920s, the government has dominated wide aspects of economic life. Interventionism was the hallmark of state economic strategy as successive governments became involved directly in the production and distribution of goods and services.

Despite a liberal official policy, government involvement in the Jordanian economy has been and remains substantial. Whereas key firms such as the national airline are totally owned by the state, many other operations have a significant government share and their management is more or less public sector-controlled or dominated.

However, when Jordan's financial situation reached crisis proportions in 1988, necessitating an emergency austerity program and prompting the country to resort to the IMF, more serious steps towards change emerged. Nine years later, various sectors in the Jordanian economy are being subjected to programs of reform, including privatization, and considerable efforts are being made to alter the country's traditional system.

Reform of the Jordanian economy began with macroeconomic stabilization measures to ensure, essentially through appropriately tight fiscal and monetary policies, that decisive progress is made toward low inflation, together with external and budgetary balances. This continues with partially successful results. Reform also includes liberalization measures which will free the economy, decentralize decision making, and allow individuals to assume responsibility for their economic actions. Along with such liberalization, institutional reform is being introduced in which privatization, enterprise restructuring and the development of the private sector aim to help a competitive market economy to function effectively and achieve sustainable growth. Such liberalization and institutional reform are also proceeding with a measure of success, and Jordan's progress towards reform has been steady. Policy changes show a general leaning towards market solutions, and the formulation of these continues at varying paces.

An important target of structural adjustment is the inefficiency of the public sector. The present economic scope of the Jordanian public sector goes far beyond what is needed to correct imperfections or remove bottlenecks. However, the experience of the last few years seems to point in the opposite direction, and a heightened interest in privatization now exists.

As the government reassesses the role of the state in economic life, privatization is seen as an important step towards reducing economic imbalances. The private sector is to play an increasingly important part in the planned economic transformation of Jordan, and privatization is presented as a major component of the process. The government has established a mechanism to oversee the privatization process, the Executive Privatization Unit (EPU). Established in July 1996 in accordance with Council of Ministers resolution No. 1173 to formulate and follow up on the privatization program in Jordan, a chairman for this unit was appointed in November of the same year. During the last twelve months, the EPU has hired core staff including a managing director, two transaction managers, a public relations officer, as well as technical, administrative and other support personnel (1). The EPU is supervised by the Higher Ministerial Committee for Privatization (HMCP), an inter-ministerial body headed by the prime minister, which is the approval authority for privatization policy, objectives and program.

The major responsibility of the EPU is to implement privatization in accordance with government policy and objectives, including the sale of public enterprises (PEs). This requires the EPU to undertake a wide range of activities including selection of PEs to be privatized; preparatory work to assess the current situation of and various options for each selected PE; identification of an appropriate method of privatization/private sector participation for each transaction; invitation for offers from international/local private investors for privatization of PEs; development of pre-qualification and evaluation criteria; and award and sale closure. All these activities require the HMCP's prior approval and close supervision to secure consensus and coordination among concerned ministries. In addition to tasks directly related to the transaction process, the EPU is also responsible for ensuring the development of an appropriate regulatory framework in selected sectors undergoing privatization; safeguarding the rights and interests of employees of the PEs being privatized; and developing public awareness of and commitment to government policies and programs on the privatization of PEs through the use of mass media.

In November 1995, prior to the formation of the EPU, the government initiated an assessment of options to involve local and international private investors in various sectors, particularly in infrastructure. Based on the findings of this study, the government in early 1996 launched a privatization program. The first candidates included public telecommunication, railway, and bus companies, as well as divestiture in of some of the shareholdings of the state in tourism and industrial firms.

Though the government's intentions are not doubted, two years later the only actual sales to the private sector have been made as a result of divestiture. This has largely happened through disposal of some of the holdings of the Jordan Investment Company (JIC). As a blanket measure, the HMCP has approved JIC's plan for the sale of shares in companies where state shareholding is less than five percent of total equity. A committee has been formed within JIC to sell these shares through the Amman Financial Market (AFM), and a representative of the EPU sits on this committee. JIC had this year alone sold minority holdings of five percent or less in eighteen publicly-listed companies either though the stock exchange and/or directly to investors.

Jordan's stock sell-off plan may speed up as the JIC is expected to accelerate divesting its portfolio in 1998. The IMF and the World Bank have been pushing Jordan to divest state holdings to the private sector, a key component of a privatization drive and IMF-directed structural reforms. JIC and the state pension fund alone own nearly 40% of Amman Financial Market's total capitalization of over $4.7 billion. Some investors have aimed criticism at JIC for slow sell-offs in a diversified range of over sixty listed companies. Either by direct contacts or advertising JIC clearly wants a good price for its shares, but is also searching for the right type of investor in certain industries.

JIC began divestiture of state assets under the privatization process with the sale in 1995-6 of an 87.8% share in the Jordan Hotels and Tourism Company, owner of the capital's Inter.Continental Hotel. The sale, made in two tranches well over a year apart, was worth JD28.3, by far the largest divestiture so far under privatization, and one which changed the role of the private sector in the company from a minority shareholder to a full owner. Other divestitures in 1995-6 included the sale of a 33.8% share in a private hotel firm, a deal worth JD7.9 million, and the disposal of a 27.4% stake in a manufacturing facility. However, both those deals involved companies which had been previously controlled by private business anyway. (See Table 1)

Divestitures in 1997 have so far only totaled about Jordan dinars (JD)1.2 million (JD1 = approximately $1.41), with the largest individual sale at around JD0.4 million (See Table 2). Thus, divestiture has in fact slowed down, and JIC, with World Bank advice and the expertise of the EPU is seeking more innovative ways to target specific foreign investors to achieve faster results. The latest offerings to foreign and local investors is up to 51% of the state's share in the Irbid Electricity Company and a 70% stake in a large hotel mainly used for transit passengers at Amman's international airport. JIC is also committed to the divestiture of a 33% stake in Jordan Cement Factories by end-1997.

Table 1: JIC Divestitures, 1995-6

Company	Percentage of shares of company sold	Sale value (JD million)
Jordan Hotels and Tourism	87.8	28.3
Jordan Holiday	33.8	7.9
Jordan Paper and Cardboard Industries	27.4	1.0

Source: JIC

Table 2: Individual JIC divestitures of over JD0.1 million each, 1997

Company	Percentage of shares of company sold	Sale value (JD million)
Arab Pharmaceutical Manufacturing	1.2	0.4
Jordan National Bank	0.3	0.3
Jerusalem Insurance	4.7	0.2

Source: ibid

While divestiture may in some cases by the most appropriate form of privatization, it is being supplemented by other methods. One approach to the problem is "incremental" privatization. Instead of privatizing existing public enterprises, some of the goals of privatization may be achieved by a policy of encouragement of the private sector in a particular field. If the private sector is persistently dominant at the margin in a certain area, it is bound to become dominant on the average. The higher education sector in Jordan is just such an example. Private universities began to be allowed in the 1990s and now compete in number and size with their state-owned sisters. The country's university education is no longer a public sector monopoly, as it was from the 1960s when the first Jordanian university was established to the late 1980s when permission was finally given for private institutions to be set up.

Yet another method -- "corporatization" -- has been used in other sectors. In telecommunications, firm plans for privatization have been officially adopted. The government has formally approved the recommendations by the HMCP to sell forty percent of Jordan Telecommunications Company (JTC) shares to a strategic partner, to be selected in accordance with international tender regulations and criteria. (The original decision made in 1996 was to sell a 26 % stake in JTC to such a partner, to be followed by a public offering.) The JTC is the successor of the Telecommunications Corporation (TCC), a state-owned monopoly, and was registered as a commercial entity in October 1996 as a first step towards privatization. The rest of the shares will be offered to the public. The JTC has several options under study for further disposal of shares, including placing for subscription on the AFM, selling part to employees, and offering shares on the international capital market.

In yet other areas, the state has introduced a legal framework to facilitate privatization (e.g. electricity) but has not yet actually moved to privatize. The former Jordan Electricity Authority became the National Electric Power Company (NEPCO) in September 1996. NEPCO in turn is to be split into three (or more) separate companies: one for generation, another for distribution, and a third for power transmission. The first two companies will be privatized, while the third (power transmission) will be owned by the government.

The cases of telecommunications and electricity are ones where a transition period of a few years between corporatization and the sale of stock may allow the enhancement of efficiency of firms before being fully privatized.

The privatization of transport is proceeding more cautiously and at different paces depending on the actual entity or service involved. In the case of the national airline Royal Jordanian (RJ), no firm calendar has been set for particular moves to be made towards privatization. Formulas now being envisaged include a mix of incremental privatization, divestiture and corporatization. For bus transport in the Greater Amman area, on the other hand, steps towards the privatization of the state Public Transport Company (PTC) are being taken. The government decided in October 1996 to privatize PTC and establish a separate, regulatory Public Transport Authority (PTA). The process involves first separating regulatory functions from PTC, establishing and independent regulatory authority for the overall sector, and then the franchising by PTA of PTC bus operations in the Greater Amman area to private operators. The government is preparing the required legislation, franchise documents and route restructuring, and the HMCP has approved finalizing the privatization of the PTA by 31 March 1999 (2).

Launching a credible privatization program is a powerful way to signal to the world Jordan's commitment to economic reform. The peace process -- for all its problems -- is stirring investor interest in the region. It is important for Jordan to get a head-start on the other countries in the Middle East, to set itself apart as an attractive place to do business. However, the pace of privatization -- though now accelerating -- has not been fast. On the other hand, while many economic activities are still in government hands, the issue of privatization is now a live one at many levels: in cabinet and parliamentary debates (3), in the media (4), among business groups, and in civil society. Within this context, the question of unemployment and job security for workers in privatized entities is starting to come to the fore. The next chapter will look at the issue of unemployment in Jordan, and the chapter following will examine the question of the impact of privatization on unemployment.

Notes

(1) Executive Privatization Unit newsletter *Privatization News*, vol 1, no 2, September 1997, p. 3

(2) ibid, vol 1, no 3, November 1997, p. 4

(3) The Jordanian legislature has not been as interested in the issue as lawmaking bodies in other countries in the region. See for example Badran W and Wahby A (eds) *Privatization in Egypt: The Debate in the People's Assembly*, Cairo, 1996, especially Chapter Eight "The Debate Over the Social Problems of Privatization in the People's Assembly", pp 329-62. Admittedly, privatization in Egypt has gone further than in Jordan, but the kingdom's parliament has not paid special attention to the issue.

(4) For example such articles in the mass circulation Arabic daily newspapers as *Al-'Arab Al-Yawm* (19 August 1997 p. 17) or *Al Ra'i* (12 November 1997 p.15) which stress the impact of privatization on workers' employment and livelihood.

Chapter Three: The Jordanian Labor Market and Unemployment

Throughout the ESCWA region, the end of the oil boom in the 1980s resulted in reduced rates of industrial growth and a deterioration of the employment situation. "High rates of growth in the labor force have also contributed to increasing unemployment and underemployment," according to the ILO report *World Employment 1996/97*. However, the report adds that, of the countries in the region most recently studied, "employment growth was strong only in Jordan." (1)

Nevertheless, despite being somewhat better off in this respect than other economies in the region, Jordanian unemployment rates remain a problem. Though enjoying an average annual growth rate in real GDP in the last five years of around six percent, Jordan's economy needs a minimum yearly expansion of seven to eight percent to be able to absorb fully the expected number of new entrants into the labor force and secure lower unemployment rates. Meanwhile, Jordan remains characterized by a high rate of population growth of roughly three percent and by a substantial increase in the number of new entrants to the labor market. This increase has been beyond the economic capacity of the country to absorb fully. This situation has been further exacerbated by government policies to curtail expenditure, reduce budget deficits, and contract public sector employment.

Unable to generate a sufficient number of jobs for new entrants to the labor markets and also claw back unemployment, Jordan, upon the advice of the IMF, is implementing a Structural Adjustment Program. Such adjustment, including privatization, will, if the experience of other economies is anything to go by, have implications for unemployment. None other than the present minister of finance recently affirmed this in a recent public lecture. After lauding the country's economic restructuring program, he admitted that it had left a negative impact on the unemployment situation, with the current rate standing at fourteen percent. He however added that the original unemployment problem was due to the policies of previous governments which allowed non-Jordanians to take jobs that could have been filled by Jordanians. (2) No matter how significant this last point is, there nevertheless seems to be a consensus in Jordan that unemployment has been plaguing the country since the early 1990s.

A major problem in looking at this issue however is the lack of precise figures for the size of the labor force as well as the number of jobless Jordanians. The latest figures for the size of the country's indigenous labor force date back to 1993, with numbers for 1994-6 less sure. Whatever the actual unemployment rates may have been or are, the clear fact is that the number of unemployed Jordanians began to soar during the 1990-91 Gulf crisis, with returnees from Kuwait and other Gulf Co-operation Council (GCC) states swelling Jordan's population and labor force. (Returnees are estimated at 300,000.) The unemployment rate may have been as high as eighteen percent in the crisis year of 1991; with recovery during 1992, the rate may have fallen to fourteen percent. However, the then minister of labor was reluctant to be drawn on the subject, and on occasion even declined to state an unemployment rate in public. (3) However, many jobless Jordanians do not register with the government, and some experts even believed that the actual unemployment rate peaked in 1991 at above thirty percent, falling to twenty percent in 1992. (4)

The problem has not gone away five years on, though its intensity may have diminished somewhat. Jordanian government estimates show an unemployment rate for 1996 of around twelve percent, and figures for 1997 may be slightly higher. However, this rate is lower than in 1995. (5) Nevertheless, the simple fact is that the country's true unemployment rate is not known accurately, and the published figures are not necessarily reliable. (6)

The presence in the country of illegal foreign workers is an important issue, and it has certainly exacerbated the issue of unemployment among the local labor force. These foreigners are mainly from Egypt, (7) but many of them also come from other Arab countries, as well as from South Asian states. They take low-paid jobs spurned by educated Jordanian citizens

At the same time, opportunities for employment elsewhere in the region -- where hundreds of thousands of Jordanians worked till 1990-91 -- have, in general, become more scarce. Job opportunities for Jordanians in GCC countries increased following the improvement in political relations between Jordan and the latter over the past year or two, but the situation is still far from the positive one which prevailed from 1974 to 1990. The net result has been the employment of a large number of foreigners, draining hard currency reserves and causing other problems, and a smaller number of Jordanians than in the 1970s or 80s working outside the country and remitting precious foreign exchange.

In an effort to create more employment opportunities for Jordanians, the government enacted a law in 1996 prohibiting non-Jordanians from employment in fifteen different professions and businesses in the country. However, the application of such a measure has proven problematic.

The latest crackdown by the authorities came this summer when the Ministry of Labor affirmed its intention of implementing all provisions of laws and regulations governing the Jordanian labor force as of 10 August 1997. The ministry's measures were supposedly aimed at easing unemployment in the country. However, shortly before that deadline, Ministry sources estimated that out of 230,000 Egyptians, working in Jordan (close to half the foreign labor force in the kingdom), only 95,000 have corrected any irregularities in their documentation. The Egyptian Minister of Labor and Immigration differed, stating that 125,000 Egyptian workers in Jordan had regularized their status in accordance with an agreement on exchange of labor concluded between Jordan and Egypt. Whichever figure was true, at least 100,000 Egyptian workers are in the kingdom illegally, and the number of illegal laborers from all other nationalities may not be much lower. This is substantial compared to the government's published figures for the Jordanian labor force of 994,000. (8)

For various reasons, the Jordanian government would like to avoid having to order foreigners to leave the country and is continually seeking help from the Egyptian embassy in Amman to urge Egyptian nationals to abide by Jordan's labor regulations. Egyptian workers were given a three-month extension, beginning in March 1997, to conform to the new ministry regulations emanating from the 1996 law. This period was subsequently extended an additional three weeks and then one month, ending 9 August 1997. However, there have been no mass expulsions of Egyptian workers from Jordan since that date or at other times.

There are several factors behind the phenomenon of a strong presence of foreign workers in Jordan alongside serious unemployment among local workers. Chief among the reasons for this have been the unrealistic expectations of the nationals entering the labor force; the availability of low-paid expatriate workers; government policies to restrain public sector employment expansion; and the current mismatch between many of the qualifications held by job seekers and the types of job opportunities that are available in the country. Nevertheless, replacing foreign workers with Jordanian nationals is now considered a goal of many in the state, including the Ministry of Labor. Progress towards this end, however, remains limited and confined mainly to the public sector. In the private sector, this process has so far involved few jobs. The success of this process will to a great extent depend on enabling the indigenous population to acquire the type of technical skills as well as cultural attitudes that meet the requirements of the labor market in the coming years. The policy of obliging the private sector to employ nationals will affect the overall economic performance of firms adversely and is not sustainable.

Meanwhile, while unemployment remains a serious problem, attempts by the Jordanian state and society to cushion it are not remarkably successful. Programs of a passive provision of a safety net to ease the consequences of unemployment (including for example relief payments), and an active stimulation of employment or re-employment opportunities (including for example self-employment loans and grants) are limited, ineffective, or both. The Jordanian safety net is still an informal and weak one provided by a family or clan (and in some cases by private voluntary organizations), with state social security not including unemployment benefits. The types of programs involving active labor market policy have not been particularly effective, and examples showing their limitations are given in Part Five below.

In this rather discouraging context, retrenchment of the Jordanian labor force in light of privatization is increasingly seen as an important issue. The negative effects of privatization on employment among Jordanian citizens are increasingly feared as structural adjustment gathers momentum while the Jordanian and other regional economies slump. Many of the shorter-term effects of privatization on employment in other countries have been negative, particularly in the ex-COMECON states. With other social and political problems to deal with, the exacerbation of unemployment is one of the major issues that Jordan is trying to avoid, as evidenced by the policies of successive governments. However, in many cases the longer-term impact of privatization appears to be positive in many developed, transitional, and developing economies.

In the case of Jordan, what will be the actual impact of privatization taking both the short- and long-runs? The following chapter will discuss the impact of privatization on Jordanian unemployment. In particular, the few examples of Jordanian privatization and divestiture coupled with deregulation that have occurred recently will be analyzed to gauge the impact of such change on unemployment.

Notes

1. Quoted in the press release for the ILO report on *World Employment 1996/97*, p 14

2. Lecture by Jordanian Minster of Finance Suleiman al-Hafez to the Amman Rotary Club, 18 November 1997

3. Reuters news agency interview with the then Minister of Labor Abdelkarim Kabariti, 19 July 1992. Mr Kabariti's reticence on this issue could not have hurt him: four years later he was prime minister.

4. ibid

5. Jordan, Ministry of Labor, Annual Report, 1996, Table 2, p. 19

6. According to many people, including for example the influential Chairman of the Finance Committee of the Jordanian Senate, speaking privately to the author in July 1995.

7. For a recent analysis and description of the question of Egyptian workers in Jordan, see Dan Tschirgi, "The Social, Political and Economic Effects of Egyptian Migrant Labor to Jordan, Palestine and Israel," (El Bireh: Palestinian Center for Regional Studies, forthcoming 1998).

8. Jordan, Ministry of Labor, Annual Report, 1996, Table 2, p. 19

Chapter Four: Privatization and Unemployment

Though the privatization process is moving ahead in Jordan, the actual cases of entities whose ownership has been transferred to from the public sector to private ownership has been limited. In any case, in order to gain an insight into the Jordanian privatization process and its possible impact on the problem of unemployment, this chapter will look at two actual cases of organizations in the process of privatization and one that has undergone a divestiture by the government of a majority of shares.

A fear of short-term unemployment as a result of restructuring in public enterprises to be privatized may create difficulties. This is particularly true in Jordan where 1. the absorptive capacity of the labor market is low due to already high levels of unemployment, 2. the public sector was and remains the leading provider of wage employment, 3. employment for school and university graduates is a sensitive issue, and 4. overstaffing in public enterprises has served as a substitute for true social safety nets. Privatization-induced redundancies are thus feared at both at the national and the sectoral level; it may be difficult to gain popular acceptance for privatization in these circumstances.

In order to deal with the issue of employees of privatized enterprises, the HMCP has formed a special committee headed by the Director General of the General Budget Office. The purpose of the special committee, which includes a the member of the EPU, is to study the financial impact of privatization on employees of privatized companies and on the state budget. The committee held its first meeting in July 1997 to draw up regulations to deal consistently with employees in institutions which will be privatized. The proposals call for offering early retirement to employees of firms being privatized, with this being financed by a special fund from privatization revenues. After deducting the cost of selling the privatized entities, the net profit from the sale could be deposited in the fund, and the revenues would no longer be considered part of the general budget to be used by the government. The fund's management would be entrusted to an independent body that would set future policies and strategies for investment. Part of the fund's revenues could also be used to help alleviate social problems, such as unemployment and poverty; that could be done through financing small projects, and investing sectors such as higher and technical education. The special committee's proposals received the approval of the HMCP in October. (1)

The head of the EPU said the committee has worked out a special criterion to help assure job security for qualified staff members or reasonable compensation for others who are most likely to lose their jobs. Under some agreements, private investors were asked for a commitment to retain staff for specific periods of time or to compensate them, he said, adding that the government is keen on providing job opportunities for some workers and holding training courses for preparing others to easily find other jobs. (2)

NEPCO: The staff of NEPCO was particularly mentioned in that commitee's report. A sizable operation by Jordanian standards, NEPCO had 2286 employees at the end of 1996, an increase of 1.2% on 1995. (3) However, this rate of growth of staff has been lower than in previous years (3.1% in 1994 and 5.8% in 1995); and since the corporatization of NEPCO on 1 September 1996, very few new employees have been taken on. (4) According to senior NEPCO management, this was a deliberate move by the newly corporatized entity to rationalize operations as a step towards privatization. Instead of about 100 new jobs in 1995 and 60 in 1994, only 25 were created in 1996; and the figure for 1997 may even be lower, according to senior NEPCO management. When privatization comes, there will likely be a shrinkage of staff for the first year or two; but an exact date for the sale of NEPCO has not yet been set. Senior members of NEPCO management were reluctant to say more on this issue. Meanwhile, it is clear that the mere move towards privatization has narrowed job opportunities in this firm.

However, corporatization and eventual privatization and possible labor retrenchment in Jordan's electricity sector will not take place in a vacuum. The electricity rates currently charged will be reviewed to gradually phase out all form of subsidies. The new rates will presumably enable potential investors to cover costs of operation and make sound profits. This in turn may allow NEPCO workers to enjoy better wages and conditions.

PTC: The disposal of the to-be privatized PTC's personnel is a more urgent matter in view of the setting of a deadline for a shift to the private sector. An international consultant working with the Jordanian Ministry of Transport has recommended (5) that the private operators who are awarded franchises for routes to replace the PTC's present ones should be obliged to accept the employment of two-thirds of the PTC's drivers and two-thirds of its technicians. The remainder of the drivers and mechanics will find other jobs or be otherwise compensated. Some administrative, regulatory and support personnel will be recruited by the new PTA. The remainder will be re-allocated to other government departments in the longer term. The disposal of surplus staff should comply with the new bye-law and policies and procedures to be established by the EPU. There should be co-operation between EPU, Ministry of Transport and PTC to plan and mange these surplus staff members. According to the Director General of PTC the majority of the surplus drivers and technicians would be able to find jobs in the transport sector fairly quickly. The remaining administrative, support and infield workers would be more difficult to place. Therefore it is essential that the management and EPU have a strategy in place prior to privatization to manage this issue properly.

It has also been recommended that a temporary Residual Management Unit will be responsible the administration of the assets, liabilities and personnel not being transferred to private operators, PTA or other government organizations. Among the primary functions of this unit are to plan and manage surplus staff.

In any case, the PTC has already commenced a program of actively reducing staff, (by not replacing them) including drivers and technicians. This will cut the total number of employees still active upon privatization and meanwhile hopefully reduce operating cost.

Table 3: PTC personnel at year end, 1995-8

Year	Number of PTC employees
1995	800
1996	620
1997 (projected)	590
1998 (projected)	545

Source: PTC

Of those the PTC employs, around seventeen percent are non-operational staff, "much in excess of current requirements" (6).

Jordan Hotels and Tourism Company: This is the only case so far in Jordan of a major divestiture by the government leading to the transfer of a company's management from the public to the private sector. However, the transfer of the public sector's shares to a private business group in 1995-6 was not simply a straightforward passage from state to private business control. The Jordan Hotels and Tourism Company was already corporatized and its shares listed in the AFM. Furthermore, as owner of the Jordan Inter.Continental Hotel, the company was already working with one of the world's leading private sector hotel management firms to help run the actual business on a day to day basis. As such, Jordan Hotels and Tourism was already performing much like a private sector firm and making profits.

However, perhaps the most important background factor in this case of divestiture was the tourism book that took place in Jordan from the signing of the peace treaty with Israel in October 1994. This meant that the 1994-96 period was a good one for the hotel, allowing it to implement expansion plans. This expansion in turn has caused the direct and indirect employment of hundreds more workers for a period of up to two years. Meanwhile, the hotel's employment of staff has jumped in the past four years (see Table 4). However, to attribute this purely to the shift to private sector ownership is unfair, just as it would be wrong to extrapolate from this example and expect an expansion in employment in other sectors of the Jordanian economy after privatization.

Table 4: Jordan Inter.Continental Hotel personnel at year-end, 1994-7

Year	Employees
1994	280
1995	300
1996	340
1997 (November)	450

Source: Jordan Inter.Continental Hotel management

Conclusion: The above three examples are not enough to arrive at any firm conclusion regarding the impact of privatization on unemployment in Jordan. However, they may provide hints that the picture is likely to be more complicated than a simple equation of privatization with rising unemployment. The case of

Jordan Hotels and Tourism, though not an ordinary one, is an example of how major divestiture poses no threat to employment. The example of PTC seems to show how turning over a business operation to the private sector will cause some unemployment, but the presumed benefits to the operation itself and the economy are both undoubted. Given the fairly small scale of the expected unemployment, these benefits seem to outweigh the costs. The case of NEPCO is perhaps most worrying, with a fairly large operation in a key sector needing to be looked at more carefully to balance the needs of a potential private sector owner with the concerns of employees who may lose their jobs. The suspicion in this case is that the state could be doing more to think through the details and consequences of privatizing NEPCO.

In any case, counterweights to unemployment are available. Public works have also played a major role to reduce unemployment in developing countries. However, under present circumstances, this is unlikely to happen in Jordan. The Jordanian social safety net is also not in place as it should be. This leaves the encouragement and support of small business as a possible option, which will be looked at in the next chapter.

Notes

1. Details of the proposed regulations were leaked to the local press and published in the Arabic daily newspaper *Al-'Arab Al-Yawm* (19 August 1997 p. 17). Shortly after, details were also published of a recent study by the IMF on pension systems in Jordan. This found that state pensions were a heavy financial burden on the country's budget and cautioned against linking the restructuring of retirement regulations with the restructuring of the civil service and the quick drive towards privatization.

2. *Al Ra'i*, 12 November 1997 p. 15

3. NEPCO 1996 Annual Report (Arabic version), p. 14.

4. According to senior NEPCO management speaking to the author, October 1997

5. Chai Ting, S "Financial Report for the Privatization of the Public Transport Corporation of Jordan," December 1996

6. According to another international consultant who worked on this issue with the Jordanian Ministry of Transport; see Shepherd, A "The Position of the PTC," December 1996.

Chapter Five: Counterweights to Unemployment

To balance the impact of possibly negative effects of privatization on employment in Jordan, institutions need to be supported to facilitate the transformation process and contribute to sustainable growth. This will include organizations involved in micro and small enterprise development, the desired goal being that such activities will ease the short-term impact of privatization on employment and foster entrepreneurship. How the individual workers affected will cope with forced retrenchment on account of privatization in Jordan in the short-run may thus partly depend for example on the success of self-employment or working with families through the setting up of small businesses. The promotion of entrepreneurship and the support of such firms could be an important element in the strategy to counter expected unemployment in some large organizations undergoing privatization.

The small-scale business sector is important in Jordan. For example, the overwhelming majority of Jordan's industrial entities employ less than twenty persons each. These firms have a total workforce of about half of the industrial sector. Industrial entities which employ four workers or less include approximately three out of ten of the overall number of workers in the industrial sectors. The figures for agriculture and services are similar.

Micro and small enterprises in Jordan have been supported by various schemes aiming to encourage employment and entrepreneurship. An early example was the Private Enterprise and Technical Resources Assistance (PETRA) project, designed by the office of the United States Agency for International Development (USAID) in Jordan with funding of ten million dollars originally meant to cover the years 1986-1994. PETRA was particularly keen to target Jordanian businesses which are small or medium sized in order to promote entrepreneurship and employment.

However, the project had problems almost from the beginning. USAID and the country's Ministry of Planning (MOP) agreed that decision-making authority on funding would rest with a high-level committee overwhelmingly dominated by the Jordanian public sector. The committee took decisions by simple majority vote. A PETRA office was established to receive and review applications which it screened and passed on for final approval or rejection by the committee.

The mentality of the committee from an early stage in the project's life strayed from the original rationale of lending on the merit of an idea, the quality of the entrepreneur, and the assessment of its chance to succeed in the market. By 1988, it was felt that the composition and nature of the committee had to be re-assessed. USAID and the PETRA office felt that more private sector participation on the committee was needed, "as some of the public sector members were not directly in touch with private sector needs and priorities." (1) Committee members were often subject to pressures to approve projects submitted by friends. PETRA office staff sometimes received different viewpoints and signals from the committee chairman and members, and from Jordanian government officials.

USAID then concluded that such an endeavor was better handled by existing banks and other specialized financial institutions. While the PETRA committee itself continued reviewing requests from charitable or voluntary societies or novel projects such as venture capital funds or sectoral associations, it was thought that most applications from industrial, service or agricultural projects could be channeled to the existing mechanisms of the three specialized credit institutions represented on the committee, including the Industrial Development Bank (IDB). PETRA provided each of the three institutions an initial trial sum of $250,000 for lending to applicants. The principal purpose of this partial devolution of lending authority was to promote changes in the manner in which these and other Jordanian financial institutions make business loans in order to encourage entrepreneurs who may not necessarily have been classically "creditworthy." However, the lending institutions were unwilling to recognize this as a responsible way of doing business, and PETRA began to founder.

A project analyst and economist who was part of the PETRA office team summed up the situation by saying that "MOP did not want others to give to the private sector; MOP wanted to allocate the cash by itself instead." (2) Thus, USAID actually gave the rest of the PETRA money to MOP. A "state" NGO got around $850,000 after that, another having already received $380,000. On this note, the PETRA mechanism was finally abandoned, having had a minimal impact on job-creation and entrepreneurship in the country.

Unlike PETRA, the Development and Employment Fund (DEF) project, established in 1989 by resolution of the Jordanian government as a specialized development agency with administrative and financial autonomy, is still operating. It receives foreign aid, with a mandate to enable poor or unemployed individuals, families and groups to perform productive work, thus contributing to employment creation. DEF loans are only given to Jordanians who pledge to employ Jordanians.

Initially DEF was housed in the IDB. This bank has some degree of autonomy and credibility. IDB shares are quoted on the Jordanian stock exchange and the bank is more or less run along business lines. The Private Sector Development Department of the World Bank is on record as saying that "the IDB is one of the few local organizations that appears to be able to implement social development programs based on business practices." (3) Nevertheless, in 1992, DEF became legally and institutionally autonomous from IDB. The fund then came under a board of directors chaired by the Jordanian prime minister, with the minister of planning as deputy chairperson, and a majority of government ministers as members.

The PETRA experience began to be repeated. On the one hand, the Jordanian director general of the fund noted in 1994 that the "DEF of 1992 is no match with its situation now, both on the quality of staffing; system development; credibility domestically and abroad. We do believe that the necessary and sufficient changes that have taken place so far are conducive in making DEF a sustainable institution which will reach its objectives." (4) However, a World Bank report made in 1996 noted that DEF's performance was "dismal" and that the fund was lacking "systems for accrediting intermediaries and for basic follow up and supervision." The same report continued: "DEF's inability to provide basic loan portfolio data is a telling sign. A recent draft evaluation of DEF's performance by the EU has similar conclusions [...] The EU many initiate a thorough restructuring of DEF [...but] given the depth of the restructuring needed, it is doubtful whether [it...] would be successful." The World Bank noted that among the basic conditions for successful restructuring would be to "change the composition and role of the board." (5)

Serious problems with the functioning of the project to date have been exacerbated by the umbrella "state" NGOs. With DEF funding, these operate their own credit schemes, either directly to clients or through local organizations, but are constrained by being primarily government-influenced charitable organizations which are some way off -- both conceptually and practically -- from ensuring a sustainable operation. DEF appears to be unable to monitor and supervise the performance of its intermediaries. Its inability (as well as that of its intermediaries) to provide basic data on the performance of the sub-loan portfolio is not in keeping with that of a financial institution.

DEF lacks a grasp of macro-economic policies related to employment creation and related issues. Performance cannot be measured because there is no system of impact evaluation and assessment on beneficiaries. The existing monitoring system is based upon recovery of loans and not on business performance or cash flow analysis. (The European report referred to above nevertheless injected a sanguine note and hoped that the EU evaluation "will constitute something of a turning point in the fortunes" (6) of the fund.)

PETRA and DEF illustrate the difficulties which these and other projects have had and continue to have in providing an effective means to foster entrepreneurship and counter unemployment in an effective manner. The creation of jobs through such inefficient mechanisms represents a waste of resources which, though acting as a short-term social palliative, is unsustainable. Talk of job-creation through micro and small enterprises continues in Jordan. But, as the 1996/97 ILO World Employment Report warns: "The experience with the first generation of structural adjustment programs showed that without a realistic assessment of the capacity to implement compensatory programs, the aim of containing the social costs of adjustment, however well-intentioned, becomes no more than an irresponsible exercise in wishful thinking." (7) The examples above show that a realistic assessment of the capacity of Jordan to implement compensatory programs for job-creation indicates that there may still be many problems in the Jordanian approach to countering unemployment through encouraging smaller businesses.

Notes

1. Khouri, R, "USAID and The Private Sector in Jordan: A Chronicle
The Genesis, August 1985 -- August 1988," 1989, p. 39

2. Interviewed by the author, October 1997

3. Brandsma, J and Khayatt, D "Jordan Micro-Credit Mission -- Final Report," 1996, p. 15

4. Smadi, M. "Follow-up on the World Bank report 'Jordan: The Development and Employment Fund' Conclusions Based on a World Bank staff visit, 12-21 December 1992," 1994

5. Brandsma and Khayatt, ibid

6. SODETEG, "Mid-Term Evaluation of the Social Development Project Development & Employment Fund," 1996, p. ES-3

7. From the press release for the ILO report on *World Employment 1996/97*, p 16

Chapter Six: Conclusions and Recommendations

Jordan's structural reform in general and privatization in particular will obviously not be carried out overnight. The inertia of the present Jordanian system is a formidable obstacle in the way of reform. On the other hand, the country's chronic economic weakness interacts with lack of reform in a vicious circle. Privatization would certainly reduce waste and would be greatly enhanced if coupled with the implementation of adjustment policies aiming at macro-economic imbalances. At the same time, it need not be associated with major unemployment or a regressive income distribution. Labor retrenchment is not an innate effect of privatization, but it may become inevitable in Jordan. Even when the net numerical labor impact of privatization is neutral for the Jordanian labor force as a whole, many may lose their jobs. The burden of reform should not fall on the workforce.

Privatization in all its manifestations is just one of a series of reforms. Privatization should not only be seen as a process that leads to the elimination of jobs. Indeed, increased investment in the privatized enterprises or their improved performance may also result in greater employment. Therefore, the issue of privatization-induced unemployment should be placed in a broader setting. Rather than worsening employment, privatization can be part of a corrective reform package. Hidden unemployment due to over-manning exists in many public enterprises in Jordan. Thus, privatization may not "cause" unemployment as much as it may expose its true magnitude. An important issue in Jordan is that employment as a social security system acts as a burden. Resources spent unproductively to sustain fictitious employment opportunities should otherwise be used to create productive jobs. Investments in newly privatized enterprises can have a ripple effect on the economy as a whole and, consequently, lead to positive welfare effects for society.

The privatization of a public enterprise often involves changed conditions under which its employees are hired and work. It is still too early to tell whether the impact of privatization on employment in Jordan will be positive or negative. In the short term, however, employees may have to adapt to changes in their overall employment conditions. A positive effect may be recorded with respect to both the level and the structure of wages. The wage structure in the public service, which exerts a strong influence on the remuneration scale of public enterprises, is usually heavily regulated and compressed, that is the differential between lowest-paid and highest-paid groups is hampered by rigid payment scales.

The restructuring of the enterprise often results in a short-term retrenchment. This is usually necessary to refocus the firm on the competitive marketplace as opposed to public policy initiatives. This retrenchment usually results in greater efficiency and effectiveness of the operations and an improved level of service but only after there has been turmoil in the ranks of employees. People may lose their jobs, yet this is usually the visible and painful forerunner of a brighter future. While the long-term benefits may outweigh the short-term reduction in employment levels, the short-term pain of cuts represents real loss of purchasing power and disruption of the domestic economy. The transition period's immediate consequences may thus be negative as privatization leads to the retrenchment of labor in the privatized enterprises, and to lowering employment of new entrants to the labor market by these enterprises. The result could be a reduced volume of employment in the modern sector of the economy, rising unemployment and an expanding informal sector. However, the transformation of Jordan's economy will not occur in a vacuum. Privatization also requires that other, related changes be carried out in the country. These include commercialization and deregulation, which will also have an impact on employment, often positive. (The case of liberalizing the tourism transport sector -- though it had its negative side -- comes to mind as one of expanded employment.)

Privatization in Jordan under these circumstances cannot be sustained unless the political leadership is committed to it. Without this, a credible privatization program is difficult. If most of the political problems of economic reform have been overcome, a broad social consensus can be maintained once the costs of the adjustment emerge. This underscores the crucial role that has to be played by the political leadership in explaining the reasons behind privatization to allay the fears of those who might be adversely affected. It will take a strong commitment by Jordan's leaders to overcome vested interests and break the inertia of the present Jordanian system. The Jordanian privatization effort as spearheaded by the EPU seems to be on the right track. As for the true commitment of the political leadership, this remains to be seen given the shifting sands of regional politics and diplomacy. Always vulnerable to external change, the Jordanian regime may feel the need to slow down the process of change in order to preserve stability; in that case, privatization could falter.

The public sector has a momentum of its own. It has powerful vested interests whose income, status, and authority are closely linked to the continuation of the status quo. Moreover, there is a web of relationships among the public sector, the national budget, and the employment of university and school graduates. On several occasions the Jordanian leadership has emphasized that economic reform should proceed within a framework of social equity. One cannot take issue with such objectives. However, there is a trade-of between short-term expediency and long-run viability. Political constraints may forbid bold and wide ranging reforms. As time passes the problems will become more difficult to solve and the magnitude of the needed changes will greater. What may appear to strengthen short-term stability could lead to more social and political difficulties in the longer run.

This political factor apart, the process of privatization in Jordan seems to be moving in the right direction, albeit slowly. However, to move things more quickly, it is very important that reformers make clear the magnitudes of potential benefits, and the likely schedule for their emergence, in order to obtain wide support for privatization. Qualitative benefits from the move to private ownership that are likely to appear quickly (such as more individual freedom, increased choice, better quality of products, etc.) should be stressed.

Privatization works best when it is a large program of reforms promoting efficiency. Since privatization might create private monopolies or oligopolies, which might distort the allocation of resources, a Jordanian anti-monopoly law is on the cards to monitor and control such behavior. However, these and other reforms should precede any restructuring of public bodies. Of course there is a danger that momentum so lost will never be regained, but a more cautious approach is more likely to yield long-benefits if it can be sustained and gain political acceptance.

There is no ideal prescription for economic reform, and no single policy holds a monopoly for success. Market reforms often need to be supplemented by measures to build the necessary infrastructure, to promote training and to improve access to credit. Measures such as tax credits, investment incentives and export promotion may also be required. The introduction of reforms on all fronts at once has often proved counterproductive. In the words of recent ILO report: "A big bang approach is likely to lead to socially unacceptable increases in unemployment, underemployment and poverty" and threaten to compromise the entire package of reforms. Arguing for a "phased and more gradual" approach, the report underlines the need for time in carrying out difficult reforms "such as the strengthening of administrative capacity, the streamlining of the tax system, and privatization." While reforms are essential they are unlikely in themselves to relieve poverty through "trickle down" effects. They should therefore be "accompanied by programs to strengthen the productive capacity of the poor," targeting, in the first instance, the most vulnerable groups. These programs should promote the development of rural infrastructure, credit schemes and improved access to education and health services. This, says the report, would not only reduce poverty but result also in higher output. Policies that favor the growth of small and medium enterprises -- removing cumbersome and unnecessary regulatory obstacles, for example -- are considered "particularly important." (1) These words should provide valuable guidance to the Jordanian authorities in looking to steer an optimal path towards privatization.

Privatization must help achieve wider participation in the ownership of national assets. Provisions will have to be made for the participation of worker and employees in ownership and the reassignment and retraining of redundant labor. Labor, one of the chief potential losers in the short-term, can be enticed by the promise of shares in privatized firms. One of the major constraints on this tactic in Jordan is the limited size of workers' private savings. Accordingly, there may not be enough capital in the hands of labor to acquire parts of public enterprises that become candidates for privatization. This constraint takes on special importance given that privatization should not lead to concentration of wealth in a few hands, nor should it result in control of important enterprises by foreign capital. The process of privatization is likely to be more successful if it means increasing popular ownership of national assets as a way of bringing stock ownership to the grass roots.

Managing the information process is critical to public response and expectations about a privatization program. Premature announcements of timetables or expected values for a sale only build false expectations and lead the public or the press to deem a program a failure, when in fact it may be progressing well. A clearly elaborated public information campaign is a critical component in implementing a successful privatization program. Changes in privatization plans must also be handled carefully. (2)

It may also be found convenient to resort to partial privatization of public enterprises by converting them to companies that are only partly controlled by the state. Jordan is also trying to resort to partial privatization of public enterprises by converting them to companies that are only partly controlled by the private sector. The country's privatization program recognizes the great differences that exist among enterprises in the public sector. However, there is a danger of not stopping to consider the possible salutary effects of public-private partnership in some areas. (3)

Humanitarian concerns may be exacerbated by political anxieties where hardship is acute, and such transitional problems may require temporary help from aid agencies. However, there is an obvious danger of continuing the help for an inappropriately long time. Social safety net provisions have not been adequately introduced yet in Jordan.

Governments should avoid giving elaborate undertakings as a condition for a deal. Instead, the regulatory environment, price controls, subsidies, and other distortions should be cleaned up prior to privatization. On the other hand, undertakings from the purchaser may be important. Obviously such representations complicate a deal and tradeoffs between complexity, speed and transparency need to be carefully assessed. On the other hand, there is a need to keep the pressure on the process. Building a pipeline of deals, which can then be sequenced as market conditions dictate, can meet this objective.

Privatization in Latin America, Eastern Europe and elsewhere often required a new set of laws. Most countries in those and other areas that have engaged in major privatization efforts have passed special laws explaining the rules and regulations for their privatization programs. This does not seem to be on the cards in Jordan.

The optimistic scenario is that privatization will have few adverse employment consequences, mainly due to the macro-economic environment that will prevail when foreign direct investment and structural adjustment funds from the EU pour in, spurring a strong economic performance and helping to cut the unemployment rate. This seems too much like wishful thinking. However, the nightmare of mass unemployment due to privatization is probably as unlikely to come true. Much depends on the government's management of the process.

Notes

1. ILO, op. cit., p. 15

2. The case of Jordanian telecoms comes to mind, where it was reported as early as September 1996 that a 26% share in the state TCC was to be sold to a strategic partner (see for example MEED Money, vol 2 No. 39, 27 September 1996, p. 14), only to have that upped to 40% in the following year. The Jordanian public in general and workers in industries to be privatized in particular could misinterpret such changes and view them cynically.

3. For more on this model, see for example Sternberg, E, "Preparing for the Hybrid Economy: The New World of Public-Private Partnerships," *Business Horizons*, November-December 1993.

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