



**Impact of
Restructuring and Privatizing
State-Owned Infrastructure & Non-Infrastructure
Enterprises in Jordan
(1994-2008)**

*Nilgün Gökgür and Roger Christen
for
POHL CONSULTING & ASSOCIATES*

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ACRONYMS AND ABBREVIATIONS

ACT	Aqaba Container Terminal
ADC	Aqaba Development Corporation
AGWA	Amman Governorate Water Authority
APC	Arab Potash Company
ASE	Amman Stock Exchange
ASEZA	Aqaba Special Economic Zone Authority
CAA	Civil Aviation Authority
CAGR	Compound Average Growth Rate
CARC	Civil Aviation Regulatory Commission
CAPEX	Capital Expenditures
CEGCO	Central Electricity Generating Company
DGO	Directorate of Government Ownership
EDCO	Electricity Distribution Company
EPC	Executive Privatization Commission
EPU	Executive Privatization Unit
ERC	Electricity Regulatory Commission
EU	European Union
GCC	Gulf Cooperation Council
GOJ	Government of Jordan
IDECO	Irbid District Electricity Company
IPP	Independent Power Producer
JCF	Jordan Cement Factories
JEA	Jordan Electricity Authority
JEPCO	Jordan Electric Power Corporation
JIC	Jordan Investment Corporation
JICA	Japanese International Cooperation Agency
JNA	Jordan National Agenda
JPMC	Jordan Phosphate Mines Company
JTG	Jordan Telecom Group
KPI	Key Performance Indicators
MEMR	Ministry of Energy and Mineral Resources
MOF	Ministry of Finance
MOICT	Ministry of Information and Communication Technology
MOP	Ministry of Planning and International Cooperation
MOT	Ministry of Transport
MOWI	Ministry of Water and Irrigation
NEPCO	National Electric Power Company
PPA	Power Purchase Agreements
PPP	Public Private Partnership
PSC	Public Shareholding Company
PTC	Public Transport Corporation
PTRC	Public Transport Regulatory Commission
QAIA	Queen Alia International Airport
RJ	Royal Jordanian Airlines
SEPGCO	Samra Electric Power Generation Company
SOE	State-Owned Enterprise
SRRP	Support for Regulatory Reform and Privatization Program
SSCIU	Social Security Corporation Investment Unit
TRC	Telecommunications Regulatory Commission
USAID	United States Agency for International Development
WAJ	Water Authority of Jordan
WB	The World Bank

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The views expressed in this report are independent of the EPC, PC&A, the European Union or any other development partner, and not necessarily the views and opinions of those interviewed during the qualitative and quantitative data gathering. The team remains solely responsible for analyzing the available data collected, synthesizing the report and reaching conclusions to the best of its ability within the time frame allocated.

Executive Summary

Jordan's ambitious and comprehensive restructuring *and* privatization program of the last fifteen years attracted a great deal of attention not only within Jordan but in the MENA region and beyond. Compared to Egypt and Syria, Jordan did not have an apparently dominant state-owned enterprise (SOE) sector. However, its SOEs operated each of the infrastructure sectors (telecommunications, electric power, water supply and sanitation as well as all transport with its sub-sectors—air transport, urban road transport, railways and ports). Besides full presence in infrastructure sectors and enterprises, the GOJ maintained majority or minority equity shareholdings in almost all other non-infrastructure sectors of the economy ranging heavily from mining and tourism to real estate, manufacturing, media and banking through its state-run former Jordan Investment Corporation (JIC), now known as the Directorate of Government Ownership (DGO) at the Ministry of Finance (MOF).

Together with the line ministries, the Executive Privatization Commission (EPC) restructured *and* privatized almost all its infrastructure sectors *and* state-owned and operated infrastructure enterprises. This was an integral part and parcel of structural reforms enhancing the role of private sector in overall economy. Restructuring *prior* to privatization assigned the tasks of policy making to line ministries, regulation to newly established regulatory agencies and operating to private owners and operators (partially or fully) while allowing private investments and competition into telecom, electricity generation and transport. The EPC subsequently employed all privatization modalities ranging from divesture *with* change of ownership to management, lease and concession contracts *without* change of ownership. In non-infrastructure sectors, the EPC reduced JIC's stake in key non-infrastructure commercial mixed enterprises such as cement, potash and phosphate—the latter two providing Jordan with 21% of its total export earnings and two-thirds of which from the potash company alone in 2008.¹

The Jordanian authorities and the public now wonder how the private owners and operators have acted thus far in society's best interest--which this report tries to ascertain. Despite controversies, restructuring and privatization transactions appear to have had an overall net positive impact on stakeholders—consumers, workers and employees, enterprises, owners and operators and competitors over time.² The transactions also indirectly and positively impacted the overall economy through investments, employment, competitiveness as well as stock market capitalization.

¹ Information provided by the Ministry of Finance, April 2009; a jump from 12% in 2007 because of rise in world price of potash and phosphate.

² Privatization Impact Assessment Team tried to assess the welfare gains to stakeholders--consumers, workers and employees, privatized enterprises, owners and operators, and competitors—after privatization. Since electricity generation was partially privatized in 2007 and the two electricity distribution companies in 2008, the team wanted to withhold judgment as to the impact of prior restructuring because the full impact cannot yet be measured.

Direct Stakeholder Impact

Consumers (residential and commercial) experienced major net gains predominantly from mobile telecom and broadband connections, reduced average fixed and mobile telecom tariffs and improved quality of fixed and mobile services in the telecom sector; from increased operational efficiency and world class standards introduced by the restructured and only recently privatized Royal Jordanian Airlines (RJ) (and its former non-core business units); from operational improvements by the private operator and concessionaire of Aqaba Container Terminal; and from increased number of connections, increased average volume of water distributed per day and the improved quality of services by the private management contract operator of Amman Governorate Water Authority between 1999 and 2006. There is one case, however, where the consumers encountered modest net losses between 1999 and 2006 (prior to the intervention of the Competition Directorate at the Ministry of Industry and Trade in 2004) in the cement market with high prices but some modest gains from the availability of supply that increased after privatization. The expected competition from the new entrants into cement production is expected to bring more gains to consumers in the future.

Workers and employees also enjoyed major gains in almost all sectors. The GOJ's strategy was to avoid forced retrenchments but instead required the new owners and operators to implement voluntary retirement programs. Approximately 2000 workers and employees in infrastructure enterprises and over 4,000 in non-infrastructure enterprises opted for early retirement in some cases with generous but yet overall non-uniform compensation packages. Nonetheless the overall employment in infrastructure sector is catching up to pre-privatization levels. However, workforce in three non-infrastructure mining companies was reduced significantly by one-third. On the other hand, retained workers and employees benefited from increases in real wages and salaries in telecom, in air transport, in former non-core business units of RJ, in cement and potash companies. Some also received equity shares at the time of privatization. Almost all the retained workforce enjoyed better training, improved working conditions and workplace safety especially in cement and potash companies as they successfully eliminated serious workplace accidents. At the same time, significant employment was generated directly and indirectly in liberalized telecommunications and transportation sectors.

Enterprise financial and operational performance improved with major gains at RJ, its non-core business units and Amman Governorate Water Authority among infrastructure enterprises as well as the cement and potash companies in non-infrastructure sectors. The cement company experienced the most gains after the private investor took full management control in 2002 despite the interventions of the Ministry of Industry and Trade to protect consumers reducing the company's monopoly power in the market. Yet JTG and the phosphate company have each experienced only modest gains relative to other privatized enterprises. While the financial performance of JTG and RJ was constrained by stiff competition benefiting consumers, the phosphate company had its own different set of constraints. It is not in a growing market and, moreover, it faces competition from other phosphate producers such as Morocco. After long years of financial difficulty, the company managed to enjoy profitability only after its privatization in 2006--three years after potash and eight years after cement.

Owners and operators experienced only modest net gains as a combined result of low price earnings ratios and high returns on equity. The price earnings ratios, which were initially good, have been declining in the opposite direction to rising returns on shareholder equity—most likely as a reflection of overall market uncertainty. Those new owners and operators who were given lucrative management, technical or business services contracts in exchange of their technical know-how, managerial expertise and connections to international markets also experienced major net gains. At Amman Governorate Water Authority, the private operator was remunerated by yearly fixed management fees combined with performance incentive bonuses during the management contract period between 1999 and 2006. The improvements achieved for the water utility benefiting the consumers were far greater than the combined management and performance bonuses paid out to the private operator.

Fiscal impact on government's coffers was also positive and substantial through: (a) one-time only privatization proceeds, and (b) recurring fiscal contributions of privatized enterprises to the Treasury (minus the fiscal costs). As to the one-time privatization proceeds entering the Privatization Proceeds Fund, the privatization program thus far raised through international competitive bidding a total of JD 1.73 billion—82% of which from privatizing the infrastructure enterprises alone.³ The proceeds from privatizing the incumbent state-owned telecommunications company alone generated half of this amount. As initially planned, the GOJ allocated 82% of total proceeds to successfully retire its public debt while reducing its public debt ratio to GDP from 100% in 2000 to 89% in 2004 and even further to 60% in 2007.⁴ This in turn contributed to stabilizing the economy.

Recurring fiscal contributions to the Treasury were also sizeable, reaching JD 325 million in 2008—98% from four companies alone, the telecommunications company (JTG), the potash company (APC), the cement company (JCF), and the phosphate company (JPMC). JTG has increasingly provided Treasury with the highest revenues (taxes, revenue share and dividends excluding fees) which more than doubled from 2000 to 2008.⁵ APC's contributions (taxes, royalties and dividends) have tripled from 2007 to 2008. This resulted from increased royalty tax from JD 8 per ton to JD 125 per ton thus maximizing GOJ's fiscal revenue to the cap of 25% of company's net income reflecting rise in world price of potash. The latter, however, impedes on company's competitiveness.⁶ JCF's sizeable contributions have increased regularly over the years. JPMC, on the other hand, provides the Treasury with the least contribution among the four. It started paying taxes only in 2004, two years before privatization and dividends only after privatization in 2006. Its mining fees, however, could not be increased to the same levels as potash because of the lower cap imposed in its Shareholders' Agreement with the financial investor so that the Treasury can benefit fiscally from the rise in world price of phosphate.

³ The reader is advised to note that these proceeds reflect the market conditions at the time of transactions; the total proceeds should be viewed against the implementation cost of between US\$ 70 and 75 million—the bulk of which were supported by development partners. (Section 6.2)

⁴ Information provided by the Ministry of Finance, April 2009.

⁵ The reader is advised to take into account the new mobile operators as well as new internet service providers contributing with their own taxes and revenue share to the Treasury.

⁶ This places Jordan now at a high tax bracket of 42.3% far above Israel with a tax bracket of 27.6%. (Section 4.5)

Competitors are expected to benefit if privatization is done well with enabling legal, regulatory and institutional reforms. Thus far the telecom sector is the only one in Jordan where privatization together with liberalization has brought along major net gains to competitors. Similarly, un-bundling of the electricity sector has already introduced competition benefiting other market players such as Independent Power Producers (IPPs) in electricity generation. However, private sector participation has just started with CEGCO in 2007 and will expand with the new IPPs coming in. The cement sector has, on the other hand, not benefited competitors up until 2006. Yet the new investors and operators, who are entering the market, are expected to benefit from forthcoming competition as a result of the interventions by the Competition Directorate at the Ministry of Industry and Trade since 2004.

Scorecard on Direct Stakeholder Impacts of Privatized Enterprises (2000-2007)

<i>Transactions</i>	<i>Consumers</i>	<i>Workers</i>	<i>Enterprises</i>	<i>Owners and Operators</i>	<i>Government</i>	<i>Competitors</i>
<i>Infrastructure Enterprises</i>						
<i>JTG ('00)</i>	++	++	+	+	++	++
<i>Royal Jordanian Airlines ('07)</i>	++	+	++	+	O	
<i>Non-business units of RJ ('01-'07)</i>	++	++	++	+	+	O
<i>Aqaba Container Terminal ('04)</i>	++	++	n.a.	n.a.	n.a.	O
<i>Amman Governorate Water Authority ('99-'06)</i>	++	+	++	++	O	O
<i>Non-Infrastructure Enterprises</i>						
<i>Cement ('98)</i>	-	++	++	+	++	O
<i>Potash ('03)</i>		++	++	+	++	
<i>Phosphate ('06)</i>		+	+	+	O	

Source: ++ major net gain , + modest net gains, O no significant net impact, - modest net losses and -- major net losses; n.a. stands for information unavailable for Aqaba Container Terminal; empty cells indicate no applicable impact; the report withholds judgment as to the impact of prior restructuring of electricity sector and recent privatization of generation in 2007 and distribution in 2008 because the full impact cannot yet be measured.

Indirect Impact on Overall Economy

Between 2000 and 2007, restructured and privatized infrastructure and non-infrastructure enterprises combined invested a total of JD 1.6 billion—almost all generated again from the infrastructure enterprises alone and, precisely, from privatized telecommunications company together with new mobile and internet service owners and operators entering the telecom sector. The total investments (foreign and domestic) are equivalent to 25% of JD 6.3 billion foreign direct investments which Jordan received during the same period—half of it only during the last two years predominantly into the real estate sector. The investments of infrastructure and non-infrastructure enterprises are now responsible for 25,000 indirect employment generated alone in the telecommunications sector while the combined workforce of all infrastructure enterprises rebound to its previous levels of 16,000 by 2007. As a result, telecommunications sector’s contribution to GDP increased along with that of the transport sector. Jordan’s improved rankings in competitiveness can be partly attributed to privatization *and* liberalization simultaneously.

Factors Contributing to Outcomes

A set of internal and external factors contributed to these net gains even though the jury is out to evaluate the impact of recent privatization transactions in electricity and air transport sectors more thoroughly. The internal factors included GOJ's strong will and full commitment together with a good institutional set-up through the EPC for the implementation of complex transactions; complementary economic, legal and regulatory framework; good use of mixed sales, reliance on high quality transaction advisors and investment bankers; and attracting world class strategic investors and operators. External factors, on the other hand, included consistent technical assistance from the World Bank; generous financial assistance from development partners; availability of investment funds from the Gulf Countries and Sovereign Wealth Funds; and good competition among bidders.

Lessons Learned

There are areas where the GOJ, the MOF and the EPC (each alone or combined) could have done better. These include: (a) absence of overarching infrastructure policy for the connectedness of infrastructure and non-infrastructure enterprises prior to launching any transaction; (b) late arrival of competition framework and governance for the lack of competition while privatizing the cement company in 1998; (c) absence of post privatization monitoring to follow the impact and performance of privatized enterprises; (d) absence of fiscal monitoring to measure the magnitude of fiscal costs (direct and indirect subsidies) as well as fiscal contributions from restructured and privatized or not yet privatized enterprises; and (e) insufficient public education and communication program for properly communicating with the public to guarantee transparency and to communicate the outcomes regularly and analytically.

There also remains unfinished business for improving the governance of commercial mixed enterprises in which the DGO holds shares in 28 listed and unlisted companies worth a total market value of JD 1.39 billion at the end of 2008—17 of those loss-making and not able to deliver any dividends to the GOJ.

Way Forward

As the EPC transforms into PPP Commission, it needs to move beyond its sheer transaction-based orientation and build capacity for proper post-transaction and fiscal monitoring as well as an expanded public education and communication program. The new PPP Commission and the Ministry of Finance need to have a closer working relationship to measure fiscal space, recurring fiscal costs (those direct *and*, not yet properly calculated and documented, indirect subsidies) of infrastructure and non-infrastructure enterprises (privatized and non-privatized) together with their fiscal contributions as well as all fiscal risks and contingent liabilities of existing and future PPPs. While capitalizing on its solid transactional experience under the EPC, the PPP Commission would then be better prepared to attract, help build and monitor sustainable partnerships in physical and social infrastructure sectors.

I. INTRODUCTION

Jordan's ambitious restructuring *and* privatization program of the last fifteen years attracted a great deal of attention not only within Jordan but in the MENA region and beyond.⁷ Compared to Egypt and Syria, Jordan did not have an apparently dominant state-owned enterprise (SOE) sector. However, its SOEs were identical with each of the infrastructure sectors (telecommunications, electric power, water supply and sanitation as well as all sub-sectors of transport—airlines, urban road transport, railways and ports). Besides full presence in infrastructure sectors and enterprises, the GOJ maintained majority or minority equity shareholdings in almost all other non-infrastructure sectors of the economy ranging heavily from mining and tourism to real estate, manufacturing, media and banking through its state-run former Jordan Investment Corporation (JIC), now known as the Directorate of Government Ownership (DGO) at the Ministry of Finance (MOF).⁸

Initially the line ministries began the extensive task of restructuring (corporatizing, un-bundling and commercializing) the infrastructure enterprises while liberalizing them at the same time. The Executive Privatization Commission (EPC)—and its predecessor Executive Privatization Unit—assisted the process, if and when necessary, *and* subsequently implemented the privatization transactions for almost all the infrastructure enterprises. It also divested GOJ's majority and minority shareholdings in selected large non-infrastructure enterprises held by the former JIC. The program raised a total of JD 1.73 billion—82% of which from the infrastructure enterprises while generating the highest privatization revenue per capita in the region to date.⁹

While both the reformists and the development partners rave about the success of the program, there is a growing concern among certain segments of the Jordanian public as to how the private owners and operators have acted thus far (and are likely to act in the future) in society's best interest. Even those in the Parliament, who approved the Privatization Law No. 25 of the Year 2000, have recently started to question if the privatization was justified and led to equitable outcomes.¹⁰

⁷ The term "privatization" refers to the conversion of state-owned assets into privately owned or managed assets and it therefore includes divestiture as partial or full transfer of ownership to private sector and private participation in the form of management, lease or concession contracts with existing facilities, namely infrastructure enterprises (water supply and sanitation and sub-sectors of transport sector such as airports and marine ports).

⁸ Jordan Investment Corporation (JIC) was first established in 1970 under the name of the Pension Fund with an initial capital of JD 5 million from a capital gain made by the Central Bank as a result of reevaluation of its gold reserves. By investing the money in growth assets, it helped the GOJ meet its pension obligations. At the same time, it had the mandate to act as a public entrepreneur and a venture capital firm where private sector appeared timid. Permanent Law of 1991 brought the JIC under closer control of the MOF and changed its name to Jordan Investment Corporation. Recently it was renamed as the Directorate of Government Ownership and is absorbed into the MOF. It still remains the investment arm of the GOJ.

⁹ Total proceeds of JD 1.73 billion (Ministry of Finance, General Government Finance Bulletin, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.) is slightly less than the total proceeds collected by the EPC and transferred to the Privatization Proceeds Account at the Central Bank after deducting for additional expenses; yet the Bulletin is the only official record that documents the privatization proceeds by transaction.

¹⁰ Views expressed by the Members of the Financial Committee, the Jordanian Parliament, January 27, 2009.

This discontent is not, however, unique to Jordan. The privatization of large SOEs, especially those in utilities, has been one of the most radical new policies of the last quarter century worldwide generating huge controversies among stakeholders and the general public. Privatization policies, as they were embraced both by left and right wing governments for different reasons, are often criticized all around the world for their regressive redistribution effects and the rents they generated among the acquirers of state assets.¹¹

This report explores (a) what was done in terms of transaction accomplished and remaining? (b) what was the direct impact on stakeholders—consumers, workers and employees, enterprises, new owners and operators, government (fiscal impact), competitors and the indirect impact on overall economy, and (c) what explains these outcomes? It relies on an analytical framework for reviewing redistributive effects--those debated extensively by all stakeholders concerned—as well as the efficiency gains at the enterprise level. It recognizes the achievements of the EPC where warranted while providing an objective assessment at the same time.

1.1. Analytical Framework

The report explores how successful the restructuring and privatization program was and the factors that explain the degree of success together with its few shortcomings. The analysis begins with the transactions completed in an attempt to document what happened or how much divestiture and private participation was accomplished in infrastructure and non-infrastructure sectors together with the remaining equity share holdings of the government in mixed enterprises. It subsequently assesses the impact on stakeholders, those directly affected by the restructuring and privatization program--consumers, workers and employees, enterprises themselves, owners and operators, government (fiscal impact), competitors and local communities, and the indirect impact on investments, employment, capital markets and competitiveness.

Several studies worldwide reviewing the impact of privatizing competitive enterprises have chosen to assess the enterprise level efficiency gains by comparing post to pre-privatization performance alone or sometimes combined it with labor and fiscal impact. This type of analysis has proven insufficient, however, when it comes to infrastructure enterprises. Turning public services traditionally provided by the government over to private sector to own and/or operate them has evoked a new window in traditional analysis measuring consumer impact. Consumer impact is directly related to improvements in quantity and quality of services combined with more affordable (or sometimes higher) prices compared to those under state-ownership and control.

This team did not conduct counterfactual analysis of what would have happened in the absence of divestiture and various forms of private participation. There were several reasons for this. First and foremost, counterfactuals depend on precise pre and post-privatization data for at least for three to five years so that necessary projections could be made as to what would have happened if the enterprise remained in state ownership and control. Since most privatization transactions in Jordan were only

¹¹ Gerard Roland and et. al., Privatization: Success and Failures, Columbia University Press, 2008, p.1-2.

recently completed (air transport and electricity generation in 2007, two distribution companies in 2008, and the phosphate company in 2006), the absence of sufficient post-privatization data series would not have supported this type of analysis. Since such an exercise also requires cumbersome cost-benefit analysis, most studies of this nature are limited to few enterprises with the intention of producing individual case studies, not necessarily reviewing each of the privatized enterprises and the impact of the overall program.¹² Yet the team relied on similar analytical framework and concepts utilized in most recent studies to measure efficiency gains as well as the distributional impact of privatization among stakeholders.

1.2. Research Methodology and Data Constraints

The team gathered both qualitative and quantitative data extensively from those involved with the restructuring and the privatization program. It began first by reviewing the extent of overall institutional development as to how policy making, regulating and operating the infrastructure enterprises were separated during restructuring and the implementation of the privatization program. The interviews with the line ministries provided a good understanding of their new roles as policy makers. The interviews with the evolving regulatory agencies helped understand their accomplishments as well as their limitations as to effectively and independently regulate the infrastructure sectors and the enterprises in their portfolios.

The interviews with the top management (CEOs, CFOs and Communications Officers) of restructured and privatized infrastructure and non-infrastructure enterprises assisted the data gathering and facilitated the interpretation of financial, operational, fiscal, employment and investment data (together with improvements in social corporate responsibility) before and after privatization. The team also explored if and how the labor transfers and retrenchments were handled at the time of restructuring and privatization and the measures taken to alleviate the adverse effect on labor.¹³ The attempt to gather enterprise level data at the Companies Control Department of the Ministry of Industry and Trade proved insufficient since not all the enterprises apparently submit their audited annual reports on time. Therefore, while pre-privatization enterprise level data before 1998 was impossible to get in most cases, post-restructuring and privatization data commonly after 2000 was collected directly from the privatized enterprises.

The team gathered information to assess the labor impact by talking to labor unions, by meeting with privatized enterprises as well as reviewing labor strategies recommended by the transaction advisors. There were no records on labor, collected or analyzed, at the EPC since it never had the mandate to monitor the post-privatization performance of privatized enterprises systematically together with the impact of privatization on workers and employees prior to, during and after privatization. There was only one single study commissioned by the EPC in 2002 for

¹² Leroy Jones, Yahya Jammal, Nilgün Gökgür, *Impact of Privatization in Côte d'Ivoire*, Privatization Committee, Abidjan, Côte d'Ivoire, 1999 and a series of impact studies on Senegal, Mozambique and Uganda prepared for PPIAF, The World Bank, 2005.

¹³ Based on previous experiences in other countries and the difficulties encountered, the team decided not to conduct extensive surveys with the enterprises but opted for gathering data through pre-prepared excel sheets supplemented with interviews.

making recommendations as to how to deal with labor redundancies in forthcoming privatizations at the time.¹⁴

The identification of fiscal costs incurred by the Treasury on behalf of state-owned enterprises and the fiscal contributions from the state-owned and/or privatized enterprises to the Treasury encountered difficulties. Currently, the MOF is not monitoring the fiscal coverage (fiscal costs and fiscal contributions) in conjunction with the performance of the fully or partially privatized or still state-owned infrastructure and non-infrastructure enterprises. As to GOJ's remaining shareholding in non-infrastructure enterprises, DGO has limited information. It reports the proceeds annually from selling either GOJ's majority or minority shares together with the dividends collected—without disaggregating them.

The present practice at the DGO is far from comprehensive fiscal monitoring of state-owned enterprise sector performance as practiced in countries such as Turkey, Thailand or Uganda—just to cite a few. Recently the IMF reported its effort to measure the direct subsidies and transfers to non-financial state-owned enterprises between 2001 and 2003.¹⁵ It came up with recommendations to the MOF as to how to consolidate fiscal monitoring of state-owned enterprises in one single entity so that it can assess the fiscal costs and risks periodically and systematically.¹⁶ Apparently those recommendations were not yet implemented. The team had no other choice but to rely on the fiscal contributions reported by the enterprises—some more exaggerated than others with no uniformity in reporting across the board.¹⁷

2. IMPETUS FOR RESTRUCTURING AND PRIVATIZATION

Jordan first embarked on privatization almost 20 years ago by announcing officially the government's intention of establishing a special committee at the ministerial level. This was prompted by the recessionary conditions prevailing in mid-1980s closely linked to the economic slowdown in the oil exporting countries of the Gulf Cooperation Council (GCC) as a result of the sharp drop in oil prices. Consequently, the Arab countries reduced demand on Jordanian export products and labor thus reducing its export earnings and remittances that constituted two-thirds of the former at the time. More importantly, the GCC countries could no longer provide Jordan with the direct budget support which was equivalent of one half of the government's domestic revenues. By 1990 Jordan's external debt to international financial institutions had already increased to 219% of its Gross National Income. In cross country comparisons of debt burden indicators, this represented four times the size of the share of external debt by the low income developing countries and six times that of the Middle East and North African countries. Jordan's debt service alone reached 16.5% of its Gross National Income representing four times the size of low income countries *and* that of MENA countries.¹⁸

¹⁴ Executive Privatization Commission, "Study on the Effects of Privatization in Selected Entities on Labor Employment," September 2002.

¹⁵ The MOF does not collect and analyze any data on indirect subsidies and, therefore, the team dropped gathering this type of information early on.

¹⁶ Daria Zakharova, "Fiscal Coverage in the Countries of the Middle East and Central Asia: Current Situation and a Way Forward," Working Paper # 111, International Monetary Fund, April 2008, p. 15.

¹⁷ The phosphate company (JPMC) includes its expenses on utilities (water, electricity and telecommunications) and transport infrastructure in its Annual Reports.

¹⁸ Daria Zakharova, "Fiscal Coverage in the Countries of the Middle East and Central Asia: Current Situation and a Way Forward," Working Paper # 111, International Monetary Fund, April 2008, p. 37.

In 1992 the share of outstanding external debt stock by the state-owned infrastructure (and non-infrastructure enterprises) amounted to 13% of total external debt of US\$ 7.8 billion. More precisely, the external debt of state-owned and operated infrastructure enterprises (electric power authority, water authority, public transport authority, air transport, railways and port authority) as well as that of non-infrastructure enterprises in mining cement, potash and phosphate peaked to US\$ 1 billion—three-quarters of which belonged to state-owned and operated Royal Jordanian Airlines. This meant that the state-owned enterprise sector had to pay the GOJ about US\$ 90 million per year, on average, as debt service for its external debt obligations between 1993 and 2000.¹⁹ If not, these obligations had to be assumed by the GOJ as a contingent liability.

Despite the presence of private ownership in the economy, the GOJ managed to exercise significant intervention over private entrepreneurial activity by acquiring substantial shares in public shareholding companies (PSCs)—otherwise known as public and private mixed enterprises, directly through the former JIC. Yet these mixed enterprises did not perform to generate the returns it sought after. While pure state-owned infrastructure enterprises suffered from acute deficits, PSCs have sustained losses at the expense of shareholders and taxpayers. They were all overstaffed and constrained by civil service norms in hiring and firing and invariably experienced government interference in pricing their products, had weak systems of incentives and control, inadequate accounting systems as well as an absence of systematic monitoring.²⁰ The average profitability of the mixed enterprises with significant government ownership was much lower compared to those where the GOJ held less than 15% stake. The scarce dividends hardly covered the cost of external and domestic debt paid by the government to finance their operations and investments.²¹

The GOJ had to reduce its overall debt and that of its state-owned enterprise sector in accord with the structural adjustment agreement with the International Monetary Fund. Moreover, the dire need for investments in infrastructure sectors alone showed that the GOJ had to borrow US\$ 500 million to finance upgrading and possible expansion of its fully state-owned Jordan Telecommunications Corporation (JTC). Similarly it had to borrow another US\$ 500 million to finance an increase in generation capacity to meet the future demand; and another US\$ 650 million to upgrade the water networks and to counteract the operational deficits.²² The need for investments to upgrade the infrastructure services forced the GOJ to turn to privatization and to private participation into existing assets (brown-fields), *and* into

¹⁹ The World Bank, “Jordan: Consolidating Economic Adjustment and Establishing the Base for Sustainable Growth,” Report # 12645 JO, Volume I. Main Report, 1994, p.28.

²⁰ The GOJ required Royal Jordanian Airlines to give 25% discount for government employees and a 50% discount for ambassadors and retired army personnel and their families. See Jawad Anani and Rima Khalaf, “Privatization in Jordan,” in: Privatization and Structural Adjustment in the Arab Countries, edited by Said El Naggar, International Monetary Fund, 1989, p. 219.

²¹ Comparative performance of listed companies with and without significant majority ownership (1981-1990), in: Private Sector Assessment for Jordan, The World Bank, 1997, p. 15.

²² Yusuf Mansur, “Demystifying Privatization: Jordanian Experience,” Privatization News, Executive Privatization Unit (EPU), Vol. 1, No.5, July 1998, p. 6.

the creation of new assets (green-fields) through various forms of Build-Own-Operate-Transfer (BOOT) schemes with private participation.²³

There were other pressures too to liberalize the economy by privatizing the state-dominated sectors and enterprises while improving their efficiency. In 1997 the GOJ agreed to sign a free trade and a bilateral investment agreement with the US and in 2000 signed the association agreement with the European Union together with joining the World Trade Organization (WTO). The GOJ established the Executive Privatization Unit (EPU) in 1996 and later transformed it into the present Executive Privatization Commission (EPC) right after passing the Privatization Law in 2000. The primary goal was to alleviate the debt burden off the Treasury while improving enterprise level financial and operational efficiency. The EPC privatized the infrastructure sectors and the enterprises as well as GOJ's majority stake in large enterprises of cement, potash and phosphate for which the implementation responsibility was transferred from JIC. The JIC had its own privatization activities either by liquidating and/or divesting its minority shareholdings in mixed enterprises in parallel to the EPC, however, in a less structured manner.

3. Restructuring and Privatization Transactions (1994-2008)

In 1994 the GOJ started restructuring its infrastructure sectors with the intention of eventually privatizing the state-owned monopolies while allowing private entry and competition. Accordingly, the line ministries developed their respective sector strategies, corporatized, commercialized and un-bundled the dominant enterprises in each of their respective infrastructure sectors with the exception of water supply and sanitation. Around the same time, the GOJ began the process of passing proper legislation for creating dedicated regulatory agencies in order to monitor the performance of the sectors and, more importantly, protect investors *and* consumers.

The GOJ was keen to fully embrace the model practiced in industrialized countries of the West and East Asia by separating the policy-making, regulating and operational responsibility of the line ministries vis-à-vis the state-owned infrastructure sectors and enterprises. Reforms in telecommunications, electric power and transport (with all its sub-sectors) and water started more or less around the same time in mid-1990s.

The GOJ's overall strategy was to separate the roles between the public and private sectors whereby the public sector could focus on its main task in policy-making, regulation and monitoring as well as concentrating on its core activities such as defense and security, health, education, social services and preserving the environment. At the same time, the private sector was expected to expand in economic activity to include state-owned enterprises which could be operated on a commercial and financial basis.²⁴ It was in this very objective the GOJ launched its comprehensive restructuring *and* privatization program.

²³ Any form of private participation into brown-field and/or to green-field projects constitutes a public private partnership (PPP).

²⁴ Executive Privatization Commission, The National Privatization Strategy, 2000, p.6.

Table 1. Overall Restructuring and Privatization by Sector and Modality

	RESTRUCTURING PRIOR TO PRIVATIZATION	PRIVATIZATION: With Change of Ownership	PRIVATIZATION: Without Change of Ownership
INFRASTRUCTURE SECTORS AND ENTERPRISES			
Telecommunications	Corporatized, Un-bundled	Divestiture with management contract	
Electric Power	Corporatized, Un-bundled	Divestiture in generation and distribution	Full state- ownership/control maintained in transmission
Transport (airlines, urban transport, railways and ports)	Corporatized, Un-bundled	Divestiture; liquidation; suspended attempts	Leases, Concessions and Management Contracts
Amman Governorate Water Authority	No	No	Management Contract (1999-2006)
NON-INFRASTRUCTURE SECTORS AND ENTERPRISES			
Cement	No	Partial minority divestiture (and later full to) a majority strategic investor	
Potash	No	Partial divestiture to a strategic investor with management rights	
Phosphate	No	Partial divestiture to a financial investor with management rights	
Ma'In Spa	No		Concession

Source: Own summary from various sources; Jordan Post, is corporatized but not privatized yet, and so is the not-yet corporatized, Aqaba Railways.

After more than a decade long of trials and tribulations, most infrastructure enterprises are now turned over to private investors and operators with the exception of electricity transmission and water supply and sanitation. The private management experiment with Amman Governorate Water Authority lasted 7 years from 1999 to 2006 with no change of ownership in the interim while the electricity transmission company (and transmission system operator) remains fully state-owned. (Aqaba Railways awaits retrial and Jordan Post is in the process.)

3.1. Infrastructure Enterprises

The GOJ embarked on a comprehensive sector restructuring with technical assistance from the World Bank and other development partners starting in 1996 for each of its infrastructure sectors. Telecommunications sector was the first followed by electric power, transport (and its sub-sectors) and water sector.

3.1.1. Telecommunications

The GOJ started restructuring its telecom sector by issuing a new sector policy as early as 1994.²⁵ This was the outcome of an extensive policy debate with strong participation from public and private parties as well as from non-governmental organizations. The telecommunications sector became the very first to set up its own independent regulatory agency, Telecommunications Regulatory Commission (TRC), in 1995. The GOJ first liberalized the sector by allowing Fastlink (now Zain as of

²⁵ Mohammad A. Mustapha, "Telecommunications in Jordan: Performance, Policy Environment and Reforms Ahead," Note on Progress on Telecom Sectors, The World Bank, 2005, p.1.

2006) to operate as the first mobile operator. The following year the fully state-owned telecommunications enterprise, Jordan Telecommunications Authority, the country's monopoly service provider, was split into two enterprises--Jordan Telecommunications Company (JTC), and Jordan Post Company (JPC). While the JTC was corporatized in 1996, the JPC took longer and was corporatized in 2002. While the JPC is now in the process of being privatized, JTC was divested in 2000 by direct sale of 40% of GOJ's shares to a consortium of international strategic investor and in subsequent phases through an initial and a secondary public offering of the shares held by the GOJ on the Amman Stock Exchange (ASE).

Table 2: Restructuring and Privatization of State-Owned Telecommunications Enterprise (1994-2008)

<i>Present Name</i>	<i>Business</i>	<i>Name at Corporatization</i>	<i>Regulatory Commission</i>	<i>Pre-privatization capital structure</i>	<i>Capital structure at privatization in 2000-2002</i>	<i>Post-privatization capital structure 2008</i>
Jordan Telecom Group (JTG)	Fixed line, mobile telephony, Internet' data, Wholesale	1996 Jordan Telecommunications Company(JTC); JTC fixed line and PetraCell (MobileCom) mobile telephony	Passing of the new Jordan Telecom Law in 1995 replacing the 1971 Law; regulatory commission in 1995; granting first mobile license to Fastlink in 1995	100% owned by GOJ	2000: 40% France Telecom; 8% SSCIU; 52% GOJ 2002: IPO—a portion of GOJ's shares 5% SSCIU; 5.5% free float.	51% Joint Investment Telecom Company; 29.07% SSCIU, 3% Armed Forces Investment Fund, 10% Noor Telecom; 6.93% free float

Source: Own summary from various sources.

The strategic private investor, France Telecom (FT)—whose majority shares are held by the public and minority by the Government of France—was declared the winner of the competitive tender for 40% stake with full management control against the Alain Group (GTE of the US as its technical partner) from the United Arab Emirates. France Telecom was the dominant partner within the winning consortium of France Telecom [88%] and Arab Bank [12%] that purchased 40% of the government shares in JTC. Furthermore, 8% of JTC shares were acquired by the SSCIU. Initially, the GOJ maintained 60% stake with the intention of reserving 1% to the Employees Provident Fund which was never materialized. Subsequently, in 2002 the GOJ decided to dispose an additional 15% (out of its remaining 52% stake) to both institutional and retail shareholders at the ASE through the services of JP Morgan of the USA. This was the first IPO for any privatized enterprise ever. The deal concluded with the sale of 10.5% of total number of shares of which 5% went to SSCIU and 5.5% to institutional and retail investors. This issue was small by international standards and was under-subscribed.

In 2006, France Telecom increased its own stake in the Jordanian subsidiary, Joint Investment Telecom Company (JITCO), to 100% by buying Arab Bank's stake of 12% in the consortium. At the same time, GOJ sold 10% of its shares to a Kuwaiti company. France Telecom also purchased additional 11% stake to give itself the controlling stake of 50% plus 1 share. Presently 51% of JTG shares are held by

France Telecom, 29.07% by Social Security Corporation Investment Unit (SSCIU), 10% by Al Noor Investment Company of Kuwait and 3% by the military investment fund. The remaining 6.8% became the free float at the ASE. The privatized company, Jordan Telecommunications Group (JTG), re-branded its services as Orange in 2007 taking after FT's mobile telephony in France. Three consecutive sales of GOJ's shares in JTG between 2000 and 2008 raised total proceeds of JD 940.1 million, almost half of the total proceeds to date entering the Privatization Proceeds Account at the Central Bank.²⁶

As part of the privatization of JTC, France Telecom purchased a new license for operating the mobile telephony, PetraCell (MobileCom), in 2000 as the second mobile operator in competition with Fastlink, now Zain. Xpress entered the mobile telephony market in 2004 and Umniah rolled out in 2005—augmenting the competition among mobile operators further. In 2005 the JTG monopoly in fixed lines came to an end. Now the second fixed line operator, BATELCO, is getting ready to operate but not yet ready to compete with JTG. Yet there are 18 licensed internet providers in the ISP market.

At the time of the take-over, in compensation for the transfer of know-how, the GOJ agreed to pay a management fee of 3% on “annual net revenues” to France Cables and Radio, technical arm of France Telecom.²⁷ This was in addition to the “management assistance contract” for the salaries of seconded personnel and their expenses, and a “technical assistance services contract” for short-term international experts after the first year.²⁸ The two management contracts, one for the fixed line operations and one for the mobile, were signed for the duration of the initial five years. In 2006 they were replaced by a new “Business Support Services Agreement” which lowered the management fee from 3% to 1% of “annual net revenue” while introducing additional performance bonuses based on meeting the pre-determined performance indicators and their targets. The shareholder agreement did not demand any investment obligations but the GOJ insisted on an annual 10% revenue-sharing agreement on the mobile sale revenue for the Treasury and another 3% revenue sharing agreement on fixed sales as the exclusivity fees until 2004—the year of termination of the exclusivity for fixed lines—plus 1% as the operator's license fee.

3.1.2. Electric Power

Similar to the telecom, the GOJ decided to restructure its electric power sector by developing a sector strategy of separating generation, transmission and distribution while bringing private participation (attracting investments) into generation and distribution, and eventually competition into generation alone. As an initial step, it corporatized the former Jordan Electric Authority (JEA) into National Electric Power Company (NEPCO) and passed the General Electricity Law in 1996 for transforming the JEA into NEPCO, allowing private sector to invest in the sector, and creating the

²⁶ Ministry of Finance, General Government Finance Bulletin, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.

²⁷ “Annual net revenues are defined as the difference between total revenues billed by the JTG for all telecommunications services offered minus value added tax and all interconnected payments to other operators.” In: Management Agreement between France Cables and Radio and Jordan Telecommunications Company, 2000, p. 11.

²⁸ Management Agreement between JTC and PetroCell (MobileCom), and France Cable and Radio, 2000, p.11-12.

Electricity Regulatory Commission (ERC). NEPCO's generation, transmission and distribution businesses were first ring-fenced and subsequently un-bundled in 1999. The state-owned Central Electric Power Generation Company (CEGCO) was given a long-term license to sell bulk supply to NEPCO which in turn sells electricity into three distribution companies—un-bundled Electric Distribution Company (EDCO) serving the rest of Jordan besides IDECO (partially private distribution company) serving only Irbid and fully privately-owned Jordan Electric Power Company (JEPCO) serving only Greater Amman (Amman, Zarqa, Salt and Madaba).

The intention for extensive restructuring and un-bundling was to prepare for private sector participation in generation and distribution activities through privatizing the existing generation and two distribution companies (one fully and one partially state-owned), and introducing Independent Power Producers (IPPs). Even though the sector was regarded efficient and profitable compared to other state-owned and operated infrastructure enterprises, the GOJ was eager to attract private capital to support the expansion of the electric power generation in response to rapid growth in demand. At the time, the international financial institutions had already declared to stop lending to state-owned electric power sectors. In 2001, a universal consulting consortium led by N.M. Rothschild & Sons of the UK was selected to help the GOJ privatizing CEGCO (together with EDCO and IDECO).

The early marketing conducted by the consulting consortium recommended for CEGCO to reduce its percentage of shares offered to investors to 51% from originally contemplated 60% and changing its capital structure by raising the debt-to-equity ratio to highest sustainable level of 70:30 through the transfer of existing GOJ debt ahead of privatization.²⁹ The consortium argued that additional benefits of capital restructuring to GOJ would include the following: (i) delayed proceeds while generating a debt repayment cash flow over the life of the debt; (ii) the investors would also be required to upfront lower equity investment and therefore more inclined to fund capital and network projects; and (iii) consequently the reduced need for third party financing would allow the investors to move ahead with the transaction more quickly. The consortium further reassured the GOJ that having high debt-to-equity ratios was not unusual for electric power generation companies with Power Purchase Agreements (PPAs) guaranteeing stable and predictable long term revenues. It pointed out that major network utilities in Europe were capitalized even with higher debt-to-equity ratios, namely 75:25.³⁰

The GOJ agreed to divest 51% of its full stake in CEGCO and to increase the company's leverage from some 40:60 to about 60:40 debt-to-equity ratio (in lieu of the proposed 70:30) by borrowing JD 100 million from the local banks and transferring the amount to the Treasury. The GOJ accepted this acquisition of early profits in advance of privatization.³¹ In 2005, the first competitive bidding process for CEGCO produced one single offer from Reliance Corporation of India. The offer that started at US\$ 60 million was later raised to US\$ 83 million in exchange for

²⁹ N.M. Rothschild & Sons, "The Privatization of CEGCO, EDCO and IDECO: Phase One Privatization Report," Section D: Valuation Working Papers, 2002, p. 22.

³⁰ Memo, Proposed Capital Structure of CEGCO, IDECO and EDCO, prepared by the Privatization Consortium for the Technical Working Group, GOJ, 30 August 2002, pp. 1-3.

³¹ This amount is not reflected as privatization revenue in: Ministry of Finance, General Government Finance Bulletin, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.

additional conditions as the GOJ came up with a counterproposal of US\$ 100 million for selling 51% of equity. The investor declined to meet this price.³² A couple of years later in 2007 a second attempt to divest CEGCO attracted four expressions of interest (Enera Energy Investments of Jordan [subsidiary of Energy Arabia], Abraj Capital of United Arab Emirates, Malakoff Corporation of Malaysia and Al-Khurafi Corporation of Kuwait) which led to three separate due diligence (as Enera Energy Investments and Malakoff Corporation merged). At the end there were two technical and financial offers--one from Enera (together with Malakoff Corporation) and one from Abraj Capital. Abraj Capital withdrew its offer the last minute foregoing the financial guarantee of US\$ 1 million bid-bond and the GOJ was left with one single bidder, Enera.

In 2007 Enera Energy Investments (with a capital structure composed of 65% by Jordan Dubai Energy and Infrastructure; 25% by Malakoff Corporation of Malaysia; and 10% by Consolidated Contractors of Greece), was declared the winner.³³ The sale of 51% stake in CEGCO together with 9% stake to SSCIU generated a total of JD 112.6 million for the Privatization Proceeds Account.³⁴ The provisions of the transaction reassured the GOJ of the repayment of CEGCO's total of debt--valued at the time as JD 240 million (US\$ 336 million)--through a mechanism of withholding payments from NEPCO in the event of non-payment of CEGCO's debt. The agreements between the GOJ and Enera limit the installed generation capacity to those existing five CEGCO units.³⁵ One of the units, Al Hussein, will cease to operate when it will be decommissioned around 2013.³⁶

In 2008 the GOJ decided to sell its 100% stake in Electricity Distribution Company (EDCO) and 55.4% in Irbid Electricity Distribution Company (IDECO). A competitive tender process brought 14 potential investors for both companies. Kingdom Electricity Company (owned 40% by Jordan Dubai Energy and Infrastructure, 30% Privatization Holding Company of Kuwait, and 30% by Jordanian Arab Investors) was among the bidders for not one but for the two of the distribution companies offered on the block simultaneously. Thus IDECO received three separate bids; one from a consortium (JEPSCO together with SSCIU), one from Hatahet Group, and one from Kingdom Electricity Company. On the other hand, EDCO received one single bid from Kingdom Electricity Company which included an additional offer of US\$ 10 million if it could purchase both companies simultaneously.³⁷ Kingdom Electricity Company's offer alone for IDECO was the highest. At the same time, Kingdom's combined offer for IDECO and EDCO met the GOJ's overall required price based on the valuation of both distribution companies. Negotiations led the

³² Presentation prepared for the Prime Minister in his address to the Parliament in January 2009 by the Executive Privatization Commission summarizing the electricity privatization transactions.

³³ Jordan Dubai Energy and Infrastructure is the fully owned investment arm of Jordan Dubai Capital in which the SSCIU holds 25% stake.

³⁴ This amount is less than JD 117 million collected by the EPC because of additional expenses; see Ministry of Finance, General Government Finance Bulletin, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.

³⁵ Interview with Jordan Dubai Energy and Infrastructure in Amman, Jordan, March 2009.

³⁶ Interview with Jordan Dubai Capital, March 2009.

³⁷ Presentation prepared for the Prime Minister for his address to the Parliament by the Executive privatization Commission, January 2009.

investor's purchasing 100% stake in EDCO together with 55.4% stake in IDECO for a total of JD 73.7 million.³⁸

Table 3. Restructuring and Privatization of Electric Power Sector and Enterprises (1998-2008)

<i>Corporatization</i>	<i>Restructuring</i>	<i>Privatization of generation and distribution</i>	<i>Regulatory Commission</i>	<i>Pre-privatization capital structure</i>	<i>Capital structure at privatization in 2007 and 2008</i>
Jordan Electric Authority (JEA) was corporatized in 1996 and it became National Power Company (NEPCO)	NEPCO was unbundled into generation (CEGCO), transmission (retained by NEPCO) and distribution; (EDCO) distributing electricity for the rest of the country besides partially GOJ owned IDECO (serving IRBID) and private Jordan Electric Power Company (JEPCO) serving Greater Amman	CEGCO's first privatization attempt in 2005; CEGCO's second attempt in 2007; EDCO and IDECO in 2008.	Passing the new Electricity Law 1999; establishing Electricity Regulatory Commission (ERC) in 2001; new electricity law in PPPs in electricity-related projects in 2002	CEGCO 100% GOJ; EDCO 100% GOJ; IDECO 54.5% GOJ; NEPCO remains fully state-owned transmission company, transmission system operator, single buyer and market operator	CEGCO: 51% ENARA (65% Dubai Energy and Infrastructure [Jordan], 25% Malakoff [Malaysia] and 10% Consolidated Contractors Co. [Greece]); 40% GOJ; 9% SSCIU EDCO: 100% Kingdom Electricity (30% Privatization Holding Company of Kuwait, 40% Jordan Dubai Energy and Infrastructure; 30% United Arab Investors); IDECO 55.4% Kingdom Electricity; 25% Northern municipalities; 5% University of Yarmouk; 4.5% SSCIU; 10.1% free float

Source: Compiled from various sources

Distribution of electricity by a private company was not new to Jordan. Jordan Electricity Company (JEPCO) has been operating under a fifty year concession contract since 1962 distributing electricity to four governorates including Amman which represents about two-thirds of total electricity consumers in Jordan. Furthermore, JEPCO was traded on ASE as one of the most profitable companies in the sector compared to its fully or partially state-owned counterparts, EDCO and IDECO.

3.1.3. Transport

The transport sector in Jordan, for the purpose of this study, is broadly divided into four sub-sectors—air transport, urban road transport in Amman, Aqaba Railways and Aqaba Port Container Terminal. Royal Jordanian Airlines was extensively restructured and privatized. Urban road transport sector went through its own restructuring with the liquidation of public transport buses and licensing of operating routes to private bus companies. Aqaba railways went through two privatization attempts but still remains not privatized while still heavily dependent on operating and investment subsidies from the GOJ—some JD 100 million by 2001. Aqaba Container Terminal was privatized under a unique modality consisting of a 25 year concession contract with the private operator carrying out a management contract for two years by which it achieved significant operational improvements. It needs to be noted that

³⁸ Ministry of Finance, *General Government Finance Bulletin*, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.

the privatization of the container terminal was not managed by the EPC but by the Aqaba Development Corporation (ADC) on behalf of Aqaba Special Economic Zone Authority (ASEZA). The EPC's role was limited to only recruiting a consultant to carry out the study on the relocation of the northern port. The study was not eventually implemented because the Aqaba Development Corporation decided to conduct its own evaluation and strategic plan.

Sub-sector of transport: Air Transport

National flag carrier, Royal Jordanian Airlines (RJ), was the top priority in the list of enterprises to be restructured and privatized since its poor performance and external debt were draining the Treasury. The restructuring started with the creation of a separate entity, Royal Jordanian Investment (RJI) in 1999, which took over all the RJ's non-core assets and local debt. The intention was to separate and individually privatize its five non-core business units operating as duty free shops at airports; catering; aircraft maintenance; airline training and simulation; and engine overhaul. RJ later became corporatized as a PSC in 2001. Even before its corporatization, the GOJ was seeking a strategic investor. However, the international market conditions immediately after the incidents of September 11, 2001 failed to attract any quality investor and consequently privatization was postponed. Between 2000 and 2006 RJI managed to transfer each of the five business units to the private sector as a means of improving RJ's financial performance and allowing it to focus on its core business. The transaction advisors retained in 2006 recommenced with developing the new privatizing strategy. This time they decided against a strategic investor but instead opted for an initial public offering through the ASE in 2007.

**Table 4. Restructuring and Privatization of Royal Jordanian Airlines (RJ)
(1999-2008)**

<i>Restructuring</i>	<i>Corporatization</i>	<i>Privatization of business units</i>	<i>Regulatory Commission</i>	<i>Pre-privatization capital structure</i>	<i>Capital structure at privatization 2007</i>	<i>Post-privatization capital structure 2008</i>
In 1999 establishing RJ Investment Company by transferring RJ's assets and debt; failed attempt to privatize RJ to a strategic investor in 2000	RJ corporatized as a public shareholding company in 2001	Duty Free-- 100% sale to Aldeasa (Spain) in 2000; Catering-- 80% sale to Alpha (England) in 2001; Maintenance— 80% sale to Abraj Capital (UAE) in 2005; Training and Simulation— 80% sale to Alsharquyah Group (Jordan) in 2006; Engine Overhaul— 100% sale to Aviation Technology Academy (Jordan) in 2002	Civil Aviation Regulatory Commission (CARC) established in 2007	100% GOJ	26% GOJ; 3% Armed Forces; 7.7% employees; 63.3% of GOJ's shares intended for ASE	26% GOJ 3% Armed Forces Investment Fund; 10.3% Social Security Corporation; 5.4% employees; 19% Mint Group; 12.9% Gulf General Investments; 23.4% free float

Source: Own summary from various sources.

RJ's selling of its 63.3% stake through an initial IPO on the ASE raised total proceeds of JD 164.5 million. The employees received 7.7% free shares at the time of privatization while the GOJ retained 29% (3% of which it allocated to Jordanian Armed Forces). In addition, RJI received from the sale of (full or less than full) its five former business units and from long-term concession fees a net total of JD 121 million between 2000 and 2006, after deducting for the outstanding debts and other expenses, to be transferred to the Privatization Proceeds Account.

These transactions included RJI selling 100% of RJ's shares in two business units—Duty Free Shops (3 locations) and Jordan Airmotive Limited Company (JALCO). In addition, Duty Free Shops had an initial exclusivity for 12 years and recently negotiated an extension for another 20 years until 2032. The GOJ collects an annual concession fee in exchange for this generous exclusivity—equivalent to 8% of sales revenue (a substitute for government tax exemptions for operating in the Tax Free Zone). RJI transferred, however, to RJ 20% of the shares in the remaining three companies—Alpha Catering, Jordan Aircraft Maintenance Company (JORAMCO) and Jordan Airline Training and Simulation (JATS). Eventually a total of JD 285.5 entered the Privatization Proceeds Account from the combined proceeds from RJ's sale of its own shares on the ASE (JD 164.5) in 2007 and the net privatization proceeds of its five business units to various buyers (JD 121) between 2000 and 2007.³⁹

Only in 2007, right before RJ's privatization, the former Civil Aviation Authority (CAA), which previously owned and operated the air transport sector, was named Civil Aviation Regulatory Commission (CARC) as the first time regulator for the aviation sector. The two of the enterprises under the former CAA--Royal Jordanian Air Academy and Queen Noor Civil Aviation College--were privatized respectively in 2003 and in 2007. The sale of Royal Jordan Air Academy raised JD 4.1 million for the Privatization Proceeds Account. Full shares of Queen Noor Civil Aviation College were purchased by Royal Jordanian Air Academy raising JD 2.98 million.⁴⁰ The same company has acquired indirectly 80% of Jordan Airline and Training Simulation (JATS)—one of the privatized business units of RJ--through its subsidiary, Al-Sharquyah Group. Other units within CAA still remain to be corporatized such as the navigation service unit.

Sub-sector of transport: Urban Road Transport

Between 1991 and 1999, the Public Transport Corporation (PTC) provided urban public transport to meet passenger travel demand particularly those with low income and without car ownership in Greater Amman Area. By the end of 1998, the company had 479 employees, average annual losses of JD 1.8 million and accumulated losses of JD 15 million.⁴¹ The Ministry of Transport decided to liquidate the PTC by transferring its fleet of buses to the government institutions and to the army while scrapping some at the same time. PTC's workforce was also transferred

³⁹ Ministry of Finance, *General Government Finance Bulletin*, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.

⁴⁰ While the privatization proceeds for the Royal Jordanian Air Academy are reported in Ministry of Finance, *General Government Finance Bulletin*, Studies & Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96, the privatization proceeds for Queen Noor Aviation College are not reported on the same table.

⁴¹ Information provided by the EPC, March 2009.

to other public institutions. The Ministry also created a temporary unit in charge of privatizing the sector through a competitive tender. Three different packages (with built-in cross subsidies between profitable, less profitable and not profitable routes) were allocated through franchise agreements to three local private bus operators—Asia (65 big busses to operate two packages of routes), Al-Thelal (20 big and 20 small busses to operate one package of routes) and Al-Tawfiq (45 big and 15 small busses to operate one package of routes). The annual license fees for three companies combined were JD 500,000.

The Ministry of Transport subsequently created the Public Transport Regulatory Commission (PTRC) in 2001 after passing the necessary legislation. The PTRC in turn was entrusted to monitor the privately-owned and operated urban road transport in Greater Amman Area. Most recently, however, a temporary law transferred regulatory authority of the public-transport sector within the capital to the Greater Amman Municipality (GAM). As a result, the three private companies joined forces creating the new Comprehensive Multi-transport Company—20% of which is now owned by the Greater Amman Municipality. The latter hopes to regulate the sector, set new tariffs and the provision of improved services especially to economically disadvantaged neighborhoods neglected in the past. This change consequently reduces PTRC's jurisdiction to outside of the capital. Apparently both the Ministry of Transport and the PTRC remain eager to reverse this decision. They maintain that operating and regulating is likely to translate into a conflict of interest.⁴²

Sub-sector of transport: Aqaba Railways

The privatization of Aqaba Railways has undergone two unsuccessful attempts—one between 1999 and 2001 and the other more recently between 2005 and 2007. By 1998 the state-run (not corporatized) enterprise had already accumulated liabilities reaching JD 75 million and serious financial difficulties.⁴³ The initial decision was first to reduce its overstaffed workforce of 1300 by transferring 500 workers to Jordan Phosphate Mines Company and another 400 to government entities, and then to concession the company for a period of 25 years to a private international operator. After three years of preparatory work, the designated preferred bidder--selected through a competitive process—unexpectedly pulled out of the deal purely as a result of a change in its own capital structure in 2001.

More recently in 2005, the EPC made a second attempt to privatize the railways. This time it opted to corporatize the Aqaba Railways, transform it to a fully government-owned shareholding company and divest the majority of 51% of its shares to a private investor and operator. This time the expected transaction encountered a different kind of hurdle. The phosphate company, the only customer of the railways, was about to undergo its own privatization and was not ready to sign a long term contract with the railways. At the same time, there were other plans of integrating the Aqaba Railways into National Railway Project connecting Jordan to its neighbors. Once again, after another three years of preparatory work, the EPC abandoned the effort of privatizing the Aqaba railways. It still remains not corporatized and its workforce apparently escalated from 622 in 2001 to 777 in 2007—25% increase.⁴⁴ (Table 18)

⁴² Zaina Steityeh, "Miles to Go," *Jordan Business*, October 2008, p. 41.

⁴³ Data from the financial statements of Aqaba Railways.

⁴⁴ Information provided by the EPC, March 2009.

Sub-sector of transport: Aqaba Port Container Terminal⁴⁵

By 2003, Aqaba container terminal (ACT) became Jordan's biggest hindrance to trade and competitiveness. Waiting time for ships at berth was long. Major international shipping lines had no other choice but to suspend their dealings. Even though the GOJ had an Action Plan at hand prepared by Booz Allen Hamilton in 2000 for the creation of a possible public private partnership, it had not implemented the recommendations presented. Only the severe congestion, literally terminal's coming almost to a standstill (following the US occupation of Iraq) prompted the Aqaba Development Corporation (ADC) to seek a private partner and operator. The intention was to take full advantage of Aqaba Port's location as the most appropriate port for serving Iraq. Furthermore, H.M. King Abdullah II himself was demanding that a plan be implemented within 3 months to solve the congestion problem.

Since there was a strong opposition (mostly from the Parliament and the Jordanian Ports and Clearance Workers' Association) to privatizing the container terminal, the ADC decided to offer the concession on the condition that the operator start with a management contract for two years rather than immediately entering into the long-term public private partnership. Under the management contract, the private operator was expected to provide only management services (and not any port infrastructure) while agreeing not to initiate any involuntary dismissal of workers on the payroll. The two-year management contract period would give the ADC (and Jordanians too) the option to evaluate the performance of the private operator.

The international tender prepared by the Booz Allen Hamilton in 2003 included a two-year management contract to be followed by a 25 year joint venture with the ADC. A total of 11 leading international container terminal operators were invited to participate in the public tender and only eight placed bids. Three companies—Hutchinson Ports Holding, P&O Ports, and AP Moller Terminals International (a division of A.P. Moller-Maersk Group) were among the finalists while the latter offered the highest royalty, the highest equity stake in the 25 year joint venture and the most attractive expansion plan. Consequently, AP Moller Terminals International (Denmark) signed a two-year management contract with the ADC in March 2004 followed by the concession contract in 2006.⁴⁶

3.1.4. Amman Governorate Water Authority

Immediately after developing the new water sector strategy in 1997, the GOJ sought with the help of the development partners to attract private management to operate the largest water authority for the Amman Governorate, serving a population of 2 million, without changing ownership.⁴⁷ The World Bank sector loan provided for US\$ 55 million, a portion of which to cover the management fee of the private operator, and the remaining three-quarters for capital expenditures. The competitive tender selected LEMA (a joint venture company established in partnership between the international, Suez Lyonnaise des Eaux [France] & Montgomery Watson [UK], and Arabtech

⁴⁵ This transaction was not handled by the EPC; however, it is regarded as one of the most successful PPPs improving the competitiveness of Jordan domestically and internationally.

⁴⁶ Case Study: Jordan, "Celebrating Reform 2008," in: *Doing Business*, the World Bank, 2008, pp. 72-76.

⁴⁷ The budget of the Water Authority of Jordan (WAJ) under the Ministry of Water and Irrigation included all eleven water authorities nationwide up until 2006. However, for the last two years under Miyahuna, WAJ's budget includes only ten governorates excluding Amman.

Jardaneh [Jordan]). It was a government decision to insist on the presence of a local company as part of the consortium. The initial contract was originally tendered for four years but later extended twice for a total of seven years between 1999 and 2006. The management contract fee of US\$ 8.8 million for the planned four years was to be financed by the World Bank loan. It also specified performance targets, if and when fully met, would provide private operators with an annual performance bonus not to exceed 5% of incremental increase in yearly cash flow as a result of improvement in operational performance. The private operator (LEMA) was also provided with US\$ 43 million of an operating investment fund from the World Bank loan (after deducting the management fee). The latter was intended for operating, rehabilitating the network and for purchasing vehicles, water meters and computers.

During the seven year period between 1999 and 2006, the private operator (LEMA) collected a total of JD 12,080,886 in management fees alone (which was paid by the World Bank loan) and an additional JD 883,923 as performance incentive fees for meeting the performance targets agreed in the management contract.⁴⁸ The latter was paid on a yearly basis from a pre-determined percentage share of the profits made. Yearly average of combined management fees and performance bonuses amount to JD 1,852,212 with a grand total of JD 12,964,481 for seven years.

The GOJ decided not to extend the LEMA contract beyond 2006 but created a new public company, Miyahuna (our water in Arabic), to manage the Amman Governorate Water Authority. Miyahuna has now been running the Amman Governorate Water Authority for the last two years since 2007. USAID has agreed to finance the four advisors for up to one year each to support the new management. Miyahuna's General Manager previously headed the Aqaba Water Company (AWC), the corporate structure of which resembles Miyahuna. Yet the new public arrangement is different from that of LEMA because the new public company is not subject to civil service norms or regulations, and is free to hire and fire and set its own wage structure. Miyahuna keeps the revenues it receives without passing it to the central water authority (WAJ) while the latter continues to pay for its full capital expenditures as it was the case under LEMA.

3.2. Non-Infrastructure Enterprises

The GOJ held majority shares in key mining and industrial enterprises through JIC. The three non-infrastructure enterprises--cement, potash and phosphate--employed jointly over 11,250 employees in 1998. This was made possible as the JIC transferred the privatization of these three enterprises from its portfolio to the EPC to develop the necessary privatization strategies and implement the transactions.⁴⁹

At the time, JIC held 49.5% stake in Jordan Cement Factories (JCF). The company was the monopoly producer of cement with a concession for a period of 50 years since its inception in 1951. JCF became the first partially state-owned company to be

⁴⁸ Data provided by the Finance Department of Water Authority of Jordan (WAJ) for the period between 1999 and 2006.

⁴⁹ Agricultural Marketing and Processing Company (AMPCO) was privatized; Jordan Silos and Supply Company (JSSC) was not privatized but is now owned by the GOJ. Another JIC company is Ma'in Spa Complex was privatized through a concession agreement with a French company; after investments amounting to US\$ 12 million, the Ma'in Spa is about to open in April 2009; therefore, the team was not able to assess the post-privatization experience of this enterprise.

divested in 1998. The objective was to engage a strategic partner with management know-how and international expertise. Over half of GOJ's shares, 33%, were sold through competitive tender to Lafarge Group of France in 1998. Subsequently 1% of the shares were sold to employees at half price. In 2001, the Lafarge Group purchased the balance of JIC's remaining stake, corresponding to 15.6%, gaining full control of JCF. Total proceeds to the GOJ through JIC between 1998 and 2002 amounted to JD 92.3 million. Presently the JIC has no JCF shares left.

Table 5. Privatization of Jordan Cement Factories (JCF) in 1998

<i>Restructuring</i>	<i>Pre-privatization Capital structure</i>	<i>Privatization Modality</i>	<i>Capital structure at privatization in 1998</i>	<i>Post-privatization capital structure in 2008</i>
No	49.5% JIC; 6.3% SSCIU; 3.6% Arab Investors; 3.8% Foreign investors; 37.8% private Jordanian investors on the ASE	Divestiture of JIC's shares to a strategic international investor, Lafarge Group of France	33% Lafarge Group; 1% employees at discounted price; 15.6% JIC; 14.3% SSCIU; 36.1% others	50.28% Lafarge Group; 21.85% SSCIU; 10.27% Mr. Maylood Al Sha'bi; 0.09% Mr. Omer Bdeir; 17.57% free float

Source: Own summary from various sources.

Only in 2003 the EPC managed to reduce JIC's 52% stake in another mining company, namely the Arab Potash Company (APC). It sold through competitive tender, 26% (half) of JIC's stake to the Canadian giant, Potash Corporation of Saskatchewan (PCS), generating gross proceeds of JD 122.9 million.⁵⁰ The Sales and Purchase Agreement gave PCS the right to propose to the board the candidates for the four key management positions at APC. Once approved, APC were to sign individual "management assistance contracts" directly with the seconded personnel from PCS for salaries and presumably their expenses.

Table 6. Privatization of Arab Potash Company (APC) in 2003

<i>Restructuring</i>	<i>Pre-privatization capital structure</i>	<i>Privatization Modality</i>	<i>Capital structure at privatization 2003</i>	<i>Post-privatization capital structure 2008</i>
No	52% GOJ via JIC; 20% Arab Mining Company; 5% Islamic Development Bank; 4.7% Government of Iraq; 4% Government of Libya; 4% Government of Kuwait; 10.3% free float	Divestiture of JIC's shares to a strategic international investor, Potash Corporation of Saskatchewan (PCS) of Canada	26% to PCS of Canada; 26% JIC; 20% Arab Mining Company; 5% Islamic Development Bank; 4.7% Government of Iraq; 4% Government of Libya; 4% Government of Kuwait; 10.3 free float	28% to PCS of Canada; 26% JIC; 20% Arab Mining Company; 5% Islamic Development Bank; 4.7% Government of Iraq; 4% Government of Libya; 4% Government of Kuwait; 8.3% free float

Source: Own summary from various sources.

⁵⁰ Ministry of Finance, *General Government Finance Bulletin*, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.

It took the EPC even much longer to privatize Jordan Phosphate Mines Company (JPMC)--the only entity with the legal right to mine phosphate rock in Jordan. JPMC was first created as a private entity and later established as a public shareholding company in 1953. As its financial performance deteriorated in late 1990s, JIC was eager to attract a financial partner for capital injection. The principal benefit of capital increase would be to strengthen the shareholder's equity while reducing its borrowing requirements while maintaining its capital investment program.⁵¹

Table 7. Privatization of Jordan Phosphate Mines Company (JPMC) in 2006

<i>Restructuring</i>	<i>Pre-privatization capital structure</i>	<i>Privatization Modality</i>	<i>Capital structure at privatization 2006</i>	<i>Post-privatization capital structure 2008</i>
Debt-equity conversion in 2000; JIC increased its equity stake from 41.5% to 89.2%; extensive labor restructuring in 2001	65.66 % JIC; 16.29 % SSCIU; 10.8% Government of Kuwait; 2.8% Jordan Housing Bank; 4.4 % institutional investors	Divestiture of JIC's shares to a financial investor <u>without</u> strategic expertise, Kamil Holdings (Brunei Investment Agency)	37% Kamil Holdings (Brunei); 28.66% JIC; 14.37 SSCIU; 9.33% Government of Kuwait; 0.3 Islamic Development Bank;	37% Kamil Holdings (Brunei); 26.26% JIC; 14.37% SSCIU; 9.33% Government of Kuwait; 0.314% Islamic Development Bank; 2.4% pension fund for JPMC employees; 3% Armed Forces Investment Fund; 7.3% free float

Source: Own summary from various sources; the financial partner, Kamil Holdings, is a wholly-owned subsidiary of Brunei Investment Agency.

Prior to privatization in 2003, the GOJ apparently considered selling its stake in JPMC to the same strategic investor who purchased the shares of Arab Potash Company (APC). Yet the Potash Corporation of Saskatchewan (PCS) who purchased the potash company in 2003 conducted cost analysis of the Al-Shadiyah phosphate mines and decided that it was not cost effective to proceed with the transaction at the time. The GOJ decided to consider the offer of the Kamil Holdings. The divestiture of 37%, half, of JIC's total stake of 65.66% in 2006, not to a strategic but only to a financial investor, Kamil Holdings (a fully-owned subsidiary of Brunei Investment Agency) with management rights, raised total proceeds of JD 81.3 million.⁵²

3.3. Remaining Government Ownership and Control

Privatization transactions to date did not fully divest GOJ's ownership and full or partial control in infrastructure *and* non-infrastructure enterprises. In infrastructure sectors, the transmission company in electric power sector (NEPCO) remains fully state owned. Jordan Post (already corporatized) and Aqaba Railways (not yet even corporatized) still remain under full government ownership. Amman Governorate Water Authority remains under government ownership too while it is now managed by a public company, MIYAHUNA, owned by Water Authority of Jordan (WAJ). While the work is underway to privatize Jordan Post through divestiture and Aqaba Railways through a long term concession contract to private sector, the GOJ has no

⁵¹ HSBC, Addendum to the Strategy Report, *Privatization of Jordan Phosphate Company*, 2005, p.18.

⁵² Ministry of Finance, *General Government Finance Bulletin*, Studies and Economic Policies Directorate, Vol. 10 – No. 12, January 2009, p. 96.

intention to divest NEPCO or any of its water authorities. It considers, however, introducing new private management contracts to some of its eleven water authorities. In non-infrastructure sectors, the GOJ has maintained its direct and indirect equity participation in mixed commercial enterprises. The two major vehicles for those investments still remain the JIC, or more accurately, the present DGO *and* SSCIU. JIC's assets were mainly investments in company shares and its funding source is a portion of profits made from buying and selling shares as well as collecting dividends on GOJ's shares in public shareholding companies—listed or unlisted. In 2002 the JIC law was modified with clear directions as to allocation of its privatization proceeds. It would transfer 75% of its gross revenues from disposing its shares (together with the dividends it collects) while keeping the remaining 25%. The bulk (75%) designated for the Treasury is further divided into two separate categories--50% for the Treasury directly and 25% exclusively to the Privatization Proceeds Fund.⁵³ However, this law was cancelled at the end of 2008 transforming the JIC into DGO.

Yet JIC's equity holdings changed over the fifteen years. In 1994 more than two-thirds (69%) of its total equity participations was in mining and industry while the rest was in agriculture and food, construction and real estate, tourism and hotel, and information and press sectors. However, in contrast to other countries in the region such as Egypt, Tunisia, Algeria and Syria, GOJ's investments were almost negligible in banking, financial and insurance sectors representing only 1-2% of equity participations in its portfolio. While the privatization of three major enterprises—cement, potash and phosphate companies, in JIC's portfolio were transferred to the EPC, JIC had its own privatization program. It either divested its minority shares in some mixed enterprises through sale of equity shares or competitive tenders. Its successor, DGO, now has a total of 14 companies under liquidation while another 6 have been liquidated to date. The careful review of JIC's Annual Reports shows that it has continued to acquire golden shares in public shareholding companies (from 6 in 1998 to 13 in 2008) in parallel to its efforts to divest its shares in others.⁵⁴ Moreover, it appears that the JIC was involved in buying and selling shares in as much as 34 other public shareholding companies in the interim.⁵⁵

Nonetheless, over the last fifteen years between 1994 and 2008, the number of commercial enterprises in JIC's portfolio declined from 79 to 42. After deducting the sale proceeds collected by the EPC and transferred directly to the Privatization Proceeds Account, the JIC has raised a total of JD 139 million on its own—less than 1% of the amount by the EPC in the interim.⁵⁶ It now holds majority and minority stakes in a total of 28 public shareholding companies (7 listed and 21 unlisted) with a total market value of shares equivalent to JD 1.4 billion at the end of 2008. Yet the GOJ collected dividends only in 11 of 28 companies in 2008—80% of which from its remaining stake in potash and phosphate. The rest, 17 companies, makes losses or are not in a position to declare dividends.⁵⁷

⁵³ Law No. 18 for the Year 1991, The Jordan Investment Corporation Law, modified in 2002, p. 9.

⁵⁴ The team analyzed JIC's Annual Reports between 1994 and 2008 and conducted interviews with its former CEO in January 2009.

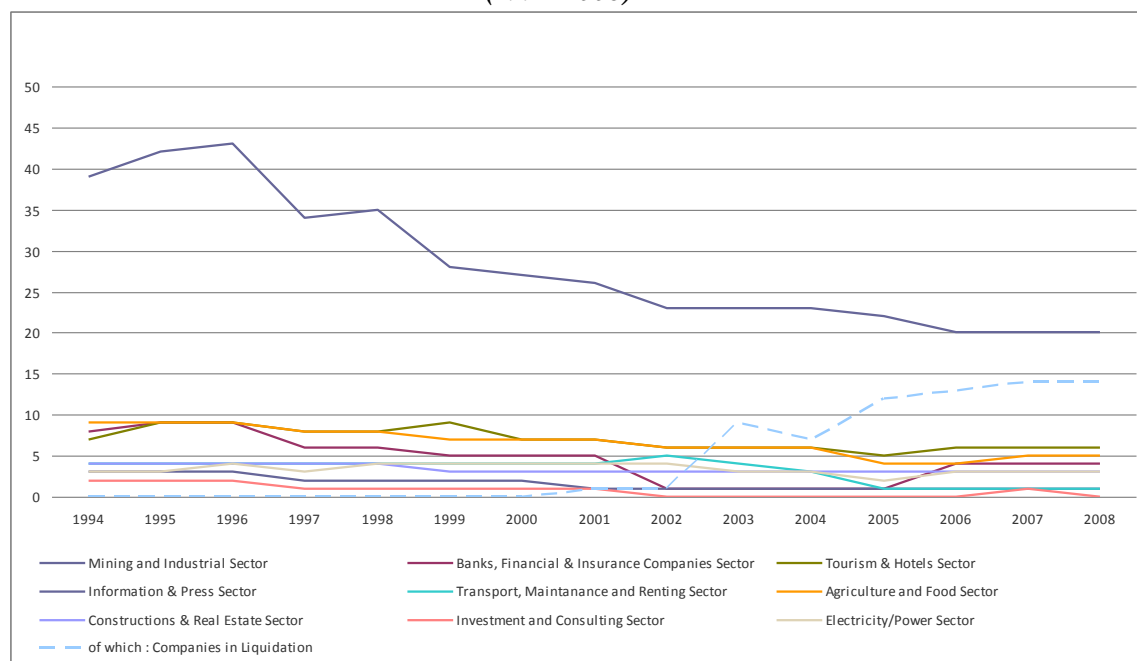
⁵⁵ The team has documented JIC's buying of new shares in additional 34 public shareholding companies and disposing them as it saw fit—a finding refuted by the DGO.

⁵⁶ Information provided by the DGO, March 2009.

⁵⁷ Information provided by the DGO, March 2009.

While JIC's shares in mining and industry declined significantly over the years, it continues to hold 99.9% stake in National Petroleum Company, 46.5% in Arab Engineering Industries, 26.3% in JPMC and 26.0% in APC—residual shares in the latter two after privatization. (It has some minority shareholdings in the range of 15% in Jordan Bio Industrial Center and 5% in Jordan Magnesia.)

Figure 1. Decline in Number of Public Shareholding Companies with JIC Stake by Sector (1994-2008)



Source: Compiled from data in the Annual Reports of the JIC and DGO between 1994 and 2008.

The JIC also reduced its share in the tourism and hotels sector. However it still holds 95.9 % stake in Ma'in Spa Complex (which is under concession with a private operator), 98.8% in the Holy Land Hotels and 30% in Royal Tours, and 30% in Jordanian Hospitality and Tourism Education. Moreover, it retains substantial holdings of 87% in Jordan Real Estate Corporation and 90% in Shabsough Complex as well as 67.5% in Jordan Industrial Estate Corporation, 70.2% in the Jordan Fund and 37% in Jordan Job Opportunity. At the same time, it has shareholdings in few Pan Arab Companies--50% in Syrian and Jordanian Corporation for Industries, and 33% in Arab Bridge Marine. While it holds only 10.5% stake in only one agricultural enterprise, Modern Agriculture Investments, its shares are now negligible in banking and insurance sectors.⁵⁸

This study was not the first to highlight the still remaining shareholdings of the GOJ in public shareholding companies as well as the infrastructure enterprises. The researchers for the recent Jordan National Agenda have already made similar observations--without much detailed analysis to support their thesis, however. The findings state that “despite the privatization program, the government controls 30% of the Jordanian GDP and remains involved in key economic sectors such as the utilities, mining, agriculture, education, transportation, and to a lesser extent construction, real

⁵⁸ Data from table, MOF Portfolio Sectorwise, 12/11/2008, provided by the JIC. However, this information is inconsistent with the data entered into JIC's Annual Reports.

estate and manufacturing.”⁵⁹ A more thorough analysis is long overdue to assess the mandate regarding the shareholdings of the DGO parallel to that of the more visible and internationally recognized privatization efforts of the EPC.

Besides its direct participation, the GOJ maintains indirect ownership and control in public shareholding companies through the SSCIU. Social security contributions have become compulsory and amount to 15% of salaries and wages with the employer contributing 10% and since 1995 they include all public sector employees as well.⁶⁰ Like any other strategic investor, SSCIU seeks good return on its investments but it is only allowed by law to invest in the local market (where anything outside of Jordan requires approval by the Prime Minister). Its strategy is therefore to invest in sectors contributing to economic growth while generating employment yet maintaining low level of risk. Its investments are spread between deposits at banks and financial institutions, development and corporate bonds, real estate, loans and equity securities. Over the last five years, its investment assets of the SSCIU have grown four-fold from JD 1,925 million in 2003 to JD 4,661 million in 2007 and those in equity securities apparently increased even more than four-fold from JD 683 million in 2003 to JD 2,939 million in 2007.⁶¹ Equity securities alone now represent 63% of SSCIU’s total investments--including those in recently privatized enterprises.⁶²

Table 8: SSCIU Equity Ownership in Privatized Enterprises (1998-2008)

<i>Infrastructure enterprises:</i>	<i>Shares purchased At privatization</i>	<i>Shares at end of 2008</i>
Jordan Telecom Group (JTG)	29.07% (2002)	29.07%
Central Electricity Generating Company (CEGCO)	9.07% (2007)	9.07%
Irbid Electricity Distribution Company (IDEC0)		4.5%
Royal Jordanian Airlines (RJ)	10.28% (2007)	10.28%
<i>Non-Infrastructure enterprises:</i>		
Jordan Cement Factories (JOCF)	14.3% (1998)	21.87%
Jordan Phosphate and Mines Company (JPMC)	16.03% (2006)	14.37%
Arab Potash Company (APC)	3.83% (2003)	3.83%

Source: *Equity shares at the time of privatization transactions were provided by SSCIU, February 2009.*

It should be noted that SSCIU also holds 10% stake in Jordan Electric Power Company (JEPCO)--private company in charge of distributing electricity for Greater Amman and a 20% stake in Petroleum Refinery Company. Since the energy sector offers good potential, it turns out that SSCIU recently joined a consortium in the privatization of the electricity distribution companies in 2008 which was unsuccessful.

⁵⁹ Government of Jordan, Jordan National Agenda (2006-2015), p.6.

⁶⁰ Total number of subscribers for the Social Security Corporation covers 800,000 individuals on behalf of 16,000 public and private institutions as indicated on its website.

⁶¹ Balance Sheet of Social Security Corporation in: Ministry of Finance, General Government Finance Bulletin, Studies and Economic Policies Directorate, Vol. 10-No. 12, January 2009, p.78.

⁶² The World Bank, Jordan: Private Sector Assessment, 1994, p. 14.

4. Direct Impact on Stakeholders

4.1. Consumers

4.1.1. Consumers of Infrastructure Services

Consumers benefit from improvements brought along by private investors and operators in a number of ways: (a) increases in quantities supplied; (b) increase in quality of services previously provided by the public sector; and (c) if and when the tariffs/prices of the services become affordable. It is the net impact of all these indicators combined which determine the extent to which consumers of various infrastructure services do experience the kind of tangible benefits intended by change of ownership and/or control.

Telecommunications under Private Ownership and Control

Consumers of telecommunications services over the last eight years have benefited the most from the simultaneous privatization of the incumbent operator combined with the liberalization of the mobile sector and the significant leap in technology. The number of mobile subscribers grew at an annual compounded growth rate of 56% from 1999 to 2008—three-fold increase in the number of subscribers in the last four years alone with the arrival of intense competition among mobile operators. While the fixed line subscribers remained more or less the same, the mobile subscribers jumped from a mere 95,000 in 1999 to 5,117,000 in 2008.

This is significant as compared to what the sector provided only fifteen years ago. In 1994 fixed lines in operation were 305,470 giving Jordan a nationwide penetration rate of only 7.24 lines per 100—with the majority in the Amman area and yet very low compared to Israel (41.8) and average for high-income countries (53).⁶³ While the penetration rate for the fixed line is declining, the penetration rate for mobile has already exceeded 83.3 per 100 by 2008. Yet the universal service obligation of the new investor and operator continues to provide a fixed line service to every town, village and municipalities with at least 300 permanent inhabitants in Jordan. This will benefit those who cannot afford fixed line or mobile phone service on their own.

Table 9. Fixed Line and Mobile Connections (1999-2008)
(subscribers in millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Fixed Lines (JTG)	0.57	0.61	0.66	0.67	0.62	0.64	0.63	0.61	0.66	0.66
ADSL connections					0.01	0.01	0.03	0.06	0.09	0.13
Mobile Operators										
Fastlink/Zain	0.10	0.29	0.68	0.87	0.94	1.14	2.02	1.96	1.86	2.00
MobileCom/Orange		0.06	0.18	0.32	0.36	0.46	0.75	1.41	1.71	1.76
Xpress						0.04	0.07	0.09	0.06	0.06
Ummiah							0.31	0.70	1.25	1.31
Total Mobile Lines	0.10	0.35	0.86	1.19	1.30	1.63	3.14	4.16	4.88	5.12
TOTAL LINES	0.67	0.96	1.52	1.87	1.92	2.27	3.77	4.77	5.54	5.78

Source: Information from JTG, TRA, and Arab Advisors reports; the total subscribers in fixed and mobile sector are slightly higher than the information provided by the TRA alone.

Increase in subscriptions and penetration rates were accompanied by improvements in quality of services. Prior to privatization, the waiting time for a fixed line connection was almost 10 years compared to three years in other countries and, at most, a few days for high income countries. Now the waiting time for a fixed line is comparable to any developed country whereas a mobile phone connection can be obtained within

⁶³ Mohammed A. Mustapha, "Telecommunications in Jordan: Performance, Policy Environment and Reforms Ahead," The World Bank Group, 2006, p. 1.

a few minutes. In 1994 the fault lines were also poor; 86 faults per 100 main lines per year compared to the average of 8.5 for high income countries.⁶⁴ At the time of the acquisition in 2000, the Jordan Telecom Group committed to reducing the fault rate down to 15% in two years by the end of 2002. By 2008, the fault rate has decreased to less than 3%.⁶⁵

Consumers also benefited from decrease in one-time connection fees. For fixed domestic lines, one-time connection fee dropped from JD 125 in 1998 to JD 30.92 in 2008—75% decrease in the last ten years. For fixed commercial lines, the same fee was also reduced from JD 250 in 1998 to JD 61.85 in 2008—another 75% reduction in the same period. From time to time, JTG put in place promotions to attract more fixed line customers as it chooses to waive the first time connection fee completely. However, the annual recurring fee for domestic fixed lines has doubled from JD 28 in 1998 to JD 56.76 in 2008. The same fee for commercial fixed lines increased from JD 72 in 1998 to JD 128.4 in 2008 by 78.3%.⁶⁶

Consumers witnessed a remarkable decrease in fixed line and mobile tariffs over the years after privatization and increased competition in the mobile telephony market. Almost all fixed line tariffs decreased by half over the last ten years with the exception of local calls during peak period. This increase partly reflects the rising inflation rates of the last few years between 2006 and 2008.

Table 10. Fixed Line Tariffs (1999-2008)
(fils per minute)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Local Peak	10	10	10	10	12	14	14	15	15	15
National Peak	49	49	44	41.5	33	27	27	24.5	24.5	24.5
International Peak (Arab)	500	450	425	390	340	280	240	240	240	238
International Peak (Rest of the world)	1000	800	730	730	730	690	120-340	120-340	120-340	120-238

Source: Information provided by the TRC, March 2009; off-peak tariffs are lower than peak tariffs but follow the same decreasing trend. After 2005 peak rates are applied according to country of call destination and vary among countries; in 2008 international peak range is for the ten first countries in traffic.

Jordanian consumers (individual and businesses) communicating with Arab countries over fixed lines benefit more than those calling the rest of the world. On the other hand, talking on mobile phones internationally is subject to a wider range among countries. Jordanians talking over mobile phones paid in 2005 anywhere between a very low 120 fils per minute to the USA and to a relatively high 340 fils per minute to Europe and Asia.⁶⁷ Yet the consumers have seen a more drastic decline in average local mobile tariffs. For those communicating within same network, tariffs were reduced by half and for those communicating outside their own network, slightly less. Calling fixed lines from mobile phones remains still expensive despite 38% decrease between 2004 and 2007. Nonetheless, average mobile net tariffs in absolute terms constitute only one-fifth of fixed line local peak tariffs in the absence of any annual or monthly subscription fee and an almost negligible one-time connection fee.

⁶⁴ Mohammed A. Mustapha, "Telecommunications in Jordan: Performance, Policy Environment and Reforms Ahead," The World Bank Group p, 2006, p.2.

⁶⁵ License Agreement between TRC and JTC, December 2000.

⁶⁶ Information provided by TRC, March 2009.

⁶⁷ Information provided by TRC, March 2009.

Table 11. Weighted Average Local Mobile Tariffs (2004-2007)
(fils per minute)

	2004	2005	2006	2007	2008
<i>On net (to own network)</i>	6	4.4	4.2	2.7	n.a
<i>Off net (to others' network)</i>	12	10	8.8	6.5	n.a
<i>To fixed line</i>	8	6.3	6.3	5	n.a

Source: Information provided on all mobile operators by the TRC, March 2009.

Electric Power under Restructuring and Un-bundling

Since the generation company was privatized only in 2007 and the two distribution companies in 2008, it is impossible to measure the impact of privatization on consumers directly. However, the restructuring and the un-bundling of the sector had improved operations and are likely to have contributed to consumer welfare between 2000 and 2007. This is measured through increase in electricity consumption (increase in generation capacity and bulk supply provided to the transmission system operator), increase in electricity dispatched to electricity distribution companies, increase in quality of services; and affordability of tariffs.

Table 12. Electricity Bulk Supply of Interconnected System (1999-2008)
(GWh)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<i>CEGCO</i>	6636	6934	7232	7615	7468	8448	9086	8966	9852
<i>SEPGCO</i>							29	1660	2733
<i>Others</i>	215	188	212	208	205	203	211	202	165
<i>Imports Minus Exports</i>	38	40	265	321	968	823	982	501	35
TOTAL	6889	7162	7609	8144	8641	9474	10068	11329	12785

Source: Compiled from data provided in Annual Report, Electricity Regulatory Commission, 2007; others include King Talal Dam, Potash, Cement and Indo-Jordan Chemicals companies.

Consumer demand has been increasing over the years with a major increase in 2006 and 2007 prompted by increase in the number of customers and rapid improvement in social welfare and changing patterns of consumption dependent on electricity usage.⁶⁸ The existing generation capacity was capable to respond to this increase in demand and reduce the electricity imports. Bulk supply of total electricity increased by 86% between 1999 and 2007; three-quarters of this increase was generated by state-owned and operated CEGCO (privatized only in 2007) alone and the other one-quarter by state-owned and operated SEPGCO's entry into the generation after 2005. In the absence of SEPGCO, GOJ would have no other alternative but continue to increase its imports. The decline in net imports is simply the reflection of SEPGCO's emerging presence thus contributing to the availability of bulk supply into the interconnected system.

Similarly, the increase in bulk supply has translated into increase in the number of households, industrial and commercial connections and a commensurate increase in their unit consumption. Jordan prides itself for providing electricity access to 99% of its total households. However, the team was not able to dissect the electricity access by different socio-economic groups and the increase in their electricity connections

⁶⁸ GOJ recognizes the need for reliability of supply by meeting this high demand growth through a pipeline of various Independent Power Producers (IPPs) to be put on line by 2013 amounting to approximately half of overall existing generation capacity.

and consumption. More research is needed on this topic to make intelligent conclusions by the ERC.

Table 13. Household, Industrial and Commercial Connections and Consumption (2000-2008)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<i>Households Connected (000s)</i>	686	715	756	799	836	879	933	987	1049
<i>Consumption per Households (MWh)</i>	2.4	2.5	2.5	2.5	2.6	2.7	2.7	3.0	3.1
<i>Industrial Connections (000s)</i>	12	12	12	13	14	13	14	15	15
<i>Consumption by Industrial Costumers (MWh)</i>	149.9	158.5	159.6	164.7	168.8	176.5	167.8	194.3	193.4
<i>Commercial Connections (000s)</i>	113	122	124	132	138	146	153	161	169
<i>Consumption by Commercial Customers (MWh)</i>	6.4	6.6	7.1	7.0	7.2	7.8	8.2	9.1	9.8

Source: Compiled from data provided in Annual Report, Electricity Regulatory Commission, 2007.

Household connections increased by far the most by 53% followed by commercial connections 50% and industrial connections by only 25% between 1999 and 2008. However, the average consumption per commercial connection increased by 54% followed by households 31% and industrial 25%. One might deduct from this that increased private sector commercial activity (most likely in the Amman area through Jordan Electric Power Corporation [JEPCO]) made well use of availability of electricity supplied parallel to a corresponding increase in number of commercial connections.

The distribution companies do not report to the public on customer service performance such as delays to obtain electricity connection, time to repair malfunctions and network faults. Apparently the ERC asks and collects this information but does not publish it in its Annual Reports.

The restructuring of the power sector was accompanied by adopting a new tariff structure between un-bundled generation, transmission and distribution entities. The ERC did not change the tariffs for the end-users while introducing the new tariff structure. For example, the benefits of low interest bi-lateral loans to CEGCO are passed on to the consumer through lower tariffs if the loans had been on commercial basis. Yet the end-user tariffs were raised in 2002, 2004 (two times), 2005, and then again in 2008 just to keep up with inflation. While the social tariff (first 160 kWh per month) remained the same (even decreased in real terms), the average tariff has increased by only 5% annually between 2002 and 2008. The highest increase in average tariffs came only in 2008 jumping from 46.6 to 58.7 fils per kWh reflecting the increase in fuel cost.

Table 14. Change in Electricity Tariffs (2002-2008) (fils per kWh)

	2002	2004	2005	2008
Date amended	16 June	January 1, April 3	July 9	March 14
Average Tariff	43.9	47.7	46.6	58.7
Social Tariff	31	31	31	32

Source: Compiled from data provided by the ERC, March 2009.

Since the recent tariff increase has followed the privatization of the generation company, CEGCO, in 2007 and preceded the privatization of two distribution companies, EDCO and IDECO, in 2008, many end-users or the observers of privatization wrongly presume that this tariff increase was a consequence of change in ownership. They fail to understand that this would have happened regardless of the private investor and operator. On the contrary, the private investors and operators are

more likely to improve the fuel efficiency in generation so that they will not demand any further tariff increase from the ERC—at least in the near term. Fuel cost in thermal production—which Jordan heavily depends upon—represents the bulk in the generation tariff whereas the capacity charge (capital plus operation and maintenance) remains relatively small. Effective fuel efficiency management can generate savings far superior to the additional rent from the capital brought along by private investors and operators.⁶⁹ Yet the jury is out to confirm this.

Sub-sector of transport: Royal Jordanian Airlines after Restructuring

Even though it is the middle class Jordanians who are the customers of RJ, no doubt they have all benefited from having a national flag carrier plus increased number of destinations from 47 in 2000 to 54 in 2008 to fly to and from Amman combined with doubling of average weekly frequencies. Available seat kilometers increased from 6.3 million in 2002 to 9.3 million in 2007. Flying hours also increased from 55,970 in 2002 to 88,378 in 2007—almost 60% increase in five years. There is even further progress in 2008. The number of passengers almost doubled from 1.36 million to 2.70 million as did the departures from 17,748 to 34,285 between 2000 and 2008.⁷⁰

Quality of service also improved at the same time. Punctuality was erratic but still remained above 80% considering the major increase in the number of flights from 17,000 in 2002 to 22,200 in 2007. Nonetheless customer satisfaction has grown from 92.1 to 95.4% for business and 86.8 to 91.6 % for economy customers between 2002 and 2007.⁷¹

It needs also be noted that RJ provides services domestically (by cross-subsidies from its own budget) and therefore contributes significantly to business development not only in Aqaba but also in other cities within Jordan.

Sub-sector of transport: Urban Road Transport under Private Ownership

The PTRC has not shared its Annual Reports with the team and it is not clear how it has done its job properly to protect consumers and investors in the sector. Apparently the number of daily commuters increased from 50,000 in 2002 to more than 150,000 in 2003 through a total number of 249 buses up from 165—50% increase in four years alone.⁷² Since there were no case studies available on the performance of the urban road transport sector between 2000 and 2007, the team could not compare the outcomes to those likely to take place under GAM's intervention in the sector demonstrating the winners and losers especially for the economically disadvantaged groups in Greater Amman Area.

While GAM now owns 20% stake in autobuses, it hopes to improve the image of public transport within Amman. The buses are presumably repainted, branded and some of the newest technology in the field installed and they are about to expand services as much as possible within the municipality. The new tariff balancing should

⁶⁹ Alternative point to Hisham Khatib, “ERC Response to Privatization,” correspondence related to ERC recommendation to reject CEGCO’s privatization, Electricity Regulatory Agency, January 29, 2007.

⁷⁰ Oxford Business Group, *The Report: Jordan 2008*, p. 98.

⁷¹ Statistics provided by the Royal Jordanian Airlines, March 2009.

⁷² Executive Privatization Commission (EPC), *Impact of Privatization in Jordan*, September 2006, p. 26-27.

also help the users of public transport. It is estimated that households spend 14-17% of their median annual household income of JD 5,200 on transportation—approximately JD 60 to 70 per month.⁷³ More research is needed to be able ascertain the impact of the old and the new regime on different socio-economic groups.

Sub-sector of transport: Aqaba Container Terminal under Private Management

Users of the Aqaba Container Terminal benefited from private operation immediately after the introduction of management contract in 2004. The new operator, the APM Terminals International, has successfully implemented upgrades to the port and focused on establishing world class standards. Total throughput of TEUs (containers in twenty-foot-equivalent units) also jumped by 18.4% in the first year of private management and continued increasing, nearly doubling, from 302,927 TEUs in 2003 to 587,530 TEUs in 2008.⁷⁴ Truckers benefited from streamlined landside operations and strict safety measures. In one single year, the anchorage waiting time, which was as high as 129 hours (over 5 days), was reduced to zero and average port stays dropped from 8 days to a few hours by 2005. New shipping companies started using Aqaba's port and it was chosen by Lloyds as among the three best terminals in the Middle East and the Indian subcontinent.

Amman Governorate Water Authority under Private Management

Close to 2 million consumers in Greater Amman Governorate witnessed improvements in the water supply and sanitation under private management contract over the seven years. LEMA, the private operator, was able to comply with 12 out of 15 performance targets set to increase consumer welfare as well as to improve its operational efficiency. (Section 4.3.1) Increase in constancy of water services increased together with quality of services.

Table 15. Connections and Water Supply under Private Management Contract (1999-2006)

<i>Water Supply Indicators</i>	<i>Beginning 1999</i>	<i>End of 2006</i>	<i>Improvements</i>
Number of Subscribers	265,000	443,000	67% increase
Average water distributed (liters per consumer per day)	67	81	21% increase
Average time for water distribution	24 hours/week	72 hours/week in winter 46 hours/week in summer	200% increase- winter 91% increase- summer

Source: Data provided by Water Authority of Jordan, WAJ, at the Ministry of Water and Irrigation, March 2009.

The quality of service improvements under LEMA contract was remarkable. The private operators opened a new customer office in 2000 and seven new customer offices were also added in various locations in LEMA's service area over the contract period.

Table 16. Quality of Services under Private Management Contract (1999-2006)

<i>Targets in 1999</i>	<i>Final Outcomes in 2006</i>
200,000 water meters repaired and replaced.	250,000 water meters repaired and replaced
Response time for repairs of water and sewerage malfunctions reduced to 6 hours.	Response time for repairs of water and sewerage malfunctions reduced to 1.5 hours
Increase in number of pipe-breaks repaired in the water network.	Reduced from 4.2 per km in 2002 to 2.0 in 2005
A customer service and public information program implemented.	A state-of-the-art computerized call center was established and is successfully operated; annual customer surveys are also conducted.

Source: Implementation Completion Report, The World Bank June 28, 2007, p. 6-7.

⁷³ Zaina, Steityeh, "Miles to Go," *Jordan Business*, October 2008, p. 41.

⁷⁴ Data provided by Aqaba Development Corporation (ADC), April 2009.

However, it appears that the consumers using the least amount of water experienced the biggest jump in tariffs in 2002 and 2005. In Amman, tariffs for those residential users buying 20 cubic meters of water more than doubled while those using between 21 and 40 cubic meters and over 40 cubic meters per quarter have not experienced the same. The changes in water tariffs were regressive. It is most likely the increase in tariffs were identified with private participation negatively impacting the poor or economically disadvantaged.⁷⁵ Yet it needs to be noted that water tariffs are set by the Ministry of Water and Irrigation and the private or public management has no say over it. Therefore, the private operator was not responsible for the tariff increase. However, tariff rebalancing in 2001 was probably conditionality for signing the contract.

Table 17. Water and Waste Water Tariffs under Private Management (1999-2006)

<i>Tariffs for drinking water</i>	<i>Minimum tariff JD/quarter in 1997</i>	<i>2002</i>	<i>2005</i>
Residential	2.00 JD for less than 20 cubic meters	0.50 JD added to all bills for users of less than 20 cubic meters; 1.00 JD added to all bills for all users of above 20 cubic meters	1.65 JD added to all bills less than 20 cubic meters; 2.65 JD added to all bills 21-40 cubic meters; 3.65 JD added to all bills more than 40 cubic meters;
Commercial	1.00 JD	Same as above	No change
<i>Tariffs for waste water</i>	<i>Minimum tariff JD/quarter in 1997</i>	<i>12% increase from 2001</i>	<i>No Change in 2005</i>
Residential	0.60 JD for less than 20 cubic meters	Minimum tariff=0.67 for less than 20 cubic meters	
Commercial	1.00 JD	3.65 JD added to all bills	

Source: Nancy Odeh, Draft Ph.D. Dissertation on Public-Private Partnerships in Water Sector in Jordan, Department of Urban Planning, Massachusetts Institute of Technology (MIT), 2009, p. 97

4.1.2. Consumers of Non-Infrastructure Enterprises

Since potash and phosphate are dedicated to export markets, only the consumers of cement are directly impacted by privatization. At the outset, the privatization transaction of cement may not have considered consumer protection. After its privatization in 1998, JCF remained the only producer of cement in Jordan as the new owners and operators benefited from the prevailing exclusivity right in the market. Even though the exclusivity expired two years after privatization in 2001, no new investors and operators have yet started their operations but their plants are under construction. Only recently three new investors--all from Saudi Arabia—have plans to enter the market with the intention of supplying the domestic market and perhaps exporting to Iraq.

At the same time, the JCF benefited from high import tariffs deterring importation by any other merchant together with another non-tariff barrier--international quality standards testing. The Competition Directorate at the Ministry of Industry and Trade, which was only established in 2004, reviewed the situation in retrospect. It argued that as the construction activity rose dramatically in 2005 and 2006, the company increased its prices parallel to the increase in fuel prices and also aiming to achieve the highest possible profit. Failing to meet domestic demand, the company resorted to importing cement from Egypt and selling it also at relatively high prices. Domestic merchants further exploited the limited supply by increasing the price of cement locally. This all apparently impacted final consumers negatively during 2005 and

⁷⁵ Nancy Odeh, Draft Ph.D. Dissertation on Public Private Partnerships in Water Sector in Jordan, Department of Urban Planning, Massachusetts Institute of Technology (MIT), 2009, p. 98

2006.⁷⁶ The top management at JCF, on the other hand, disagrees. Higher profits were achieved only as a result of increase in volume produced to meet the increased demand. It also maintains that the price of cement in Jordan reflects the high cost of fuel since the cement company does not benefit from subsidized fuel and gas like its peers in Egypt and Saudi Arabia.⁷⁷ It is worth noting that JCF has earned over 30% on equity in 2004, 2005 and 2006. (Table 30)

4.2. Workers and Employees

The Privatization Law (2000) specifically dictated that “the privatization proceeds will be deposited at a special account at the Central Bank and [they] will be used to address labor issues in companies undergoing privatization.” The envisioned expenses at the time were to include the “settling of ensuring compensation and financial rights, training and re-training and rehabilitation of those employees as well as finding them alternative job opportunities.”⁷⁸ However, none of the privatization proceeds were utilized to compensate workers and employees since in practice no one was retrenched—except voluntarily. There was no national income support schemes in the form of unemployment compensation for displaced workers, special training or any re-tooling programs designed to enable laid-off workers to re-enter the labor market. The GOJ could either rely on the existing practices of employers offering special pension entitlement packages in the absence of unemployment insurance schemes or prevent massive lay-offs at least for a while.

Reluctant to face labor opposition, the GOJ chose a general labor policy, to the extent possible, of *not* retrenching any workers and employees in an attempt to minimize labor unrest as well as preserve employment. It opted for negotiation with new investors and operators against labor displacement at least for a number of years immediately after privatization. In few occasions, it transferred workers and employees who were declared redundant to other state-owned enterprises and delayed confrontation with labor unions. Voluntary early retirement packages with a lump sum payment combined with monthly income and health and other benefits until retirement age was the scheme generally implemented by the privatized enterprises.

In three cases (RJ, JCF and most recently JPMC), the workers and employees retained were offered shares either free or at half the market prices accompanied with loans. Apparently those who were made shareholders were not always well informed as to the long term benefits of shareholding and chose to sell their shares shortly after. Yet most retained workers and employees in privatized enterprises witnessed an increase in their real wages and salaries while benefiting from improved health insurance not only for themselves and also for their immediate families *and* their parents, and from training activities and better working and safety conditions. In few selected privatized enterprises such as cement, even those retrenched continued to receive health insurance and financial assistance in the event they choose to start new businesses employing others. In most privatized enterprises, productivity gains translated into new hiring. At the same time, indirect employment increased in competitive sectors in response to increased private investments—foreign and domestic. (Sections 5.1 and 5.2)

⁷⁶ Annual Report, Competition Directorate at the Ministry of Industry and Trade, 2005, p. 80-81.

⁷⁷ Interviews with the top management at Jordan Cement Factories (JCF), March 2009.

⁷⁸ Executive Privatization Commission, The National Privatization Strategy, 2000, p. 13.

Voluntary Retrenchments and Change in Workforce

In 2000 when the strategic investor, France Telecom, took over JTG, the company had a total of 4,898 employees. By 2007, JTG retrenched 2,212 employees through voluntary early retirement packages and natural attrition spending a generous total amount of more than JD 30 million or an average compensation of approximately JD 13,562 per employee, and reduced its workforce to 2,686 (including new hires in the interim) in its fixed and mobile operations combined.⁷⁹ On the other hand, restructuring and un-bundling of the electric power sector did not lead to any reduction in workforce at all and, on the contrary, the workforce continued to steadily increase. Even after the electric generation company's (CEGCO) privatization in 2007, there was hardly any reduction in the workforce. It remained the same between 2007 and 2008 with only natural attrition of 71 employees in 2007 and 65 in 2008. No voluntary retrenchments took place in recently privatized electricity distribution companies—EDCO and IDECO either.

Table 18. Change in Workforce in Restructured and Privatized Infrastructure Enterprises (2000-2007)

	2000	2001	2002	2003	2004	2005	2006	2007	% Change
JTG	4,898	4,792	4,540	3,663	3,040	2,965	3,034	2,686	-45%
Electric Power⁸⁰	4,095	4,131	4,333	4,198	4,496	4,734	4,985	5,018	23%
Transport/Aviation									
<i>Royal Jordanian</i>	3,442	3,359	3,088	2,996	3,151	3,089	3,731	4,082	19%
<i>Non-Core Units⁸¹</i>	842	924	924	897	883	942	1,053	1,217	45%
<i>CAA Spin-offs⁸²</i>	132	137	127	153	182	206	235	228	73%
<i>Aqaba Railways</i>	1,134	622	622	622	622	750	750	777	-31%
<i>Aqaba Container Terminal</i>	330	325	325	340	420	720	757	734	122%
<i>Amman Governorate Water Authority (LEMA Contract)</i>	1,614	n.a	n.a	n.a	n.a	n.a	n.a	1,260	-22%
TOTAL	16,487							16,002	-3%

Source: Compiled from data provided by the enterprises; the year of privatization is in bold; non-core business units and spin-offs were privatized between 2000 and 2007.

However, transport (with all its sub-sectors) was traditionally the most overstaffed infrastructure sector. Between 1998 and 2000, the Royal Jordanian Airlines had reduced its workforce from 4,985 to 3638. One-third, 445, of these workers was retrenched through voluntary retrenchment packages and two-thirds, 842, was transferred to its non-core business units via Royal Jordanian Investment (RJI). Those transferred received their government compensation in addition to being transferred to one of the five newly privatized business units with secure employment. Their compensation was calculated at the rate of 90% of basic salary for each year of service going as far back to 1981. Presumably some maintained their former privileges of discounted airline tickets as well even after transfers. Another 701 employees, however, still had to be laid off through an agreement reached between

⁷⁹ Information provided by the Chairman, the EPC.

⁸⁰ Electric power sector includes two generation companies--CEGCO (privatized in 2007), SEPGCO, one transmission--NEPCO, and three distribution companies--EDCO (privatized in 2008), IDECO (privatized in 2008), and JEPCO (fully private distribution company).

⁸¹ Five non-core units include Airport Duty Free Shops (privatized in 2000); Jordan Automotive Limited Company (JALCO) (privatized in 2002); Aircraft Maintenance Company (privatized in 2005); Jordan Airline and Simulation Company (JATS), (privatized in 2006) while the Jordan Flight Catering Ltd. (owned by British Alpha) chose not to participate in the study and did not disclose its financial data.

⁸² Two spin-offs from Civil Aviation Authority (CAA) are Royal Jordanian Air Academy (RJAA) (privatized in 2003) and Queen Noor Civil Aviation Technical College (privatized in 2007).

RJI and the Union of Air Transport Workers. The agreement included granting those employees full compensation for the termination of their services. However, the unions now maintain that not all employees were treated equally under this arrangement with the RJI and the business units. Those transferred received a more lucrative compensation as an incentive compared to those left voluntarily. Again there were no training or consultation facilities for those eager to find another employment elsewhere.⁸³

The reduction of workforce at RJ immediately improved working climate and higher efficiency allowing the company to expand and more jobs were created by 2007 than what had been lost. Its privatized non-core business units benefited from contracts with the better performing RJ as well as from improved marketing and development of non-core activities. Since 2000, the combined staff of business units increased 45%. Similar developments occurred in the two companies, spun off from Civil Aviation Authority, namely Royal Jordanian Air Academy and Queen Noor Civil Aviation Technical College.

Similar to RJ, Public Transport Corporation (PTC) and Aqaba Railways were also among fairly overstaffed state-owned enterprises. All the employees perceived as redundant at the time of liquidating the PTC and preparing the railways for privatization were transferred to central government entities and organizations or to other state-owned enterprises. 512 out of 1,134 employees of Aqaba Railways were transferred while receiving an average compensation package of JD 4,961 for a total of JD 2.6 million. A portion of those retrenched were transferred directly to JPMC—the only customer of Aqaba Railways. This transfer strategy allowed the GOJ to deal with the redundancy problem at a later date if and when the privatization transaction was to take place.

In the course of the private management contract, the Amman Governorate Water Authority also reduced its workforce by 20% from 1,614 in 1999 to 1,260 in 2006 by simply transferring 354 of its staff to other government departments.⁸⁴ Most likely those transferred did not receive any incentive compensation packages as long as they remained in the staff of WAJ or the Ministry of Water and Irrigation.

Similar voluntary retrenchments and changes in workforce took place during and after privatizing the non-infrastructure enterprises. In 1998 all three state-owned mining companies—of cement, potash and phosphate—employed a total of 11,340—over one half, 56%, of which by the state-owned phosphate company (JPMC) alone. After privatization in the course of the last ten years, the three companies now jointly employ a total of 4,250 workers and employees—37% reduction in their combined workforce. The most extensive voluntary retrenchment program belongs to the cement company (JCF) as it reduced its workforce by 52% over the ten years followed by the phosphate company (JPMC) with 38% and the potash company (APC) with only 16%.

⁸³ Interview with Union Air Transport Workers, January 2009.

⁸⁴ Data provided by Secretary General of Water Authority of Jordan, March 2009.

Three years after privatization in 1998, the cement company (JCF) started reducing its staff by offering voluntary retirement packages between in 2000 and 2008.⁸⁵ About three-quarters of total retrenchments, 1,076 workers and employees, who left between 2000 and 2002 cost the management JD 29.7 million—an average take-home of JD 27,602. However, the remaining one-quarter of total retrenchments, 396 workers and employees who left between 2006 and 2008 cost the management JD 27.2 million--an average take-home of JD 68,687. Thus the total cost of retrenching 1,472 workers and employees amounted to JD 56.9 million over the last ten years. The average compensation package amounted to JD 38,655 per worker and employee.⁸⁶ Recently the cement company introduced an additional incentive package for those retiring early with a loan of JD 10,000 for those willing to start a business of their own and employ others. The company is also monitoring the implementation of this program and the results—with a serious and ambitious effort. The company has recently reported the creation of 700 new jobs in 288 small and medium sized businesses by 2008 through this program.

Table 19. Change in Workforce in Restructured and Privatized Non-Infrastructure Enterprises (1998-2008)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	% Change
Cement	2,690	2,585	2,523	1,879	1,511	1,481	1,499	1,508	1,473	1,287	-52%
Potash	2,306	2,316	2,293	2,201	2,195	2,305	2,232	2,173	1,986	1,933	-16%
Phosphate	6,344	6,425	4,891	4,782	4,583	4,484	4,361	4,200	4,019	3,870	-39%
TOTAL	11,340	11,326	9,707	8,862	8,289	8,270	8,092	7,881	7,478	7,090	-37%

Source: Own summary from data provided by the enterprises; year of privatization is in bold.

The potash company (APC) also retrenched its workforce gradually over the last four years since take-over by the private investor and operator in 2003 complying with its Sale and Purchase Agreement. In 2005, the company targeted 314 employees for voluntary early retirement but only 283 accepted the package at a total cost of JD 19 million translating into JD 67,138 per employee—far above what cement and phosphate workers received.

After privatization in 2006, the voluntary retrenchments at the phosphate company (JPMC) were gradual. It had done its extensive labor restructuring in 2000 by retrenching 1,468 for a total of JD 13.85 million—with an average take-home pay of JD 9,435 per worker and employee. Additional retrenchments of 778 workers and employees were implemented mostly before privatization costing the management JD 28.7 million—with an average take-home pay of JD 36,825.⁸⁷ Thus the total retrenchment of 2,216 workers and employees amounted to JD 42.5 million—with an average take-home pay of JD 19,179 per worker and employee—far below than the compensation packages offered by cement and potash companies. In 2006, the new investor agreed to maintain the workforce at its current levels together with their labor rights.

Employee Share Ownership

In most transactions the GOJ was advised by selected transaction advisors to fully consider employee share ownership (ESOP) as a tool to increase employee productivity, broaden ownership of capital while providing retirement benefits at the

⁸⁵ Interviews conducted with top management of Jordan Cement Factories, March 2009.

⁸⁶ Information provided by the Jordan Cement Factories (JCF), March 2009.

⁸⁷ Information provided by Jordan Phosphate Mines Company (JPMC), March 2009.

same time. ESOPs worldwide have provided the employees with a direct interest in the success of their company. However, they need to be well prepared and well communicated before, during and even after privatization.

The GOJ did not set up an ESOP for reserving shares for employees (1 to 3%) leaving the formulation of a detailed plan to be implemented after the completion of the transaction. Instead each case was treated separately and the employees in only three transactions (one infrastructure and two non-infrastructure enterprises) were allocated equity shares at the time of each transaction. RJ was generous giving free shares to its employees constituting 7.7% of total shares--part of the 71% offered to the public through an initial public offering on the ASE.

Jordan Cement Factories (JCF) offered 1% of the shares to its employees at a discounted market price by 50%. Unlike others, it provided loans to those who could not afford to buy the shares. Yet it appears that most employees who bought the shares decided to sell them later. Jordan Phosphate Mines Company (JPMC) was another non-infrastructure enterprise in which the JIC, two years after privatization, reduced its shares from 28.7% to 26.3% by offering 2.4% to the pension fund for workers and employees in 2008. The Arab Potash Company (APC) chose, on the other hand, not to offer any shares to its workers and employees thus far. There are three cases where not only the workers and employees but also the Jordanian Armed Forces Investment Fund became a shareholder as it received 3% stake at the time of privatizing RJ in 2007, during post privatization of JTG in 2006 and JPMC in 2008.⁸⁸ (Tables 2, 4 and 7)

Increase in average wages and salaries for retained workers and employees

Workers and employees in almost all privatized enterprises experienced an increase in real wages and salaries after privatization (even during restructuring) with the exception of few enterprises. In infrastructure enterprises, Jordan Telecommunications Group (JTG), electricity generation (CEGCO), electricity transmission (NEPCO), electricity distribution (EDCO), RJ's privatized non-core business units, the two spin-offs of the former Civil Aviation Authority all increased average real wages and salaries for their workforce.⁸⁹ However, the average real wages for CEGCO and RJ remained constant while it declined for IDECO and Amman Governorate Water Authority.⁹⁰ While the head of LEMA at some point reported that the employees received a 10% salary increase together with individual bonuses amounting to 9% of the wage bill, the average wage and salaries calculated below does not correspond to that statement.⁹¹ This statement might be correct and yet the wage increases may not have been maintained over the years.

Retained workforce in non-infrastructure enterprises did well too. Workers and employees of the cement and the potash companies have witnessed a significant increase in their real wages and salaries (deflated by the rate of annual inflation) after

⁸⁸ HM King Abdullah II issued a Royal Decree on June 10, 2005 with a directive for a minimum of 3% of equity shares to be allocated to Armed Forces Investment Fund in subsequent privatization transactions and the three privatized enterprises—JTG, RJ and JPMC—respected this directive.

⁸⁹ The average annual compound growth rate of inflation between 2000 and 2007 was 3.38%.

⁹⁰ A year after privatization CEGCO's wages and salaries reportedly increased by 35% in 2008.

⁹¹ Mr. David Roberts, Executive Director (LEMA), "Performance of LEMA Post Management Contract in Greater Amman Area," in Privatization News, Issue # 10, October 2001, p. 8.

privatization whereas those in the phosphate company just kept up with inflation or a slight increase of 1% in real wages.

Table 20. Increase in Average Real Wages and Salaries of Infrastructure Enterprises (2000-2007) (JD)

	2000	2001	2002	2003	2004	2005	2006	2007	CAGR
<i>Telecom (JTG)</i>	n.a	n.a	6,589	7,260	8,460	7,962	n.a	n.a	7%
Electric Power									
CEGCO ⁹² (generation)	4,141	4,232	4,296	4,504	4,455	4,392	4,255	4,243	0%
SEPGCO (generation)	-	-	-	-	1,616	1,903	4,006	4,672	42%
NEPCO (transmission)	3,074	2,227	2,097	2,103	2,515	4,472	5,362	5,827	10%
EDCO (distribution)	3,203	3,307	3,470	3,703	3,646	3,873	4,270	4,191	5%
IDECO (distribution)	n.a	4,729	4,415	4,121	3,880	4,060	3,850	4,290	-2%
JEPCO (distribution)	2,431	3,500	2,754	2,677	2,596	2,748	2,697	2,801	2%
Transport/Aviation									
Royal Jordanian Airlines	8,350	7,830	8,572	8,778	9,589	10,131	8,526	8,497	0%
Non-Core Business Units	1,753	5,903	6,075	6,148	7,041	7,166	6,897	6,981	22%
CAA spin-offs	1,034	1,195	1,284	2,347	2,335	2,055	1,958	4,866	25%
<i>Aqaba Railways</i>	2,432	n.a	n.a	3,029	2,903	3,314	2,711	2,787	2%
<i>Amman Governorate Water Authority</i>	2,930	n.a	n.a	n.a	n.a	n.a	n.a	1,789	-7%

Source: Compiled from data on employment and wage bills provided by the enterprises; JEPCO, though fully private, is included here for comparison purposes; it is assumed that the AGWA wages for 2007 is the same as 2006.

Table 21. Increase in Average Real Wages and Salaries in Privatized Non-infrastructure Enterprises (2000-2007) (JD)

	2000	2001	2002	2003	2004	2005	2006	2007	CAGR
Cement	6,410	8,274	8,455	8,063	8,975	10,756	11,761	12,156	10%
Potash	6,272	6,678	6,878	6,725	7,256	8,541	9,115	9,893	7%
Phosphate	8,674	7,575	8,238	8,450	8,539	9,517	9,499	9,514	1%

Source: Own summary from data provided by the enterprises; the year of privatization for each enterprise is in bold; compounded annual growth rate (CAGR) are used for the available data only.

Workers and employees benefited not only from increased wages and salaries (if applied) but improved health insurance coverage provided by the new owners and operators. JTG, for example, provides benefits not only to the immediate families of its employees but also to their parents. The same is also true for the non-infrastructure enterprises. The cement company provides generous housing and car loans to its staff. Moreover, the workers and employees of the cement company receive 4.5% of annual profits—another unique practice of the top management at the cement company.

Training, improved working conditions and working environment

New investors and operators increased their spending on training the existing and new employees. The mother companies, France Telecom and Lafarge Group, were particularly keen on doing this for their newly acquired companies in Jordan. They continue to focus on human resource development as a priority. JTG spends approximately 1% of its annual revenues on training and improving the quality of its workforce. The new owners and operators of CEGCO have also begun a similar training for the workers and employees immediately after take-over in 2007. Prior to its privatization in 2007, even during the restructuring phase, RJ introduced an extensive training program thus enabling the company's joining the well respected world class, One-World Alliance. One mining company is even more ambitious in such efforts. Apparently, it continues to send its employees to a regional training center in Egypt or to its main training facility, Lafarge University, in France, together with other Lafarge employees around the world.

⁹² Salaries doubled in CEGCO after privatization in 2007 as reported by the CEO.

There are other indicators as well to show how hard the privatized enterprises are trying to improve working conditions for their employees, namely the safety record. The strategic investors of cement and potash companies proudly boast about their extensive investments and efforts to improve the safety records and the conditions of the working environment. In cement, it went down from 4.2 per 200,000 man hours in 1998 to 0.5 in 2006. The number of reported injuries causing time-away from work dropped from 301 in 1996 to 1 in 2007—a remarkable accomplishment in ten years. Similar developments are found in the potash company with the lost-time injuries having decreased from 4.9 per 200,000 man hours in 1998 to 0.5 in 2006.

While both companies compile and report their safety indicators (cement in its annual reports and potash upon request), the phosphate company, however, does not appear to compile this information saying that the numbers too low to report. If it were the case, the company should be proud to do so similar to other mining companies. For example, the cement company has even gone further by implementing recently a “safety road map.” This includes safety policy and rules, safety improvement plan, safety driving program as well as safety observation system. It is now contemplating to extend its safety standards to overall construction industry in Jordan.

Cement and potash companies boast about other improvements such those in their environmental standards. The cement company adopted the stringent standards of its mother company, Lafarge Group, while keeping in line with Jordanian environmental laws. Its environmental program aims at reducing CO₂ and gas emissions by 20 to 30% over the next five years between 2007 and 2012, rehabilitating quarries and beautifying the plants.⁹³ The phosphate company has a long way to go to keep up with the strategic investors of the other two mining companies who have managed to bring the international standards to the work place and beyond.

4.3. Enterprises

If privatization is well-done., the enterprises turned over to private investors and operators are expected to show economically and statistically significant post-privatization increases in profitability, real sales (output), efficiency (sales per employee and sales per unit of output), and capital spending coupled with optimizing leverage. Private investors and operators use resources more productively with entrepreneurial effort and become financially healthier.

4.3.1. Financial and Operational Performance of Infrastructure Enterprises

Telecommunications

While maintaining exclusivity on fixed lines, JTG faced outright competition with the existing private mobile operator, Fastlink/Zain. In contrast to other privatization experiences of incumbent state-owned telecommunications enterprises elsewhere, JTG purchased the second license in 2000 at the time of privatization. This meant to increase investments in both segments of the market—fixed and mobile simultaneously which partly explains the drop in profitability—return on assets and return on sales—immediately after take-over. Higher profitability of the state-owned Jordan Telecommunications Company in 1998 and 1999 simply reflects its monopoly of fixed lines and its control over international gateways at the detriment of the consumers and competitors.

⁹³ Annual Report, Jordan Cement Factories (JCF), 2007, p. 24.

Table 22. Jordan Telecom Group/JTG (1998-2008)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Financial Performance											
<i>(%)</i>											
<i>Profitability (ROA)</i>	15.7	17.2	11.3	7.9	5.4	6.1	9.5	16.0	14.6	14.1	14.7
<i>(ROS)</i>	34.6	37.9	20.9	14.8	15.5	17.3	13.5	24.5	24.0	23.6	24.7
<i>CAPEX/Assets</i>	14.9	11.8	10.9	16.2	9.7	4.1	5.4	6.3	7.0	9.0	8.3
<i>Leverage (Debt/Assets)</i>	30.8	30.5	32.8	36.9	35.5	36.3	23.2	23.9	30.7	36.1	38.5
<i>Dividends/Sales</i>	23.1	31.9	12.3	11.3	19.1	17.5	13.1	12.4	23.2	21.4	21.2
<i>Owner's Return (ROE)</i>	22.8	24.7	16.8	12.5	8.4	9.6	12.8	21.6	21.7	22.8	23.9
Operational Performance											
<i>Sales/Employee JD 000</i>	n.a.	n.a.	58	65	43	55	113	119	120	148	159
<i>CAPEX/Employee JD 000</i>	n.a.	n.a.	12	20	12	6	9	11	14	22	22
<i>Subscribers/Employee</i>	n.a.	n.a.	170	222	252	355	475	716	803	939	1000

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

JTG's strategic partner, France Telecom, successfully invested between 2000 and 2008 a total of JD 470 million (JD 201 million for fixed lines and JD 269 million for mobile lines)—highest CAPEX per employee among all companies reviewed by a multiple of three or even four in the last eight years. This allowed for the increased penetration and more than doubling of sales revenue from JD 193 million in 1999 (the year before privatization) to JD 401 million in 2008 while maintaining healthy returns (Table 22), benefiting consumers with constant downward price trends (Table. 9, 10 and 11) and contributing fiscally to the Treasury (Table 35).

Immediately after privatization, JTG's enterprise level financial performance declined at least for a while compared to pre-privatization. In response to competitive pressures, it increased its operational performance to meet consumer demand in expanding connections, lowering tariffs, and improving quality and service thus sacrificing financial performance at the same time. Financial performance is about to catch up following suit to efficiency gains as demonstrated by three-fold increase in sales per employee and six-fold increase in number of subscribers per employee between 2000 and 2008. (Table 22)

Electric Power

The major state-owned generation company, CEGCO, hardly remained profitable during the high growth energy demand which nearly doubled from 7,081 to 12,999 GWh between 1999 and 2007. CEGCO's sales revenue jumped from JD 165 million in 1999 to JD 263 million in 2007—only 60% increase constrained by SEPGCO's recent entry capturing 30% of the market. During the last ten years, CEGCO was not able to pay dividends on GOJ's 100% equity. On the other hand, externally driven demand pushed labor productivity upward and the company slightly managed to reduce its generation losses.

Table 23. Electric Power Sector: Generation/CEGCO (1999-2007)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)									
Profitability (ROA)	0.8	1.9	3.5	-0.8	-1.9	-0.4	2.0	-0.4	-2.8
(ROS)	3.2	6.9	11.6	-2.2	-5.2	-1.0	4.3	-0.7	-4.9
CAPEX/Assets	33.7	1.0	0.2	0.5	4.4	0.0	2.2	0.9	0.3
Leverage (Debt/Assets)	54.5	51.9	45.4	44.3	45.2	57.7	53.5	59.9	57.8
Dividends/Sales	-	-	-	-	-	-	-	-	-
Owner's Return (ROE)	1.9	4.0	6.4	-1.4	-3.5	-1.1	5.2	-0.9	-6.8
Operational Performance									
Sales/Employee JD 000	106	111	112	127	137	155	163	160	162
CAPEX/Employee JD 000	133	4	1	2	16	0	8	3	1
Generation losses %	6.7	6.8	6.7	6.6	6.6	6.7	6.2	4.9	6.2
GWh/Employee	4.6	4.9	4.9	5.4	5.4	6.1	6.4	6.9	8.0

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

The restructuring process designated NEPCO as the single buyer and the transmission system operator while remaining 100% government-owned and controlled. It has the similar financial performance profile to CEGCO with low returns but with lower levels of leverage. NEPCO plays a key role in absorbing the lag between fuel price increases passed on by the fuel supply agreements on behalf of the generation companies before any tariff re-balancing can be agreed with the ERC. This explains its significant losses incurred in the last few years particularly in 2007.

Table 24. Electric Power Sector: Transmission/NEPCO (1999-2007)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)									
Profitability (ROA)	0.5	2.1	1.4	0.5	0.8	0.4	-0.6	0.0	-0.4
(ROS)	1.0	4.3	2.8	0.9	1.3	0.5	-0.7	0.0	-0.4
CAPEX/Assets	32.6	2.9	4.2	3.0	5.6	1.9	15.3	3.0	1.4
Leverage (Debt/Assets)	41.7	39.5	26.8	27.4	25.9	27.2	32.8	29.0	27.2
Dividends/Sales	-	-	-	0.5	0.3	0.4	0.6	0.5	-
Owner's Return (ROE)	0.9	4.0	2.7	1.0	1.6	0.8	-1.3	0.0	-0.9
Operational Performance									
Sales/Employee JD 000	264	271	265	263	309	361	388	467	522
CAPEX/Employee JD 000	86	8	11	8	17	7	59	14	7
Transmission losses %	2.5	3.0	3.3	3.7	4.0	3.7	3.7	3.5	3.2

Source: Calculated from financial statements and other data provided by the enterprise; NEPCO is not (and will not be) privatized.

Un-bundling created a third distribution company--fully state-owned (EDCO)—in addition to partially state-owned (IDECO) and fully privately owned Jordan Electricity Distribution Company (JEPCO). Since EDCO and IDECO were fully privatized only recently in 2008, we are therefore only able to assess their performance as not yet privatized enterprises. Comparing the financial and operational performance of these three distribution companies gives us a pause to examine the role of private ownership and control to that of state-owned. JEPCO stands out among the three in terms of profitability, return on equity and efficiency followed by IDECO.

EDCO, on the other hand, appears to have performed both financially and operationally far below IDECO and JEPCO. Yet operationally EDCO has higher ratio of capital expenditures per employee because of higher investments needed in its operational territory. EDCO also has half as many connections per employee as the other two distribution companies—most likely the result of geographical and structural differences. This explains its higher levels of investments--twice as much as those of IDECO. (Tables 25 and 26) However, it is evident that productivity is on an upward trend in all three companies in response to strong demand for electricity

connections. The distribution losses varied between 10-15% over the last eight years for all three companies. While the losses are declining for IDECO and more or less stable for EDCO, they are surprisingly increasing for JEPSCO. This might be explained by JEPSCO's high density market more susceptible to theft especially with rising fuel costs.

Table 25. Electric Power Sector: Distribution/EDCO (1999-2007)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)									
Profitability (ROA)	-1.4	0.5	0.4	0.5	0.4	0.6	0.0	-0.8	0.2
(ROS)	-4.8	1.7	1.4	1.6	1.3	1.8	0.0	-1.9	0.4
CAPEX/Assets	n.a.	4.9	6.0	7.2	4.5	6.1	8.1	4.7	5.1
Leverage (Debt/Assets)	32.1	20.5	16.8	15.1	14.7	19.5	17.9	19.0	18.4
Dividends/Sales	-	-	-	-	-	-	-	-	-
Owner's Return (ROE)	-3.5	1.2	1.1	1.3	1.2	2.0	0.0	-2.7	0.6
Operational Performance									
Sales/Employee JD 000	n.a.	33	36	37	48	52	56	64	n.a
CAPEX/Employee JD 000	n.a.	5	7	9	7	9	12	7	n.a
Connections/Employee	n.a.	106	115	112	133	125	125	133	n.a
Distribution losses %	11.3	12.1	12.4	12.3	12.9	12.4	12.6	13.0	12.2

Source: Calculated from financial statements and other data provided by the privatized enterprise; EDCO was privatized in 2008; total debt amount provided by EDCO consists almost exclusively of short term loans.

Table 26. Electric Power Sector: Distribution/IDECO (1999-2007)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)									
Profitability (ROA)	2.7	2.9	1.0	1.5	0.8	0.8	0.8	1.4	2.1
(ROS)	10.7	12.1	2.2	3.0	1.5	1.4	1.2	2.0	3.3
CAPEX/Assets	4.2	4.3	5.9	2.9	4.3	0.9	2.7	2.0	3.4
Leverage (Debt/Assets)	59.2	57.5	57.3	55.3	50.1	49.9	46.3	43.4	41.5
Dividends/Sales	0.8	0.5	0.0	1.0	0.9	0.9	0.9	0.9	0.6
Owner's Return (ROE)	30.9	37.1	13.4	20.6	10.7	11.7	10.1	17.5	25.8
Operational Performance									
Sales/Employee JD 000	20	22	45	48	48	54	55	58	62
CAPEX/Employee JD 000	3	4	6	3	4	1	2	2	3
Connections/Employee	239	252	273	270	262	257	266	268	289
Distribution losses %	14.4	14.4	13.9	12.7	11.5	10.9	10.7	10.4	11.2

Source: Calculated from financial statements and other data provided by the enterprise; IDECO was privatized in 2008.

Table 27. Electric Power Sector: Distribution/JEPSCO (1999-2007)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)									
Profitability (ROA)	1.4	6.0	5.9	3.1	3.5	3.5	2.9	5.1	3.2
(ROS)	2.1	8.5	8.6	4.3	4.6	4.7	3.7	5.9	3.8
CAPEX/Assets	5.0	5.9	5.3	4.7	4.0	6.0	6.0	8.2	8.8
Leverage (Debt/Assets)	43.8	39.0	37.2	33.9	31.2	23.7	28.2	24.5	25.1
Dividends/Sales	0.5	0.0	1.0	0.9	0.9	0.9	0.9	0.6	0.7
Owner's Return (ROE)	8.8	30.3	24.7	12.6	14.1	13.9	10.5	17.5	12.0
Operational Performance									
Sales/Employee JD 000	56	61	62	71	71	80	92	109	118
CAPEX/Employee JD 000	4	5	5	5	4	6	7	10	12
Connections/Employee	224	234	239	263	252	268	292	316	321
Distribution losses %	9.7	9.4	9.8	10.0	11.4	10.4	11.7	12.4	15.2

Source: Calculated from financial statements and other data provided by the privatized enterprise; JEPSCO, though has no GOJ ownership, is included here for comparison purposes.

As mentioned earlier, the ERC requests only indicators of distribution (technical and non-technical) losses for all enterprises but not any disclosure on commercial losses—measured by the amount of electricity paid-for over electricity billed--the so-called “collection ratio.” Ultimate performance indicator has to be the combination of technical and non-technical distribution losses together with collection—also known as overall system efficiency.

Transport Sub-Sector: Royal Jordanian Airlines

RJ has gone through an extensive restructuring by the end of 1999 by spinning off its non-core businesses. Profitability was negative in early years and after 2003 it showed regular and positive returns—exceeding an average of 19%. Its leverage ratio declined by two-thirds and it managed to invest significantly in the last few years to upgrade its management information and reservation system. Its renewed position as the carrier of choice for access to the Levant concentrating on medium haul routes in the region paid off by improving sales from JD 243 million in 2000 to 521 million in 2007 (and even up to JD 678 million in 2008)—more than double.

Despite major investments and managerial improvements to join One-World Alliance, it continues to face stiff competition from other regional airlines benefiting from heavily subsidized fuel by their respective governments---Egypt Air and others from GCC countries. RJ had a hard time with rising fuel prices combined with economic downturn in the last few years. It has instituted price hedging mechanisms against rising fuel costs. In 2008 revenues of JD 703 million (highest among all infrastructure enterprises) led RJ to realize a net gross profit of JD 18.7 million before tax; however, the international accounting standards imposed re-evaluation of fuel hedging contracts through which *un-realized* losses of JD 46.7 million were recorded.⁹⁴

Table 28. Air Transport: Royal Jordanian Airlines/RJ (2000-2007)

	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)								
Profitability (ROA)	0.3	-5.4	-1.3	-4.3	6.5	8.2	2.2	6.2
(ROS)	0.3	-5.7	-1.3	-3.8	4.5	5.3	1.4	3.9
CAPEX/Assets	6.1	3.8	0.5	0.6	7.8	9.5	12.5	22.1
Leverage (Debt/Assets)	150.2	140.2	83.8	87.1	65.0	56.8	51.5	51.3
Dividends/Sales	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Owner's Return (ROE)	3.9	-34.2	-9.4	-32.9	26.3	24.8	6.5	18.5
Operational Performance								
Sales/Employee JD 000	71	63	76	86	110	125	114	128
CAPEX/Employee JD 000	4	3	0	0	6	8	9	18
Punctuality	80.0	84.2	88.0	86.8	84.1	83.5	84.8	80.0
Load factor	n.a.	n.a.	n.a.	66.3	67.7	71.0	70.0	67.0

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

RJ thus far benefited more from restructuring than privatization without a strategic investor in 2007. It is yet doubtful if any strategic investor would have done better than the existing management which has robust marketing plans to counteract the adverse impact of the global economic crisis on the tourism sector.

Transport Sub-Sector: Other Aviation Enterprises⁹⁵

RJ has no longer access to the revenues and the cash flow from its previous five non-core units—duty free shops, airline catering, aircraft maintenance, training and simulation and the engine overhaul facility—which it once had prior to restructuring in 2000. These units have been turned to private sector one by one in the interim of seven years between 2000 and 2007 and have been operating successfully ever since.

⁹⁴ *The Jordan Times*, Business Section, April 17-18, 2009, p. 10.

⁹⁵ Only four non-core business units and two spin-offs from Civil Aviation Authority are analyzed; airline catering company did not disclose its financial statements to the team; the financial and operational performance of these six enterprises are presented in the Annex for only the discerned reader to review the details.

(Annex I) On average all these new enterprises have doubled their revenues since 2000 while the remarkable increase came to Jordan Aircraft Maintenance Company (JORAMCO)--eight-fold increase by 2007.

Among the four enterprises reviewed in the study, Airport Duty Free Shops reached profitability levels of 30% in 2005 and 2006 while Jordan Aircraft Maintenance Company (JORAMCO) remained profitable at about the same level all along, before *as well as* after privatization. All four companies increased their investments spearheaded by Jordan Aircraft Maintenance Company (JORAMCO) and Jordan Airline Training and Simulation Company (JATS), purchasing a new simulator for US\$ 15 million in 2007. Above all, the four companies earned a return on equity ranging between 22.3% and 63.6% in 2007—an exceptional privatization success story. (Annex I) The quality and price of the services provided must be right to be able to compete regionally and internationally. Undoubtedly, RJ has lost the source of financial stability which would have been otherwise available if these business units had remained within the RJ.

These four companies operate with some advantages however. They remain in tax free zone and are exempt from corporate and sales taxes although some have recently paid some taxes claimed by the Treasury. The EPC is about to examine the legal basis for the tax claims recently imposed by the Treasury. Yet all these enterprises are competing partly or entirely with other international companies that are also operating with tax exemptions and other privileges from their respective governments. In addition to the non-core business units of RJ, there were two other aviation enterprises which were turned to private sector—Royal Jordanian Air Academy (RJAA) and Queen Noor Civil Aviation Technical College. The RJAA increased its sales revenue five-fold since its privatization in 2003 keeping the same level of profitability, partially as a result of increased labor productivity, allowing the company to pay dividends. It has also invested regularly on an annual basis and significantly in 2007. Since the privatization is too recent, it is difficult to say much about the post privatization performance of Queen Noor College even though the first year of privatization showed a major drop in all financial indicators. (Annex II)

Amman Governorate Water Authority

Under private management contract with LEMA, revenues from water sold (billed) increased from JD 12.1 million in 1999 to JD 59.2 million in 2006—almost five-fold increase in seven years. Similarly the ratio of water paid-for (collections) to water billed increased by 12%--from 85% in 1999 to 97% 2006. The operating profits went from a break-even operation to one generating almost 20% profits on sales.

Table 29. Amman Governorate Water Authority under Management Contract (1999-2006)

<i>Financial Performance</i>	<i>Beginning 1999</i>	<i>End of 2006</i>
Revenue from water sold	JD 12,066,701	JD 59,163,201
Collections	JD 10,256,595	JD 57,388,304
Operational Profit after paying management fees	JD 245,940	JD 11,601,609
<i>Operational Performance</i>		
<i>Non-Revenue Water</i>	54%	41%
Average cost per cubic meter	0.32 JD/cubic meter	0.28 JD/cubic meter

Source Financial performance data is from cost recovery analysis for LEMA provided by WAJ, and operational performance is directly from data provided by the Secretary General of WAJ, March 2009.

4.3.2. Financial and Operational Performance of Non-Infrastructure Enterprise

Post-privatization improvements in financial performance of the **cement** company became evident only after Lafarge Group increased its stake to a controlling 50.28% in 2001. After 2002, profitability more than doubled in the first year, almost doubled in the second year, increased by half the third year and continued to grow steadily the following years. The company invested significantly after taking control and reduced its leverage somewhat. Post-privatization improvements in operational performance followed the restructuring of costs—mainly labor and energy usage. Sales per employee increased six-fold and tons per employee three-fold from 1998 to 2007. Dividends tripled between 2004 and 2005 and then doubled again in 2006 reaching 38% of the sales revenue—confirming the concern for former public monopoly transforming into a private one at the expense of consumers.

This financial and operational performance was achieved partly by the company's market dominance in the absence of competition or intervention from the Competition Directorate at the Ministry of Industry and Trade. Only after becoming operational in 2004, the Directorate intervened to protect consumers. First, it suspended the exportation of cement by JCF (reaching at times 20% of production) with the intention of increasing the availability of local supply while preventing the middlemen from speculation with price hikes—all adversely impacting the construction industry. Second, it reduced the import custom duties from 30% to 10% in two stages on cement imported from non-Arab countries to increase competition. Third, it granted additional incentives and tax exemptions to investors so that the sector can attract new owners and operators.⁹⁶ Fourth, it recently agreed with top management of JCF to implement an indexation formula reflecting a parallel increase in fuel costs and prices.⁹⁷

Table 30. Jordan Cement Factories/JCF (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)										
Profitability (ROA)	3.3	2.8	2.1	5.5	9.6	15.0	23.7	26.1	23.3	17.9
(ROS)	6.3	9.2	3.7	8.1	13.0	19.3	31.4	32.8	23.1	18.7
CAPEX/Assets	0.0	0.8	1.6	0.0	0.0	4.9	3.2	6.0	6.9	14.0
Leverage (Debt/Assets)	44.5	21.3	37.5	33.5	29.1	25.3	21.2	17.1	25.9	29.7
Dividends/Sales	7.2	6.4	7.7	5.3	6.2	6.1	7.3	18.7	38.0	14.9
Owner's Return (ROE)	5.9	8.1	3.3	8.5	14.0	20.2	30.1	33.4	33.3	27.8
Operational Performance										
Sales/Employee JD 000	34	37	37	60	83	94	111	136	162	201
CAPEX/Employee JD 000	-	1	1	0	0	6	5	10	11	29
Tons/Employee	985	1039	1046	1689	2367	2373	2607	2683	2693	3085
Exports as % of production	0	24	21	0	22	20	10	5	0	0
Imports as % of production	0	0	0	0	0	0	0	0.1	4	0
Lost Time Accident/200K mh	4.24	2.98	2.02	2.08	3.64	2.23	1.40	0.86	0.54	0.08

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

The privatization of the **potash** company (APC) was not as smooth as the cement company. In the transaction year of 2003, APC incurred huge financial losses in the magnitude of JD 80 million on behalf of one of its subsidiaries, Jordan Magnesia Company (JORMAG). APC held 55.3% of its shares as well as guaranteeing the principal and the interest on its bank loans. These financial losses were offset from the profits earned in that year of JD 31 million and the share issue premium of JD 54

⁹⁶ Competition Directorate, *Fourth Annual Report*, Ministry of Industry and Trade, 2006, p. 81.

⁹⁷ Interview with top management of Jordan Cement Factories, March 2009.

million.⁹⁸ Immediately after 2003, however, post-privatization financial performance did not change significantly up until 2007 when the average world price of potash increased to US\$ 240 from the previous year of US\$ 175—almost by 40% in one single year.⁹⁹ Post-privatization operational performance did not change much either before the company could bear the fruit of investments including those in its fleet of harvesting dredges.

Table 31. Arab Potash Company/APC (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)										
Profitability (ROA)		7.6	7.5	6.8	3.6	-16.3	7.2	10.4	9.8	27.6
(ROS)		23.0	20.4	19.6	10.8	-36.2	14.4	19.2	18.9	51.5
CAPEX/Assets	5.9	1.8	2.6	0.8	0.7	1.0	1.3	4.7	1.6	2.2
Leverage (Debt/Assets)	53.6	57.4	64.7	56.8	54.1	48.6	46.9	43.3	26.6	40.8
Dividends/Sales		12.2	12.7	10.4	12.9	9.7	5.1	7.4	14.1	10.0
Owner's Return (ROE)	0.0	29.4	28.6	26.3	13.1	-41.8	15.4	21.4	23.6	86.7
Operational Performance										
Sales/Employee 000JD	-	59	63	65	65	67	83	103	104	151
CAPEX/Employee 000JD	-	3	1	3	1	5	2	6	12	5
Tons/Employee	662	777	844	892	891	851	864	842	856	929
Exports as % of production	100	100	100	100	100	100	100	100	100	100
Imports as % of production	0	0	0	0	0	0	0	0	0	0
Lost Time Accident /200K mh	4.92	3.76	4.45	4.37	3.46	2.42	0.9	1.14	1.16	0

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

Since the **phosphate** company was only privatized in 2006, its post-privatization performance cannot yet be compared to pre-privatization realistically measuring the performance of the new financial investor. The obvious improvements in financial performance in 2006 and 2007 are mostly the direct result of the increase in world price of phosphate rock and di-ammonium phosphate—a fertilizer produced by JPMC. The price of phosphate rock took off from an average of US\$ 45.5 per ton in 2006 to US\$ 135 per ton in 2007—three-fold increase in one single year. Similarly the price of di-ammonium phosphate jumped from US\$ 253.5 per ton in 2006 to US\$ 594 per ton in 2007—more than two-fold increase in one single year. As world prices rose, sales revenues increased from JD 211 million in 2002 to JD 355 million in 2007 (even doubled to JD 846.9 million in 2008) despite decreasing production levels at the same time from 7.1 million tons in 2002 to 5.6 million in 2007. After privatization,

Table 32. Jordan Phosphate Mines Company/JPMC (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)										
Profitability (ROA)	2.0	-9.9	-61.7	1.4	2.6	2.5	1.6	3.7	5.5	13.0
(ROS)	2.0	-9.9	-61.7	1.4	2.6	2.5	1.6	3.7	5.5	13.0
CAPEX/Assets	5.9	1.8	2.6	0.8	0.7	1.0	1.3	4.7	1.6	2.2
Leverage (Debt/Assets)	95.6	108.4	126.3	70.4	89.4	75.6	54.4	49.3	29.5	36.6
Dividends/Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.6	4.2
Owner's Return (ROE)	2.6	-13.6	-138.4	3.5	4.6	4.1	3.4	7.4	10.4	23.8
Operational Performance										
Sales/Employee 000JD	40.3	36.8	42.4	61.2	46.0	45.8	62.5	66.9	72.1	91.7
CAPEX/Employee 000JD	4.2	1.3	2.1	0.6	0.5	0.7	0.9	3.6	1.2	1.8
Tons/Employee	934	936	1107	1206	1557	1483	1419	1518	1444	1435
Exports as % of production	n.a.	60	58	61	56	55	75	63	56	65
Imports as % of production	0	0	0	0	0	0	0	0	0	0

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

⁹⁸ Annual Report, Arab Potash Company (APC), 2003, p. 10.

⁹⁹ Andrew MacDowall, "Mineral Management," *Jordan Business*, November 2008, 47.

JPMC has been paying dividends for the first time since 1997. The company's new strategy is to invest in new ventures and increase value-added transforming rock phosphate within Jordan.¹⁰⁰

Besides financial and operational improvements, restructuring and privatization seems to have set new standards for financial disclosure and accountability thus improving the corporate governance for all infrastructure and non-infrastructure enterprises alike. The privatized enterprises now more readily comply with much more stringent standards of financial reporting and disclosure. There is also greater transparency regarding the financial status of enterprises as well as more professionalism on corporate boards. Both infrastructure and non-infrastructure enterprises boast about improvements and less government interference now experienced on their boards.

4.4. Owners and Operators

Owners and operators of enterprises with transfer of ownership and control to private sector expect to benefit further from privatization if and when their equity shares increase in value on the ASE. A review of recent trends shows that price earning (P/E) ratios remained reasonably high for all privatized companies traded (before and after privatization) up until the end of 2007 with a significant adjustment at the end of 2008.¹⁰¹

During the last five years, the P/E ratios for JTG and IDECO dropped from a high of 20 and 49 times, respectively in 2004 and 2005 and to a low of 12 and 8 times in 2008—reflecting the uncertainty in the market. In contrast, the return on equity trend was the reverse. In the case of JTG it went up consistently from 8.4% in 2002 to 23.9% in 2008. Similarly the return on equity for IDECO rose from 10.7% in 2003 to 25.8% in 2007. RJ's P/E ratio, on the other hand, was high at 12 times in 2007 at the time of privatization but has dropped the following year to minus 6 times in 2008—again a reflection of uncertainty in the tourism industry as a consequence of the global financial crisis. Compared to the earlier years between 2000 and 2003 where RJ's return on equity recorded major negative returns, the last five years between 2004 and 2008 it has been consistently high even reaching 26% in one single year, 2004.

Among the non-infrastructure enterprises on the ASE, the P/E ratio for cement has dropped from a high 14 times in 2004 to 8 times in 2008 but its return on equity has been consistently healthy and remained between 28% and 33% between 2004 and 2008. The P/E ratios for potash and phosphate, on the other hand, have shown a steady decline from respectively a high of 34 times and 55 times in 2004 to a low of 9 times and 6 times in 2008. The return on equity ratios, however, was on upward trend because of rising in world commodity prices and the ensuing profitability. More precisely, the return on equity for potash increased from 15.4% in 2004 to 86.7% in 2007 and for phosphate from 3.4% in 2004 to 23.8% in 2007. Owners enjoy net gains only from the incremental increase in net income but not necessarily increase in capital gain.

¹⁰⁰ *Annual Report*, Jordan Phosphate Mines Company (JPMC), 2007, p. 20.

¹⁰¹ P/E ratio is calculated by dividing the *year end share price* on the ASE by *net income per share*.

Table 33. Price/Earnings and Return on Equity Ratios for Privatized Enterprises on the ASE (2000-2008)

<i>Infrastructure</i>		2000	2001	2002	2003	2004	2005	2006	2007	2008
JTG	P/E			19.7	16.0	19.7	15.9	11.8	14.9	12.0
	ROE	16.8	12.5	8.4	9.6	12.8	20.6	21.7	22.8	
Royal Jordanian	P/E								12.4	-5.7
	ROE	3.9	-34.2	-9.4	-32.9	26.3	24.8	6.5	18.5	
IDECO	P/E	16.2	17.6	19.6	29.3	41.4	49.2	14.6	15.8	7.8
	ROE	37.1	13.4	30.6	10.7	11.7	10.1	17.5	25.8	
<i>Non-Infrastructure</i>										
Cement	P/E	50.5	19.1	11.5	12.1	14.2	10.1	14.1	13.7	7.9
	ROE	3.3	8.5	14.0	20.2	30.1	33.4	33.3	27.8	
Potash	P/E	8.8	10.8	20.5	-6.9	34.3	25.2	23.4	19.4	9.4
	ROE	28.6	6.3	13.1	-41.8	15.4	21.4	23.6	86.7	
Phosphate	P/E	-0.6	159.0	19.3	36.4	55.2	31.0	14.9	19.5	6.1
	ROE	-138.4	3.5	4.6	4.1	3.4	7.4	10.4	23.8	

Source: Calculated from financial data provided by the ASE, January 2009; the year of privatization is in bold; the cement company was privatized in 1998; IDECO was privatized in 2008.

There are other ways in which the new owners and operators benefited from privatization besides the increase in their P/E ratios and return on equity. These include various forms of “business support agreements” implemented as part of privatization transactions. They range from management fee contract, management assistance contracts and/or technical assistance services contracts. For example, the technical arm of JTG’s strategic partner, France Telecom, has been collecting annually 3% management fee for the two management contracts—one for fixed and one for the mobile--calculated on net annual revenue ever since after privatization. In 2006 the management fee was reduced to 1% replacing the two contracts for fixed, mobile and data services by a new “business services agreement.” The total management fee amounted to JD 3.7 million in 2007. In addition, it receives a fixed sum together with an incentive bonus of 30% of this amount if certain performance targets are met at the end of the year. France Telecom is also compensated through a “management assistance contract” for the salaries of the seconded personnel and their expenses as well as through another “technical assistance services contract” for the fees and expenses of short-term experts. Since 2006, France Telecom collects a so-called “brand fee” equal to 1.6% of operating revenues which amounted to JD 2.6 million in 2007.

In the case of the potash company, the seconded key management personnel from PCS through their individual “management assistance contracts” collect internationally competitive salaries and expenses presumably without overhead or profit. This is based on cost and differs significantly from the fixed management fee in place for JTG. CEGCO’s recent privatization in 2007 also made similar provisions for the selection of a technical assistance provider to be selected on a competitive basis from a short-list submitted by the private investor under a special “technical services agreement” to cover the fees and expenses of experts.

The private operator (LEMA) of the Amman Governorate Water Authority also received compensation for the services provided through a competitively tendered management contract starting in 1999 up until 2006. It collected for seven years a total of JD 12,964,809 (JD 12,080,886 in management fees and JD 883,923 in

performance bonus), or an annual average of JD 1,852,116.¹⁰² While there are concerns about the high fees collected by private managers, it is important to acknowledge that the same management team increased sales revenues from JD 12,302,453 in 1999 to JD 59,163,201 in 2006—almost five-fold increase. (Table 29) More importantly, operating profits went up from JD 245,940 in 1999 to JD 11,601,609 in 2006 and the cumulative total profit amounted to JD 32 million over the life of the contract after deducting the full cost of the management contract. This suggests that the GOJ's investment through WB loan generated a gross return equivalent to three and a half times the cost and generated profits of 250%.

4.5. Government

Governments (precisely the Treasuries) benefit from privatization in a number of ways. The most frequently cited benefit is the immediate privatization proceeds collected after each transaction. However, there are recurring benefits. These are the recurring fiscal contributions from the privatized enterprises minus the recurring fiscal costs (direct and indirect subsidies) from the Treasury. Therefore, a clear distinction between the stock and the flows for correct fiscal impact is long overdue. While several people, including development partners, in Jordan talk about how the direct subsidies stopped draining the Treasury, no one has yet calculated the exact magnitude and the decreasing trend year by year. More amazingly, no one appears to have analyzed the indirect subsidies before and after privatization either.¹⁰³

Privatizing infrastructure and non-infrastructure sectors in Jordan increased the tax base for the sectors generating an annual stream of recurring revenues to the Treasury. In infrastructure sectors, besides taxes they include license fees, revenue sharing arrangements, and right of way fees (land or port) or other revenues associated with commercial operation of public domain as privatization eliminates previous bottlenecks and attracts private investments acting as catalyst while expanding economic activity to generate even larger stream of recurring revenues. In non-infrastructure, but still non-competitive sectors, they take the form of mining fees or royalties. Furthermore, the Treasury also receives dividends from its remaining equity stake as long as privatized enterprises increase cash dividends to all shareholders.

4.5.1. One-Time Privatization Proceeds

As the Privatization Strategy articulated early on, the bulk (82%) of the privatization proceeds were allocated for retiring the external debt of the GOJ while only 6 % of the revenues settled the enterprise level debts and another 11 % for financing the development projects in social sectors—health, education and rural development. Unfortunately, the latter amounted to only JD 190 million over the last ten years to finance the development projects. Most opponents of privatization choose to dwell on this without sufficiently acknowledging the fiscal and macro-economic benefits attained from restructuring the external debt.¹⁰⁴

¹⁰² Calculated from data provided by the Finance Department of Water Authority of Jordan (WAJ) for the period between 1999 and 2006, March 2009.

¹⁰³ The concept of “indirect or implicit subsidies or the revenues forgone” and its elements seems not well-understood at the MOF partially explaining the lack of willingness to analyze them for improving overall public policy making.

¹⁰⁴ Views expressed by the Members of the Parliament in Jordan, January 2009.

The overall debt restructuring through the availability of the privatization proceeds of JD 1.73 billion significantly improved the fiscal performance of the GOJ by reducing the debt stock. In March 2008, Jordan concluded an agreement to buyback US\$ 2.4 billion of its debt owed to the Paris Club at an estimated 11% discount rate using the funds from the privatization proceeds and through partial assistance from the other GCC countries.¹⁰⁵ More importantly, the public debt ratio to GDP dropped to 60% in 2008 from an earlier high of 89% in 2004 and even worse 100% in 2000.¹⁰⁶ This in turn contributed to the strengthening and stabilization of the economy.¹⁰⁷

Table 34: Allocation of Privatization Proceeds (1998-2008)
(millions of JD)

Total Proceeds	1,725
Use of Proceeds¹⁰⁸	1,721
(a) Overall debt restructuring	1,406 (82%)
(b) Settling enterprise debts	108 (6%)
(c) Financing development projects	190 (11%)
(d) Others	17 (1%)
Remaining Balance	3

Source: Compiled from *General Government Finance Bulletin, MOF, Studies and Economic Policies Directorate, January 2009, p. 96.*

4.5.2. Recurring Fiscal Costs and Fiscal Contributions

The MOF or the EPC has thus far not documented the reduction in fiscal costs (direct and indirect subsidies) as a result of restructuring and privatization. The MOF claims that there are no direct subsidies at the moment with the exception of the water sector. Unavailability of any presentable information on indirect subsidies, however, to state-owned enterprises prevented the team to document to what extent they were reduced, if at all, over the years.

The water supply and sanitation sector with its eleven water authorities apparently remains one of the two infrastructure sectors together with Aqaba Railways subsidized by the Treasury. Amman Governorate Water Authority received a total of JD 425.7 million in investment subsidies between 1999 and 2006 during the private management contract with LEMA representing around 60% of total investments for 11 water authorities combined or JD 700 million for the water sector.¹⁰⁹ Annual investment subsidies now remain around JD 60 million—two thirds of which is for the Amman Governorate Water Authority alone.¹¹⁰

On the other hand, Aqaba Railways no longer receives direct subsidies from the Treasury but it is unable to collect sufficient revenue at a competitive price allowing it to generate cash-flow to upgrade and maintain its facilities. Its only client, the phosphate company, has alternatives to meet its transportation needs from the mines to the port relying on the road network. The transport cost by Aqaba Railways is

¹⁰⁵ National Bank of Kuwait, “The strong fundamentals of the Jordanian economy help mitigating the impact of the current crisis,” February 1, 2009, p. 3.

¹⁰⁶ Information provided by the Ministry of Finance, April 2009.

¹⁰⁷ Interview with the Governor of the Central Bank, Jordan, January 2009.

¹⁰⁸ Enterprise level debts include the debt, and sales and income taxes for the Royal Jordanian Airlines as well as the settling of the debt of Agricultural Marketing and Processing Company (AMPCO); financing of development projects include those under PSET; others refer to financing of military and civil housing projects.

¹⁰⁹ Calculated from data provided by WAJ, March 2009.

¹¹⁰ Information provided by the Ministry of Finance, April 2009.

lower than that of road transport. The revenues at low tariffs hardly allow the railways to break-even, let alone improve operations to be able to expand and handle the full volume needed by the phosphate company. At present, this is an indirect subsidy from the Treasury to the phosphate company. Moreover, as the assets of the railways continue to deteriorate, the GOJ is likely to lose its earlier investment of JD 98 million in 2001 when it decided to convert the company's accumulated subsidies into equity and assumed the full debt of JD 72 million with interest between 1999 and 2001.

Fiscal costs are not the only ones not properly calculated and documented. Fiscal contributions from restructured and privatized enterprises also seem to either be underestimated, or not calculated and documented anywhere. Yet they increasingly constitute a major source of tax revenue for the GOJ year after year. (Table 35)

The infrastructure enterprises--JTG, restructured and only recently privatized electricity enterprises, and also recently privatized air transport companies [RJ and its former business units together with the Royal Jordanian Air Academy and Queen Noor Civil Aviation Technical College]--are now providing the GOJ with higher taxes (corporate income tax, payroll tax and value added taxes), new revenue sharing arrangements with all private investors and operator and dividends on GOJ's remaining stake. Similarly the three mining companies have become major contributors to the Treasury on an annual basis as well.

Up until 2007, not surprisingly the privatized JTG has provided the Treasury with the highest fiscal contributions—taxes, revenue share and dividends. The taxes represented the bulk doubling from JD 41.5 million in 2000 to JD 82 million (and further to JD 92.7 million in 2008). Since there was no attempt to compare the fiscal contributions of SOEs before and after privatization, some public servants at the MOF wrongly argue that the total taxes and dividends by the state-owned telecommunications company (JTC) to the Treasury were far greater than what the GOJ now receives annually. This is not the case. The financial statements of 1998 show that JTC's fiscal contributions totaled to JD 95.1 million—double the total contributions of the JTG annually between 2000 and 2003. By 2004 those contributions exceeded what the Treasury received under state-ownership. This is attributable to the high international and local fixed tariffs which the GOJ imposed at the expense of consumers prior to privatization.

Now JTG pays more in combined taxes, dividends and revenue share to the Treasury while consumers (residential, commercial and industrial) at the same time benefit from increased competition and lower tariffs plus all the intangible associated benefits. Moreover, the mobile operators (and internet service providers) have also been increasing their own recurring fiscal contributions to the Treasury in terms of taxes, revenue share and fees—all augmenting the fiscal benefits to the GOJ from liberalizing the telecommunications sector alone. Even though the table on fiscal contributions does not include these inflows, the reader is advised to take them into consideration and the way in which the overall telecom sector reform has augmented state's coffers.

The other infrastructure enterprises have not yet become significant contributors to the Treasury. The restructuring of the electric power and the aviation sector did not seem to bring similar fiscal contributions to the Treasury. First and foremost, CEGCO and EDCO have not been paying any dividends to the GOJ even though they remained respectively 100% state-owned up until 2007 and 2008. IDECO, on the other hand, paid dividends on the GOJ's partial stake in the magnitude of JD 0.5 million in 2007 just before its privatization. The fiscal contributions from RJ and its privatized non-core units (together with two other aviation companies) were minimal compared to the rest of the contributions of the infrastructure sector to the Treasury. RJ paid taxes only between 2002 and 2005, and none thereafter. It apparently did not pay any dividends to the GOJ either before or after privatization in 2007.

Table 35. Recurring Fiscal Contributions of Restructured and Privatized Enterprises (2000-2008)(millions of JD)

INFRASTRUCTURE	2000	2001	2002	2003	2004	2005	2006	2007	2008
JTG¹¹¹	52.6	84.3	69.2	73.2	92.7	71.0	99.0	108.3	109.5
Total Taxes	41.5	58.0	37.7	44.4	57.8	44.3	53.4	82.0	92.7
Revenue Share	11.1	12.8	14.2	14.6	16.5	8.1	10.2	13.9	14.0
Dividends	0.0	13.5	17.3	14.2	18.4	18.7	35.3	12.5	2.9
Electric Power Sector¹¹²	1.3	2.2	3.4	2.7	3.4	6.3	5.4	8.4	8.4
Total Taxes	1.2	2.0	2.0	1.7	1.9	2.5	2.3	1.9	1.9
Dividends	0.0	0.2	1.4	1.0	1.5	3.8	3.1	6.5	6.5
Air Transport¹¹³	0.9	2.1	1.4	1.2	1.1	2.2	2.2	1.8	0.1
Total Taxes	0.1	0.0	0.2	0.3	0.5	0.5	0.0	0.0	0.05
Revenue Share	0.8	0.8	0.8	0.9	0.4	1.6	2.1	1.7	0.0
Dividends	0.0	1.3	0.4	0.0	0.2	0.1	0.0	0.0	0.05
Sub-total	54.7	8.6	74.0	77.1	97.2	79.5	106.4	118.5	117.9
NON-INFRASTRUCTURE									
Cement	24.6	23.9	25.4	29.2	34.0	44.9	54.4	54.3	55.8
Total Taxes	24.5	23.7	25.3	29.1	33.9	44.6	53.9	54.0	55.5
Mining Fees	0.1	0.1	0.1	0.1	0.2	0.4	0.5	0.3	0.3
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Potash	23.8	21.7	20.3	14.1	25.0	30.8	29.9	39.0	128.0
Total Taxes	7.1	6.8	6.0	0.0	8.0	12.1	10.0	17.5	44.6
Royalties	7.1	7.1	4.8	6.3	14.6	14.4	12.4	13.9	67.8
Dividends	9.5	7.8	9.5	7.8	2.5	4.3	7.6	7.6	15.7
Phosphate	0.0	0.0	0.0	8.5	10.0	11.1	7.6	13.9	23.7
Total Taxes	0.0	0.0	0.0	1.0	0.4	1.4	0.9	3.1	11.0
Mining Fees	0.0	0.0	0.0	7.5	9.6	9.6	6.7	8.7	8.4
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.1	4.3
Sub-total	48.4	45.6	45.7	51.8	69.1	86.8	92.0	107.2	207.5
TOTAL	103.1	134.2	119.7	138.9	166.3	166.3	198.4	225.6	325.4

Source: Calculated from different sources including the financial statements from enterprises¹¹⁴; fiscal contributions of the electric power sector and the mining fees for cement in 2008 are assumed to be the same as in 2007.

¹¹¹ The fees to the Telecommunications Regulatory Agency (TRC) and few others are not included here; yet these contributions also increased steadily from JD 3.4 million in 2000 to JD 14 million in 2008.

¹¹² Electric power sector includes CEGCO, SEPGCO, NEPCO, IDECO and EDCO (not JEPSCO).

¹¹³ Air transport includes RJ, its privatized non-core business units and spin-offs of CAA.

¹¹⁴ The accrued corporate taxes for FY 2008 for the phosphate company, JPMC, amount to JD 33.4 million of which JD 10.5 million has been disbursed and included in its fiscal contributions of JD 23.7 million.

Up until 2007, the three non-infrastructure enterprises of cement, potash and phosphate, contributed more or less the same to the Treasury in terms of taxes, mining fees, royalties and dividends on JIC's remaining shares. The cement company was the largest contributor to the Treasury. However, in 2008 the fiscal contributions of these enterprises far surpassed those of infrastructure enterprises. There are several reasons for this: The high prices in world markets in 2008 increased the net income for the potash and the phosphate companies respectively increasing their royalties and mining fees. The potash company has reported a total fiscal contribution of JD 128 million in 2008—mainly from the substantial increase in royalties which were more than four-fold from JD 14 million in 2007 to JD 68 million in 2008. At the same time, its dividends doubled from JD 8 million in 2007 to JD 16 million in 2008 and the total taxes also increased correspondingly, almost three-fold, from JD 17 million to JD 44 million.

The management of the potash company, however, remains discontent about the recent increase in royalties demanded by the GOJ (up from JD 8 per ton in 2007 to JD 125 per ton in 2008) with the intention of maximizing its own fiscal revenue to the cap of 25% of company's net income.¹¹⁵ This recent increase in mineral royalty from 17.6% in 2007 to 25% in 2008 for the potash company brings Jordan to nearly the highest total tax bracket (right after Germany) of 42.6% on net income (total of 15% for corporate income tax, 25% for royalty and 2.6% for other taxes) among the six major producers of potash in the world (Germany, Canada, Jordan, USA, Russia and Israel).¹¹⁶

The management argues that Israel with a total fiscal burden of 27% (representing only the corporate income tax rate) remains the most competitive in the world—a close-by neighbor to Jordan. It also argues that the recent increase in royalties has produced an inequitable outcome between the GOJ and the investor. While the GOJ owns only 26% of the potash company, the Treasury has collected JD 128 million (taxes, royalties and dividends combined) in 2008 while the private minority shareholder, PCS, much less—only JD 14.5 million in dividends in exchange of its similar stake of 28%, nearly one-tenth of what the GOJ receives.

In contrast to potash, the phosphate company pays far less in total mining fees to the Treasury—only JD 8.4 million in 2008 (at a fixed rate of JD 1.42 per metric ton). This rate which remained unchanged since 2001 hardly compares to the total royalties, paid by the potash company, JD 68 million (from JD 8.00 per ton in 2007 to JD 125.00 per ton in 2008). It turns out that the Shareholders' Agreement between the financial investor, Kamil Holdings (Brunei Investment Agency), and the GOJ put a cap on mining royalty fee not to exceed higher of (a) 5% of the gross phosphate sales or (b) US\$ 2 per metric ton.¹¹⁷

¹¹⁵ Information provided by Arab Potash Company (APC), April 2009.

¹¹⁶ Information summarized from a 2007 PriceWaterhouseCoopers study, provided by Arab Potash Company (APC), March 2009

¹¹⁷ "Letter of Undertaking" authorized by Council of Ministers' Resolution No. 617, February 28, 2006.

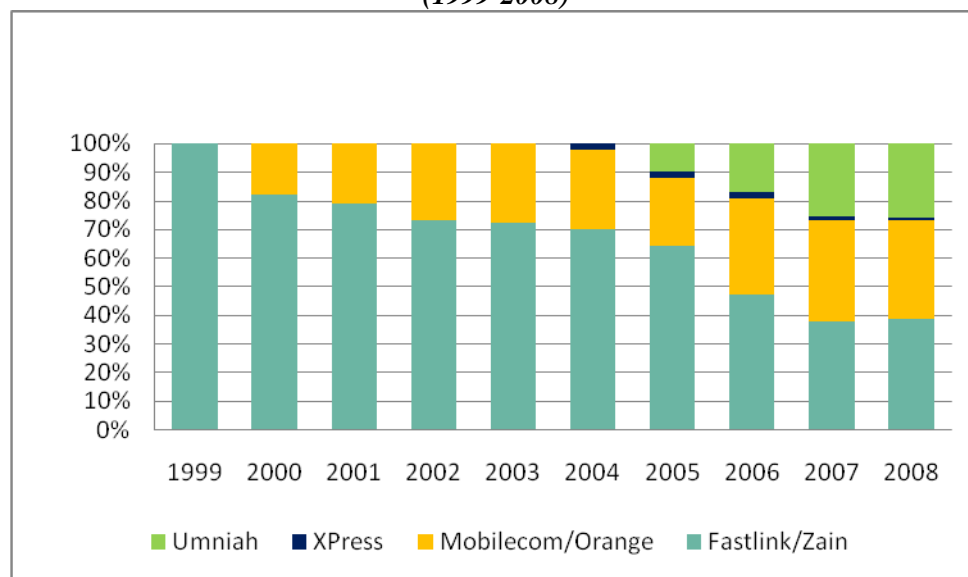
4.6. Competitors

If the privatization is well done, competitive (or potentially competitive) sectors benefit from privatization together with the introduction of competition. In Jordanian context, only the telecommunication sector brought along competition--into mobile telephony and internet services. In the case of electricity generation, the restructuring and the most recent privatization will lead to real competition once the wholesale electricity market is fully established and operational. The only other non-infrastructure enterprise with the potential to benefit competitors is the cement. Even though they were late in coming, it is likely the new entrants will benefit as they become operational.

Telecommunications

Jordanian telecommunications sector has literally boomed over the past few years and Jordan has now become the only Middle Eastern country supplied by four carriers—all competing with one another. The first mobile operator was Fastlink (now Zain)—owned jointly by Motorola, the International Finance Corporation (IFC) and the Jordanian investors—entered the market in 1995.¹¹⁸ After Fastlink's exclusivity ended in 1999, MobileCom entered the market breaking the existing monopoly. Consequently new operators, Xpress (2004)—the first Arab company introducing Integrated Digital Enhanced Network (iDEN) technology--and Umniah (2005)—owned by Bahrain-based Batelco—were added to the market.

Figure 2. Evolution of Competition in Jordan Mobile Telecom Market (1999-2008)



Source: Arab Advisors Group, "Global Expertise-Regional Focus Group," 2007, 2008.

All three major players—Zain, Orange and Umniah (and the forthcoming Xpress in 2009)—are vying for customers in a market that is estimated to be worth over JD 550 million. Market share is almost evenly divided between three operators, with Zain maintaining the largest share (39%), followed by JTG's brand Orange (34%) and Umniah (26%). In the last few years, Zain's gradual retreat from 100% of the market in 1999 to present 39% combined with to Umniah's steady rise from 10% of the market in 2005 to 26% in 2008 has been achieved by fierce price competition. This

¹¹⁸ Telecom Sector Report, Capital Investments, August 2007, p. 12

competition prevented Orange from increasing its share of the market from only 18% in 2000 to 34% in 2008. As expected, all has been good for the consumers. This is the only sector in Jordan where price trend continues to be downward.¹¹⁹

Similar competitive trends are expected in fixed line since JTG's exclusivity has expired and other operators, BATELCO, JomoTel and Swiftel including few others have purchased fixed line licenses. In response to forthcoming competition, JTG has increased its investments in fixed lines for the first time in 2007 and 2008. Competition among ISPN providers (Wanadoo, Batelco, MEC International Limited and TE Data Link) is equally stiff. Moreover, TRC has issued over 50 individual, class and other licenses in fixed lines and over 23 former class licenses in the mobile sector in 2006.

4.7. Local Communities

Contrary to the perceptions held by the Members of the Parliament and the Senate or the public, privatized enterprises demonstrate serious corporate social responsibility (CSR) which was minimal when these enterprises were state-owned and operated. Moreover, private investors and operators are now proud to document their increased CSR in Jordan. A few examples should suffice to illustrate the point. Among other things, JTG has established the Kite Foundation as Jordan Telecom's social responsibility arm. Most recently this foundation donated JD 500,000 to renovate Jordan's most broken schools and help create a better learning environment for students for the next five years.¹²⁰

Non-infrastructure enterprises of cement, potash and phosphate have spent time and energy to improve the communities in which they mine and excavate. The strategic investors such as Lafarge Group (France) and Potash Corporation of Saskatchewan (Canada) introduced international best practices which were not the case with the financial investor of phosphate. The cement company (JCF) has initiated several programs to help local communities representing JD 1.4 million per year: one supports infrastructure, public services and standards of living; second contributes to education and training, and the third expands public education on safety.

The potash company (APC) specifically doubled its annual investments in the townships to JD 2.6 million since privatization in 2003. They included rehabilitation of civil works, improving food distribution, offering hospital services to nearby towns and contributing to the budget of local schools including maintenance and computers. Simultaneously, the company also increased its operating budget for the townships from JD 6.3 million in 2005 to JD 11.5 million for 2009.¹²¹ Yet, not similar improvements are evident with the phosphate company (JPMC). While it spent only an annual average of JD 55,000 for the four years preceding privatization on local communities, it increased this amount to JD 913,000 in 2007. Its contributions to local communities fall behind the other two mining companies--cement and potash—even as a percentage of net income.

¹¹⁹ Oxford Business Group, *The Report: Jordan 2008*, 2008, p. 133.

¹²⁰ *The Jordan Times*, March 11, 2009, p. 11.

¹²¹ Interviews with top management at Arab Potash Company (APC), March 2009.

5. Indirect Impact on Overall Economy

5.1. Investments

Privatization of infrastructure and non-infrastructure enterprises attracted not only foreign and domestic equity investments to the ASE at the time of privatization but also foreign and domestic direct investments *after* privatization. The magnitude of private foreign and domestic investments varies among various privatized sectors and enterprises. By far the largest private investments poured into the telecommunications sector. JTG invested alone a total of JD 169 million in the network to cater for new services such as ADSL and another JD 221 million in its mobile telephony, MobileCom/Orange, a total of JD 390 million between 2000 and 2007.¹²² While JTG's investments in fixed lines declined in favor of investing in the network relative to mobile sector for a while between 2003 and 2007, the top management has recently decided to expand its investments in fixed lines in an attempt to provide consumers with reliable DSL lines allowing for better large data transfer for businesses, government and educational institutions.

The telecommunications sector also attracted private investments from the new players in the market such as Zain, Umniah and Xpress together with various internet and data operators. Zain is reported to have invested JD 222 million between 2000 and 2007, Umniah another JD 159 million between 2005 and 2007, Xpress another JD 150 million between 2001 and 2005, and page/internet services JD 37—an additional JD 568 million to the sector.¹²³ Thus the investments into the telecommunications sector reached a total of JD 958 million since privatization of the incumbent telecommunications company and the opening of the sector to all operators.

Similar to telecom, the transport sector, especially the aviation alone, increased investments during the restructuring phase between 2000 and 2007. RJ spent a total of JD 194 million in capital expenditures.¹²⁴ RJ's business units combined spent JD 43 million and the two spin-offs of the former Civil Aviation Authority (CAA) an additional JD 20 million during the last eight years. After liberalization, the urban road transport sector also attracted new investments from three different bus companies around JD 118 million.¹²⁵ In 2006 right after completing the management contract agreement (which included JD 42 million [US\$ 60 million] in investments), the new concessionaire of the Aqaba Container Terminal agreed to invest US\$ 500 million over the next 25 years (a portion of which likely has been spent between 2006 and 2008 but we do not have the actual amount).

In addition, Amman Governorate Water Authority attracted investments of JD 11 million (or US\$ 15.4 million) (after deducting the management fee, operating investment fund and technical assistance from the initially dedicated US\$ 55 million) from the international financial institutions, namely the World Bank, between 1999 and 2006 as a consequence to WAJ's signing a management contract with the private operator (LEMA).¹²⁶

¹²² Data provided by JTG, March 2009.

¹²³ Information gathered from the various reports of the Arab Investors, 2007.

¹²⁴ RJ's capital expenditures prior to its privatization were of course public, not private.

¹²⁵ Executive Privatization Commission (EPC), "Impact of Privatization in Jordan," September 2006, p. 28.

¹²⁶ The World Bank, "Implementation Completion and Results Report on a Loan in the Amount of US\$ 55 Million to Jordan for Amman Water and Sanitation Management Project," June 2007, p.4.

Table 36. Major Investments by Restructured and Privatized Sectors and Enterprises (2000-2007)(millions of JD)

INFRASTRUCTURE	1,386
<i>Telecommunications</i>	958
JTG (Fixed and Mobile) ¹²⁷	390
Zain (Mobile)	222
Umniah (Mobile)	159
Xpress	150
Pager/Internet	37
<i>Transport (Royal Jordanian Airlines)</i>	194
<i>Transport (Non-Core Business Units)</i>	43
<i>Transport (Spin-offs of CAA)</i>	20
<i>Transport (Urban Road Transport)</i>	118
<i>Transport (Port Container Terminal)</i>	42
<i>Water</i>	11
NON-INFRASTRUCTURE	175
Cement	91
Potash	62
Phosphate	12
Ma'In Spa Complex	10
TOTAL (INFRA AND NON-INFRA)	1,561

Source: Compiled from annual expenditures in financial statements.

The non-infrastructure enterprises of cement, potash and phosphate increased their respective investments after privatizations to date reaching a total of JD 164 million. Jordan Cement Factories (JCF) invested JD 90.6 million between 1999 and 2007 whereas the investments by the Arab Potash Company (APC) amounted to JD 61.7 million between 2003 and 2007. Recent privatization of Jordan Phosphate Mines Company (JPMC) thus far brought investments reaching only in the magnitude of JD 12 million between 2006 and 2007. However, the company has already entered into various downstream joint venture agreements with domestic and international partners in which it will take various equity stakes in total investments of JD 955 million. These ventures include Jordan Indian Fertilizer Company (JIFCO), Jordan Abiad Fertilizer Chemical Company (JAFCCO) and another joint venture with Mitsubishi Corporation to produce phosphoric acid.¹²⁸ Another investment is by the concessionaire of the Ma'In Spa Complex in the magnitude of JD 10 million.¹²⁹

These foreign *and* domestic investments amount to JD 1,561 million in infrastructure and non-infrastructure sectors and enterprises—equivalent to 25% of total foreign direct investments (FDI) of JD 6,343 million which Jordan received between 2000 and 2007.¹³⁰ Two-thirds (66%) of these investments arrived only in the last three years mainly into real estate. The latter most likely reflects the newly acquired oil wealth in the Gulf Cooperation Council (GCC) states together with good investment opportunities in Jordan relative to other countries in the region after the liberalization of all economic sectors and a growing economy.

5.2. Employment

As discussed earlier, overall workforce of infrastructure enterprises declined first during restructuring and privatization by eliminating approximately 2000 jobs through voluntary retrenchments. Now it has returned to its former levels of 16,000 by 2007. On the other hand, there was a significant decline of 37% in the total workforce in three non-infrastructure mining companies from 11, 340 in 1998 to 7,090 by 2007.

¹²⁷ JTG reports an additional JD 56 million of investments in 2008 in fixed and mobile lines.

¹²⁸ *Annual Report*, Jordan Phosphate Mines Corporation (JPMC), Future Plans, 2007, p. 20.

¹²⁹ *New York Times*, Sunday Travel Section, "In Jordan, a Spa by the Dead Sea," April 5th, 2009.

¹³⁰ Calculated from data on the website of Central Bank of Jordan.

(Tables 18 and 19) The retrenchments combined with doubling of sales revenues of all infrastructure enterprises combined increased the average productivity (sales per employee) two-fold from JD 61,247 in 2000 to JD 124,624 in 2007 for all infrastructure enterprises combined. Similarly, the doubling of sales revenues in non-infrastructure mining enterprises increased the average productivity (sales per employee) even more by two and a half times from JD 45,902 in 2000 to JD 127,554 in 2007. Improved productivity gains were passed on to retained workers and employees through increased real wages and salaries. Furthermore, increased financial performance of restructured and privatized enterprises led even to new hiring. This was true particularly in infrastructure sectors where additional investments in telecom and transportation sectors generated additional employment.

The privatization of telecom has contributed to the development of a robust information and communication technology (ICT) sector--contributing 11.2% of the GDP in 2008. As the competition increased in the ICT sector, new companies are emerging offering new services and products. While the telecommunications sector directly employs over 5,000 employees, the indirect employment generated is estimated to be five fold reaching 25,000 not counting the IT sector. Another rapid growth sector is the transport—air, urban and ports. It now accounts for another 10% of Jordan's GDP which has recorded an impressive annual growth of 6%. The two sectors have an indirect impact on Jordan's growth and competitiveness.

Another important contribution of privatization is the new culture created by the privatized companies in dealing with employee welfare issues and corporate social responsibilities within the enterprises (as well as outside the enterprise). The introduction of new concepts and ethics in hiring based on merit (as opposed to “wasta” in Arabic or “who you know”) has been evident lately not only in privatized enterprises but across the board as well. The new owners and operators, especially those in JTG, cement and potash, brought along new advanced management systems. This was later adopted into other sectors as well. These positive changes had given the labor a new bargaining power in their negotiations with the enterprises—particularly strong in the cement company (JCF). The unions are now more aware of their legal rights—as a result of labor sector reforms stressed in the National Agenda (2006-2015).

At the same time, the labor markets have become more competitive. There are now increasing number of head hunting firms working on behalf of private and the public sector introducing professional recruitment not only in Jordan but also within the region. The Ministry of Labor is apparently trying to cope with these changes together with the Higher Education sector. The latter has become more aware on quality, as opposed to quantity, of graduates who meet the market need with international standards. A number of training centers are all geared to increase overall competitiveness of Jordan.

5.3. Competitiveness

Restructuring and privatization no doubt indirectly improved Jordan's competitiveness in international markets. Together with more efficient ICT, the air and maritime transport sectors also contributed significantly to competitiveness. After the implementation of the management contract between 2004 and 2006 was followed by a concession contract for 25 years with the same private international

operator, helping improve Jordan's trade logistics as reflected in Doing Business Jordan Country Profile. The number days to import dropped from 28 in 2004 to 22 in 2007, and the number of days to export fell from 28 in 2004 to 19 in 2007. The cost to export also dropped from US\$ 720 per 20-foot container in 2004 to US\$ 680 in 2007. The private operator is keen to bring even further improvements thus enhancing Jordan's trade logistics and competitiveness.¹³¹

Arab Competitiveness Report of 2007 now ranks Jordan's performance in terms of competitiveness against relevant international benchmarks—economies in other parts of the world at the same stage of development. Jordan now belongs in Group 2 countries comprised of efficiency-driven economies (countries in second stage of development and those transitioning to it) between Group 1 (comprised of factor-driven economies in the first stage of development) and Group 3 (comprised of innovation-driven economies in the third stage of development). Among 40 worldwide countries, Jordan ranks 13, below Oman 8 but higher than Turkey 18, Libya 26, Algeria 29. Jordan's Arab neighbors—Egypt, Syria, Morocco and Mauritania—belong to Group 1 while its other rich neighbors—United Arab Emirates, Qatar, Kuwait and Bahrain—remain in Group 3.¹³²

5.4. Capital Markets

Compared to other countries, Jordan already had a well functioning capital market accompanying the proper reforms in late 1990s. It is now considered as one of the most advanced in the MENA region. Yet the public offering in the second phase of JTG's privatization definitely played a flagship role in 2002 as the country's first major privatization issue and the largest capital subscription. It increased market capitalization and liquidity and served as a catalyst for future floatation attracting foreign equity investment and increasing the involvement of domestic and retail investors. Thus it set a precedent for the marketing and execution of future privatizations. Later the public offering of RJ's shares in 2007 attracted 32,000 shareholders (presumably mostly new) thus broadening ownership.

Now there are only six privatized enterprises on the ASE amongst a total of 265. However, joint market capitalization of these enterprises represents almost 25% of total market capitalization.¹³³ Four (IDECO, cement, potash and phosphate) of the six companies were already listed even before privatization. However, as the GOJ divested its shares in the three mining enterprises, their respective market capitalization increased significantly. The changes were most spectacular for the potash company with an almost eight fold increase between 2003 and 2008 followed by the phosphate company with a six fold increase between 2006 and 2008. This was, however, not necessarily the reflection of how well the enterprises performed after privatization but the increase in world demand for their respective products. Even the doubling of JTG's market capitalization between 2002 and 2008 still dwarfs the performance of these two companies on the ASE.

¹³¹ Case Study: Jordan, "Celebrating Reform," *Doing Business Reform Case Studies*, The World Bank, 2008, p.77.

¹³² Executive Summary, *Arab Competitiveness Report*, 2007, Table 1. and Table 2. p. ix.

¹³³ Calculated from data provided by the ASE, January 2009.

In the case of these few companies offered through the ASE, it is not clear how much effort was indeed spent to expand broad-based ownership developing new sources of demand for securities and thus encouraging wide dissemination of shares within the population or to any targeted group. Yet there remain opportunities for divesting the GOJ's remaining shares in listed and un-listed companies in JIC's portfolio with specific strategies so that the shares can go to people who have not previously participated in securities markets. In the process the share ownership could be more widely broadened and even deepened, encouraging savings and investment while redistributing wealth.

Learning from international experiences elsewhere, the EPC could create a state-run investment fund in which specific minority groups could invest as it had been the case in countries like Malaysia, Chile and Kyrgyz Republic.¹³⁴ It can attract public participation as the Ministry of Privatization in Morocco developed share allotment strategies that favored small investors. This scheme, for example, set a ceiling on shares per applicant with up to 70% of issues reserved for small investors. When necessary, stock splits were implemented to lower the value of shares so that small investors could participate in new issues.¹³⁵

6. Factors Contributing to Outcomes

These outcomes can be explained by a set of internal and external factors as to how some stakeholders gained relatively more than others. The internal factors are those that are in the control of the GOJ and/or the EPC while the external factors constitute those not in the control of the GOJ or the EPC. Yet both factors combined eventually affected the outcomes and the way in which the stakeholders were negatively or positively impacted.

6.1. Internal Factors

Strong political will, commitment and institutional set-up

The GOJ put in place an effective institutional framework to carry out the privatization process. The Privatization Council is the most senior entity, chaired by the Prime Minister and the membership of ministers of Finance, Industry and Trade, Planning, Justice, Governor of the Central Bank and the Chairman of the Executive Privatization Commission (EPC). The Council also includes "concerned" Minister (the line ministry in charge of particular SOE or the public shareholding company) and four "experts" appointed by the Cabinet. The main tasks of the Privatization Council are setting of general policies, approving candidate projects, authorizing restructuring and privatizations and recommending legal measures to the Cabinet to establish regulatory bodies. The EPC became the designated central entity at the same level of the rest of the ministries and directly connected to the Prime Minister. Its task is to implement the program in an effective and transparent manner; the latter requires a competitive bidding process in procuring the services of transaction advisors and investment bankers promptly and efficiently.

¹³⁴ Ira W. Lieberman and Christopher D. Kirkness (editors), *Privatization and Emerging Equity Markets*, The World Bank and Flemings, 1998, p. 136.

¹³⁵ Ira W. Lieberman and Christopher D. Kirkness (editors), *Privatization and Emerging Equity Markets*, The World Bank and Flemings, 1998, p. 34.

Another example of strong top level political commitment is the port reform initiated not by the EPC, but by the Aqaba Development Corporation (ADC) in 2004. H.M. King Abdullah II himself and his reform-minded technocrats brought a visionary approach to improve the performance of the state-owned and run port container terminal. A strong and an influential team managed to select and implement a graduated approach (first with a management contract followed by a 25 year joint venture agreement with an internationally reputable private operator) presumably with good financial and operational performance improvements.

Complementary economic, legal and regulatory framework

The GOJ was determined to adjust Jordan's economic and legal environment in order to create a more open market oriented economy that is friendly to foreign investments while adopting privatization as a catalyst, not as an end in itself. Together with the line ministries took the time and effort to launch the complementary economic, legal and regulatory reforms to enhance the privatization process. It eliminated the direct subsidies to the extent possible for most of the SOEs by corporatizing and commercializing them. At the same time, it removed price regulations and liberalized its trade policies together with financial and capital market reforms.

Similarly, the GOJ adopted a set of legal measures to modernize and amend the existing laws in addition to introducing new laws which allowed the GOJ to restructure and privatize the SOEs, divest the GOJ's shares in public shareholding companies and establish the regulatory commissions. The latter was intended to regulate and monitor the sectors after privatization while safeguarding the rights of consumers and investors. The GOJ also created new laws for a more favorable investment environment. These complementary laws included the Income Taxation Law of 1995, Telecommunications Law of 1995 opening the sector to private entry, Investment Promotion Law of 1995, Companies Law of 1997, General Electricity Law of 1997, Royal Jordanian Law and Privatization Law of 2000 (as well as all necessary subsequent revisions). Provisions of these laws and regulations allowed foreign parties to participate in privatization process ensuring equal treatment of foreign and local investors in most sectors with the exception of strategic sectors designated by the GOJ. As decided by the Privatization Council, these strategic sectors are the national flag carrier, Royal Jordanian, and the two mining companies—Arab Potash Company and Jordan Phosphate Mines Company—where the GOJ does (and will) maintain a minimum of 26% stake.

Evolving regulatory system for consumer and investor protection

Creation of regulatory agencies alone has not guaranteed an effective regulatory system. Electricity Regulatory Commission (ERC) apparently collects but does not report to the public the quality service indicators or commercial losses of its distribution companies—separately from technical and non-technical losses. On the other hand, Telecommunications Regulatory Agency (TRC) aspires to implement quality of service standards working closely with all the mobile operators so that it can monitor consumer satisfaction at a minimum cost. Yet the investor perception of TRC activities is not very satisfactory. JTG expressed its complaints about the GOJ's recent desire to add one fil to mobile tariffs in an attempt to provide a cross subsidy to meat-packing industry. The investor perceives confusion as to the proper role of the TRC for not protecting investor interest against government interference in the sector. It also appears that the TRC has been increasing the number of licenses

without properly evaluating the benefits from added competition in the telecom sector and its repercussions for the investors already operating in the market.

Good use of mixed sales as a privatization modality

While several emerging countries have opted for only trade sales, the EPC consciously made use of a mix of modalities by selling first a controlling stake to a strategic investor and in subsequent phases by offering the company's shares publicly in order to sell off the additional GOJ's stake and, if and when required, to raise new capital for the company. This proved successful for the privatization of Jordan Telecommunications Company. However, the EPC did not do the same (or did not feel the need to do so) for Royal Jordanian Airlines.

Reliance on high quality transaction advisors and investment bankers

Compared to many countries, it is clear that the EPC had managed to attract and select high quality transaction advisors and investment bankers while executing the transactions. The advisors creatively recommended that the GOJ introduce new debt into the state-owned generation company (CEGCO) in an attempt to reduce the net sale price to the private investor. It was specifically recommended increasing the debt-to-equity ratios in the company to a higher yet sustainable level ahead of privatization. It calculated that GOJ would consequently receive additional revenue from financial restructuring in addition to proceeds of selling its shares in CEGCO.¹³⁶ This strategy reduced the net selling price of the company by increasing its debt which remains to be paid by CEGCO's revenues while reducing the new owners' share of profits.

Attracting world class strategic investors and operators

The EPC benefited from the services of high quality advisors attracting ultimately world class strategic investors such as France Telecom (France), Lafarge Group (France), Potash Corporation of Saskatchewan (Canada) to the privatized enterprises for which proper evaluation of post-privatization financial and operational performance could be conducted in the study. These investors managed to turn around the companies with high technical content with significant fiscal contributions to the Treasury and to consumers—most evident in the case of France Telecom. The jury is still out if the new strategic investors and operators of CEGCO, EDCO and IDECO will perform equally well to join those above.

The same seems to be the case for the present concessionaire, AP Moller Terminals International (a division of A.P. Moller-Maersk Group [Denmark]) of the Aqaba Container Terminal (ACT).¹³⁷ The private management team, LEMA (Suez Lyonnaise des Eaux [France], Montgomery Watson [UK] together with Arabtech Jardaneh), for the Amman Governorate Water Authority was also an internationally reputable company achieving the expected results during the life of the contract between 1999 and 2006. All these strategic investors are well positioned to exercise their clout obtaining goods and services at lower prices for their new affiliates in Jordan—which would not be available to the enterprises otherwise.

¹³⁶ N.M. Rothchild and et. al., "The Privatization of CEGCO, EDCO and IDECO: Phase One Privatization Report," Section D: Valuation Working Papers, 2002, p. 22.

¹³⁷ Since the ACT did not provide the financial performance data, the team could not reach any definite conclusions on its post-privatization performance.

Yet there was no need to seek a strategic investor for RJ because its present management has done extremely well restructuring the company and performing under tough competitive conditions after privatization in the last two years. Whereas it is not clear how well the present management of the phosphate company (JPMC) will perform in the absence of a strategic, but only a financial, public investor from Brunei. However, the company seems to have a clear expansion strategy for increasing value-added products in Jordan.

6.2. External Factors

Consistent technical assistance from the World Bank

The EPC received consistent technical assistance from the very same Private Sector Development specialist at the World Bank over the years. This is in contrast with the constantly changing PSD specialists often experienced by the countries elsewhere in the MENA region and in Sub Saharan Africa. Working for over ten years in Jordan gave the PSD specialist a chance to develop a healthy working relationship with the counterparts at the EPC as well as in other ministries and regulatory agencies.

Generous financial assistance from development partners

The USAID Trust Fund, managed by the World Bank, has been the first and foremost important contributor to Jordan's privatization program starting early on in 1998 jumpstarting the sluggish beginnings. This grant of US\$ 25 million for a period of the first 10 (then to 11) years was supplemented by another grant in the magnitude of US\$ 0.8 million from the Japanese Government through its Program for Human Resource Development (PHRD). In 2004, another major donor grant of EUR 20 million (US\$ 28 million) from the European Union was made available to augment the efforts of the GOJ not only to privatize but also help strengthen its evolving new institutional framework to regulate privatized infrastructure sectors and enterprises. One-fourth of the funds for this Support for Regulatory Reform and Privatization (SRRP) Project were in the form direct technical assistance to the EPC while the remaining three-fourths provided assistance to the regulatory agencies through various European consulting firms in partnership with local firms. Contributions through the GOJ's budget were not insignificant either. They are estimated to have reached the magnitude of anywhere between US\$ 10-15 million to supplement what was already provided by the major development partners.¹³⁸

Thus a total of US\$ 70 to US\$ 75 million was spent to accomplish what was done to date. Yet what enabled the privatization program to move forward required far more than that. There were a series of sector loans and grants to each of the infrastructure sectors—telecommunications, electric power, transport (with its sub-sectors) and water—all instrumental in properly restructuring to prepare and allow subsequent privatization of the infrastructure sectors and enterprise leading to the outcomes achieved.

¹³⁸ Salem Ghawi, Consultant at the Executive Privatization Commission (EPC) maintains that most likely the MOF spent directly anywhere between US\$ 10 and 15 million supporting the privatization program.

Availability of investment funds from the Gulf Countries and Sovereign Wealth Funds

No doubt Jordan benefited from the stunning accumulation of wealth in the Gulf region in recent years. Together with the recent rise of oil and gas prices, the Gulf Cooperation Council (GCC) states managed to transform themselves from users of financial services into providers especially for large infrastructure projects in the region. The GCC region's current account and budget surpluses soared to 35% of regional GDP in 2006. The region is now considered as the economic powerhouse between the BRICs (Brazil, Russia, India and China) and the developed world.¹³⁹ The investors from the GCC states have proven serious bidders in response to competitive tender for infrastructure privatizations in Jordan either directly or indirectly through their newly established subsidiaries in Jordan. Jordan Dubai Capital, for example, is a product of a similar undertaking by the GCC states combined with very competent Jordanian top management. Similarly the Abraj Capital from the United Arab Emirates acquired one of RJ's former non-core business units (JORAMCO). The consortium, majority owned by Jordan Dubai Capital, now owns and operates the electricity generation and two electricity distribution companies in Jordan.

In addition to investments from GCC countries, Jordan attracted financial investments from Kamil Holdings (fully owned by Brunei Investment Agency managing the Government of Brunei's general reserve fund and its external assets). The phosphate company (JPMC) has recently claimed the status of major foreign public investment of this giant sovereign wealth fund (with US\$ 30 billion of total assets) in Brunei when it acquired 37% of its shares in 2006 as a financial public investor.

Good competition among bidders

Relative to the experiences of this team elsewhere, Jordanian privatization program appears to have attracted fairly good competition among bidders. Most transactions attracted a large number of expressions of interest (EOIs) not always leading to proportionate submissions of financial and technical proposals at the end. One of the most competitive bidding was the selection of the management contractor to operate the Amman Governorate Water Authority and the Aqaba Container Terminal. A total of 26 potential bidding consortiums purchased the Request for Questions (RFQ) for the private management contract of water; 10 offered expressions of interest, 5 were short-listed and were invited to purchase Request for Proposals; 3 expressed intention to submit final proposals but only 2 did at the very end.¹⁴⁰ Aqaba Container Terminal also attracted 11 expressions of interests with 3 full technical and financial bids at the end enabling the authorities to select the best offer. Similarly, the attempt to privatize CEGCO in 2004 attracted 22 expressions of interest; 11 were pre-qualified, 6 initiated whereas only 3 completed due diligence but only 1 bidder, however, submitted a bid. The privatization of EDCO and IDECO also attracted good competition among bidders. In 2006 the EPC received 16 expressions of interest, 14 signed confidentiality agreement, 3 purchased the Request for Proposal and 1 bid was received for EDCO and 3 bids for IDECO.

¹³⁹ John Nudge and Paola Submachine (editors), The Gulf Region: A New Hub of Financial Power, Chatham House, m2008, p. 47.

¹⁴⁰ Abraham-Abu Shams, "Public Private Partnerships: The Case of Jordan," presentation at the Water Demand Management Forum, PMU Unit, Ministry of Irrigation and Water, 2002, p. 13.

7. Lessons Learned

As several internal and external factors contributed to outcomes, there are areas where the GOJ, the MOF and the EPC alone or combined could have done better. These include the absence of overarching infrastructure policy, late arrival of competition framework and governance, absence of post privatization and fiscal monitoring and insufficient public education and communication.

Absence of overarching infrastructure policy

The privatization program apparently suffered from not reviewing adequately the connectivity among infrastructure and non-infrastructure enterprises within the context of one single overarching infrastructure policy. One case illustrates the point: In 2001 the GOJ had an aborted attempt to privatize Aqaba Railways Corporation (ARC). In its second attempt to privatize ARC, the EPC could not get a long-term contract signed by ARC's one and only customer, JPMC. There was also lack of clarity as to the development of the National Railway Project with the intention of moving the railways southern port terminal to another location. Again similar to the first attempt, the two year long preparatory work between 2005 and 2007 once again did not produce results. If there were a nationwide overarching infrastructure policy, the recent privatization strategy for the Aqaba Railways would have been designed differently.

Late arrival of competition framework and governance

There was no anti-trust law in place when the GOJ started the privatization program in 1997. Only in 2004, it declared the provisional Competition Law of 2002 permanent thus making Jordan the first Arab country to enact a national competition law.¹⁴¹ This reinforced the operations of the Competition Directorate at the Ministry of Industry and Trade instituted in 2002 with the prior provisional law. The Directorate is still in its infancy, far from a full-fledged Competition Commission. Yet its power of enforcement has been growing. Nonetheless, the late arrival of competition framework has its own set of shortcomings. With privatization in 1998, the cement company (JCF) continued to operate under the pre-existing exclusivity of the market previously granted for 50 years up until 2001. Most likely, this had allowed for attracting high quality investors such as Lafarge Group of France because of the monopoly rights—contradicting one of the objectives of the privatization strategy officially claimed.¹⁴²

Only after becoming operational in 2004, the Competition Directorate has been monitoring the cement sector in light of its importance in national economy and the existence of one single monopoly producing the essential commodity in Jordan. It managed to intervene in several ways protecting consumers and economy at large. First, it suspended exportation of cement by JCF (reaching 20% of production at times) in order to increase local supply and prevent speculation by middle-men and consequent price hikes. Second, its recommendations to the GOJ helped bring down import custom duties from 30% to 10% in two stages thus liberalizing the market and introducing competition.¹⁴³ Third, it was instrumental in the facilitation of industrial investment procedures in the cement sector and granting of additional incentives and tax exemptions to investors in order to attract competition to the sector. The

¹⁴¹ Competition Directorate, *Fourth Annual Report*, Ministry of Industry and Trade, 2006, p. 11.

¹⁴² Executive Privatization Commission, *The National Privatization Strategy*, 2000, p. 6.

¹⁴³ Competition Directorate, *Fourth Annual Report*, Ministry of Industry and Trade, 2006, p. 81.

competition is expected to be enhanced as the new entrants—three Saudi Arabian companies—complete their production facilities and start supplying the domestic market.¹⁴⁴ Fourth, most recently, it agreed on an indexation formula with the top management to prices with rise in fuel costs.

Absence of post-privatization monitoring

The Privatization Law did not give specific mandate to the EPC to monitor post-privatization related issues between the state and the private investor/operator (infra and non-infra enterprises) since it was created as a transaction-driven entity as advised by the development partners.¹⁴⁵ In the aftermath of the transactions, the sheer representation of key EPC management staff on the Boards of privatized infra and non-infra enterprises are a poor substitute for proper monitoring. The EPC never assumed the task of monitoring the consequences on labor (keeping records of voluntary retrenchments, what happened to those retrenched, compensations paid and not-paid, increased employment and/or wages and salaries in each of the privatized enterprises); the compliance with investment and performance obligations (if there were any) of the investors and operators; or remained abreast of financial, operational and fiscal performance of all enterprises privatized in a systematic and periodic manner.

The EPC, for example, remains out of the loop as some privatized enterprises manage to negotiate with the GOJ to extend their initial exclusivity arrangements (i.e. Duty Free Shops negotiated an extension up until 2032—additional 20 years after the expiration of the initial exclusivity in 2012.) These developments are likely to have serious repercussions on consumers and competitors. Moreover, it all belongs to institutional memory of what happened after privatization and lessons to be learned for similar transactions in the future.

Furthermore, the regulatory agencies are not well equipped to conduct post-privatization monitoring. PTRC, for example, was unable to document the privatization experience (and its short-comings) of urban road transport between 1999 and 2007 in any analytical manner. Nor was the EPC in a position to synthesize the problems faced in the urban road transport sector. On the other hand, the Water Authority of Jordan has well documented and analyzed the private management experience of the Amman Governorate Water Authority--most likely in response to the World Bank's credit requirements. The two other ministries, MOICT and MEMR, seem to be following their sectors indirectly through the respective regulatory agencies, TRC and ERC. In the case of non-infrastructure enterprises, JIC's role in post privatization monitoring seems limited to sitting on the Boards when the size of equity stake grants a seat, collecting dividends on few profitable enterprises and passing them on to the MOF.

No proper fiscal monitoring of remaining state-owned enterprises

The EPC was not entrusted with the fiscal monitoring of the GOJ's remaining shareholding either at infrastructure or in non-infrastructure enterprises. There is no entity at the MOF doing this either. The GOJ has not disclosed publicly the direct and indirect subsidies to its state-owned infrastructure and non-infrastructure enterprises

¹⁴⁴ Competition Directorate, *Fourth Annual Report*, Ministry of Industry and Trade, 2006, p. 83.

¹⁴⁵ Privatization Law, No. 25, 2000, Article 7 (A) (vi.), p. 7.

even at the height of its fiscal burden in late 1990s. The exact magnitude of the fiscal savings to the Treasury for no longer subsidizing, directly or indirectly, the state-owned infrastructure and non-infrastructure enterprises is unknown. For example, the Royal Jordanian Airlines have only started paying taxes only after privatization but it is not clear if it pays in full or defers them as it has been the case in the past.

The DGO is not in a position to conduct similar fiscal monitoring even though it still holds substantial shares in several mixed enterprises. There are still 17 loss making enterprises as stated by the DGO.¹⁴⁶ One example is the absence of dividends paid by the phosphate company (JPMC) to the Treasury during the profitable period between 2001 and 2006 when it was privatized. (Table 32) A single entity dedicated to fiscal monitoring of the state's remaining shares (or even full ownership as it is the case in water and electricity transmission) could calculate systematically the direct *and* the indirect subsidies so that the GOJ is well aware of the reductions in its fiscal burden and the corresponding expansion of actual (and potential) annual fiscal contributions from privatized enterprises to the Treasury. Both the MOF and the EPC can institute their respective fiscal monitoring units to work together if and when the EPC is effectively transformed into a PPP Commission.

Insufficient public education and communication program

It is evident that the legislature as well as the general public is not well-informed as to the workings of the privatization program and what actually happened in each of the transactions and the rationale for the decisions made along the way and what has been the impact. This is partly the result of not producing any Annual Reports or regular communications material. Since 2006 the communication unit at the EPC apparently did not conduct public education campaigns periodically and stopped producing the bi-annual Privatization News. No doubt if the EPC had the mandate for proper post-privatization and fiscal monitoring as part of its initial institutional set-up, it would be in a far better position to produce high quality analytical articles from the information systematically obtained, monitored and analyzed to share with the general public.

Unfinished business with remaining enterprises in DGO's portfolio

There are presently 28 non-infrastructure enterprises left under JIC's portfolio with government majority and minority ownership while 14 enterprises are awaiting liquidation. The total market value of DGO's stake in 28 enterprises was worth JD 1.39 billion at the end of 2008. Only 11 of these 28 enterprises are apparently paying dividends to the Treasury—67% of which comes from the privatized potash company (APC) and 13% from the phosphate company (JPMC). At the same time, the DGO reports that the remaining 17 enterprises in its portfolio are loss making and, therefore, not able to pay dividends. This might, at least partially, explain the reason for the increase in royalties imposed by the GOJ on APC if the JIC is seeking additional funds to cover the operating deficits of these loss making enterprises. (4.5.2. Recurring Fiscal Costs and Contributions) If these enterprises are eventually absorbed into EPC's portfolio, their governance can be improved with (or without) divesting their shares.

¹⁴⁶ Interview with the management at the Directorate of Government Ownership (former JIC), March 2009.

8. Way Forward

The EPC has done well with restructuring and privatizing the infrastructure and non-infrastructure enterprises achieving positive impact--in some, if not all, cases--on consumers, workers and employees, enterprises, owners and operators, government, competitors and local communities. However, as its role transforms to that of PPP Commission, it needs internal reforms to move beyond its sheer transaction-based orientation while building capacity for proper post-transaction and fiscal monitoring, and public education and communication programs. The Commission's future tasks should include building a closer working relationship with the MOF monitoring and measuring fiscal space together with all fiscal costs (including those not yet properly acknowledged and calculated indirect subsidies), all fiscal contributions (from restructured, privatized and not-yet privatized enterprises to the Treasury) as well as fiscal risks and contingent liabilities of existing and future PPPs. Only then capitalizing on its solid transaction experience bridging public and private sectors, the PPP Commission can be better prepared to attract, help build and monitor sustainable public private partnerships into both physical and social infrastructure sectors in the future.

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**ANNEX I. NON-CORE BUSINESS UNITS OF THE ROYAL JORDANIAN
AIRLINES¹⁴⁷**

**Table A. Aviation Sector: Non-Core Privatized Business Unit
Airport Duty Free Shops (2000-2007)**

	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)								
Profitability (ROA)	28.0	1.3	10.3	12.4	22.2	31.4	29.5	22.6
(ROS)	27.7	1.6	12.7	14.4	54.6	20.9	20.4	19.0
CAPEX/Assets	2.9	1.0	0.3	0.8	5.3	0.5	3.8	3.8
Leverage (Debt/Assets)	24.4	35.0	18.2	7.0	11.0	7.4	15.3	11.7
Dividends/Sales	0.0	0.0	18.0	10.6	30.3	10.0	9.7	13.7
Owner's Return (ROE)	37.1	2.0	16.3	18.7	27.1	36.3	36.8	26.9
Operational Performance								
Sales/Employee JD 000	65	62	64	80	35	131	165	129
CAPEX/Employee JD 000	2	1	0	1	5	0	4	4

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

**Table B. Aviation Sector: Non-Core Privatized Business Unit
Jordan Aircraft Maintenance Company (Joramco) (2000-2007)**

	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)								
Profitability (ROA)	0.4	25.9	20.0	27.7	26.3	13.7	18.4	26.9
(ROS)	0.8	23.3	15.5	24.9	16.5	10.6	14.9	14.7
CAPEX/Assets	2.0	1.4	5.3	3.9	5.3	37.3	11.0	90.9
Leverage (Debt/Assets)	0.0	0.0	0.2	0.0	0.0	25.4	20.4	17.8
Dividends/Sales	n.a.	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Owner's Return (ROE)	0.4	32.2	24.3	49.6	38.1	23.1	38.0	63.6
Operational Performance								
Sales/Employee JD 000	7	29	28	29	33	29	30	43
CAPEX/Employee JD 000	0	0	1	1	1	8	3	21

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

**Table C. Aviation Sector: Non-Core Privatized Business Unit
Jordan Airline Training and Simulation Company (JATS) (2000-2007)**

	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)								
Profitability (ROA)	6.3	2.2	0.0	1.5	-40.3	15.2	15.3	12.3
(ROS)	36.2	11.7	0.3	8.0	-127.6	41.7	38.9	43.9
CAPEX/Assets	0.3	3.1	2.2	0.3	1.4	12.8	7.6	48.3
Leverage (Debt/Assets)	0.9	1.8	1.3	1.2	2.1	2.8	2.3	2.7
Dividends/Sales	0.0	31.1	11.8	0.6	7.0	2.2	34.1	46.7
Owner's Return (ROE)	6.3	2.2	0.0	1.5	-41.1	15.8	15.8	22.3
Operational Performance								
Sales/Employee JD 000	n.a.	56	57	39	52	58	62	67
CAPEX/Employee JD 000	n.a.	9	7	1	2	20	12	115

Source: Calculated from financial statements and other data provided by the enterprise; the year of privatization is in bold.

¹⁴⁷ Airline Catering Company, another non-core business unit, was not included in the study because it declined to share its financial data with the team.

**Table D. Aviation Sector: Non-Core Privatized Business Unit
Jordan Airmotive Limited Company (JALCO) (2000-2007)**

	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)								
Profitability (ROA)	11.6	15.3	15.7	16.8	4.2	4.3	16.0	34.9
(ROS)	16.9	21.0	19.7	28.9	7.5	5.4	19.6	38.4
CAPEX/Assets	0.2	0.2	0.6	0.4	0.3	2.4	4.0	2.7
Leverage (Debt/Assets)	7.6	23.0	0.0	15.5	27.7	47.3	3.8	13.2
Dividends/Sales	0.0	0.0	32.6	26.6	28.1	5.5	0.0	0.0
Owner's Return (ROE)	12.5	19.8	17.2	17.3	4.6	4.6	16.6	40.2
Operational Performance								
Sales/Employee JD 000	43	68	56	39	36	40	44	84
CAPEX/Employee JD 000	0	0	0	0	0	1	2	2

Source: Calculated from financial statements and other data provided by the enterprises; the year of privatization is in bold.

ANNEX II. SPIN-OFF COMPANIES FROM THE CIVIL AVIATION AUTHORITY

**Table A. Aviation Sector: Spin-off from Civil Aviation Authority
Royal Jordanian Air Academy (RJAA) (2000-2007)**

	2000	2001	2002	2003	2004	2005	2006	2007
Financial Performance (%)								
Profitability (ROA)	11.9	16.2	8.2	5.3	3.9	15.0	9.2	3.3
(ROS)	16.3	24.6	13.1	9.0	5.0	11.8	45.5	10.0
CAPEX/Assets	8.7	24.9	2.3	29.8	19.5	13.3	17.1	8.7
Leverage (Debt/Assets)	0.0	16.9	22.5	32.5	9.7	57.8	45.2	43.7
Dividends/Sales	0.0	0.0	0.0	0.0	0.0	11.3	0.0	0.0
Owner's Return (ROE)	17.4	25.9	13.3	9.5	12.3	35.5	16.8	5.8
Operational Performance								
Sales/Employee JD 000	23	28	30	30	60	59	52	83
CAPEX/Employee JD 000	3	11	1	15	15	6	44	22

Source: Calculated from financial statements and other data provided by the enterprises; the year of privatization is in bold.

**Table B. Aviation Sector: Spin-off from Civil Aviation Authority
Queen Noor Civil Aviation Technical College (2003-2007)**

	2003	2004	2005	2006	2007
Financial Performance (%)					
Profitability (ROA)	1.0	3.6	6.6	18.1	2.0
(ROS)	3.0	11.5	18.4	38.3	2.6
CAPEX/Assets	80.7	21.8	5.3	5.4	0.8
Leverage (Debt/Assets)	8.3	13.0	12.1	10.7	14.5
Dividends/Sales	0.0	0.0	0.0	0.0	0.0
Owner's Return (ROE)	1.0	4.3	7.8	18.5	2.7
Operational Performance					
Sales/Employee JD 000	1.0	3.6	6.6	18.1	2.0
CAPEX/Employee JD 000	3.0	11.5	18.4	38.3	2.6

Source: Calculated from financial statements and other data provided by the enterprises; the year of privatization is in bold.