

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: AB2582

<b>Project Name</b>	JO-REGIONAL & LOCAL DEVELOPMENT
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Sector</b>	Sub-national government administration (40%);Central government administration (40%);Solid waste management (10%);Roads and highways (10%)
<b>Project ID</b>	P070958
<b>Borrower(s)</b>	GOVERNMENT OF JORDAN
<b>Implementing Agency</b>	
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	Ministry of Municipal Affairs Jordan
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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## 1. Country and Sector Background

Jordan is a relatively small country comprised of some 5.5 million inhabitants dispersed across a land area of approximately 91,971 km<sup>2</sup>. More than 50 percent of Jordan's population lives in and depends economically on Jordan's capital – Amman – and surrounding metropolitan areas where services and economic opportunities tend to be concentrated. Over recent years and despite being relatively poor in natural resource endowments, the Jordanian economy has prospered – with over 7 percent growth in GDP in 2004 – a remarkable achievement in the context of a conflict-affected region. Jordan's GNI per capita in 2004 was \$2,140, placing its population among the highest per-capita disposable income countries among emerging economies in the sub-region.

One of Jordan's key challenges and a central element of its Country Assistance Strategy (CAS FY06-09) is to address the inequalities in growth patterns, socio-economic conditions and resource distribution from a spatial perspective across the country. The most recent Jordan Poverty Assessment shows that despite an improvement in the average standard of living from 1997 to 2003, the country experienced an increase of 1.6 percent in inequality between Governorates during the same period. The report concludes that there have been significant changes in the patterns of inequality and calls for policies designed to reduce such regional

disparities.<sup>1</sup> To address these challenges, the Government of Jordan (GoJ) has chosen to focus on strengthening and realigning its intergovernmental system.

Jordan is a highly urbanized country with approximately 80% of its population residing in urban and small town settings. As such, municipalities perform a critical administrative function and are the front line agencies in providing local services.

Jordan's municipal sector has experienced a period of upheaval and instability over the past several years. Between 1994 and 2000, in the context of increasing demand for services and pressing unemployment challenges, municipal hiring increased by 70 percent -- accounting for 45 percent of municipal expenditures -- thus placing an unsustainable burden on local government finances. This resulted in increasing deficits mostly financed by advances and short-term loans from the Cities and Villages Development Bank (CVDB).

By 2000, in the absence of a hard budget constraint, around half of the then 328 municipalities in Jordan were declared insolvent. By mid-2002, the Government took action by amalgamating the 328 municipalities into the 99 that exist today (not including Greater Amman Municipality), declaring a hiring freeze, rescheduling municipality debts to CVDB, and launching a training program.

In early 2005, the Government of Jordan has confirmed its commitment to restructuring the Jordanian intergovernmental system in order to facilitate decentralization, increase local involvement and enhance development impact at the local level. However, the precise approach and modalities have not been determined as yet. Some critical issues include a more detailed definition of regions, inter-municipal coordination to improve regional development outcomes and the institutional arrangements and responsibilities for the regions. In light of this, the RLDP would provide the Government of Jordan with support to further examine options and facilitate important consultations with stakeholders.

### **Key Sector Issues**

Within this country and sector context, key emerging issues related to local and regional development to be addressed by RLDP, include:

- ***Absence of a Sector Strategy.*** Recent initiatives by the Ministry of Planning and International Cooperation underscore the need to rationalize and streamline the intergovernmental system in terms of clarifying institutional arrangements in the sector, realigning functional assignments, and agreeing on a core set of policy objectives for local development and a means of achieving them.
- ***Current trend of concentration of economic activities in the Amman metropolitan area and subsequent inhibition of the local potential for socio-economic development.*** As already pointed out, almost all municipalities in Jordan (except possibly Irbid and Aqaba) are characterized by the weakness of their economic role and their dependency on the Capital city. Despite the existing potential for local development in areas outside Amman, the role of municipalities in achieving balanced socio-economic development has remained very limited.

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<sup>1</sup> Jordan Poverty Assessment, World Bank Final Report, December 2004.

- ***Need for a clear intergovernmental system to support sustainable Regional and Local Development.*** While there are clear merits to considering regional approaches to development, including a role for regional consultative councils, it would be risky to do so without a clear intergovernmental system design in mind. In this regard, the City of Amman presents an excellent example of successful devolution of authority to local government.
- ***Need for Updating of the Fiscal Transfer System.*** While the Government has in recent months updated its equalization transfer formula, the draft model that has been proposed continues to rely on a single base year and needs strengthening in order to explicitly address inequalities and induce good performance.
- ***Weak Sector Regulatory Oversight.*** The Ministry of Municipal Affairs (MOMA) is technically responsible for oversight of the municipal sector. However, its current capacity requires strengthening and restructuring in key functional areas (i.e. municipal budget review and urban planning).
- ***Lack of a Business Plan in CVDB.*** As the official lending agency and intermediary for fiscal transfers and grant administration to the municipal sector, CVDB plays a critical role in ensuring that municipalities are adequately financed. But it also needs to ensure that municipal investment projects are adequately screened and prepared with sound feasibility studies, building a pipeline of bankable projects. It will also need to have its governance structure realigned, providing it greater autonomy to perform effectively without undue governmental interference in its operations.
- ***Rationalization of Staff in the Municipal Sector.*** Over the past decade when the smaller councils were amalgamated with the larger ones, all staff was combined under the larger municipalities, resulting in duplication of functions. This, combined with central government assignment of technical staff at the local level, has led to a severe problem of administrative bloating at the local level.

## 2. Objectives

The development objective of the project is to assist the GoJ in promoting regionally balanced local development, principally through municipalities and other ancillary support institutions by: (a) improving the equity and adequacy of central-local resource transfers; (b) restructuring CVDB to improve its efficiency and diversify its products and services; (c) strengthening municipal financial management, revenue generation and service delivery capacity; and (d) improving regional planning and inter-municipal coordination to take advantage of economies of scale and strategic development opportunities. To this end, the project will be implemented within a governance framework of increased participation and downward/upward accountability, coupled with increased coverage and quality of municipal service provision particularly in underserved areas.

The main outcome expected from the assistance provided to municipalities would be: (i) tangible improvement in the living conditions of the targeted population in the areas covered by the municipal infrastructure and services component; (ii) increased revenues from new and existing

municipal assets and from central government resource transfers; and (iii) an improved enabling environment for municipalities to perform their responsibilities as effective agents of local development.

Some of the key outcome indicators to gauge achievement of the Project Development Objectives would include:

- ③ Proportional increase of fiscal transfers allocated to disadvantaged municipalities;
- ③ Increased portion of transfer pool distributed to municipalities following the rule-based framework;
- ③ Public Disclosure: Annual Report on intergovernmental resource transfer pool and actual allocations;
- ③ Increase level of citizens' satisfaction with municipal delivery of infrastructure and services (Beneficiary Impact Assessment);
- ③ Improvements in service delivery / access to services (based on an infrastructure asset inventory baseline and tracking of extensions/improvements under the project);
- ③ Increase in municipal revenue streams at selected municipalities (as generated either by revenue-generating municipal assets, by rationalization of municipal finances, or by increased willingness to pay, based on contingent valuation of the investment);
- ③ Decrease in municipal financial distress: Reduction in variance between planned and actual budgets within the years of the project's lifespan and removal of the ten most troubled municipalities from distressed status. (Baseline: 10% of municipal sector in "severely troubled status," i.e. greater than 20% negative operating surplus);
- ③ Regional development strategic plans approved by the GOJ.

### **3. Rationale for Bank Involvement**

The proposed Regional and Local Development Project (RLDP) would be the first Bank operation to systematically address municipal development and the intergovernmental fiscal system in Jordan, while initiating steps towards the country's long-term objective of achieving regionally balanced growth and improved living conditions for more than half of the Jordanian population that lives outside metropolitan Amman. The Government sees RLDP as a first step in a long-term process of analysis, consultations, and change processes with scope for exploring a number of reform options within the context of project implementation. In the short to medium term, stabilization and capacity enhancement of the municipal sector will be a critical focus, seen as necessary prerequisites for achieving longer-term development goals. As municipalities are the basic unit for local development, starting by strengthening their capacity to deliver services and infrastructure in a sustainable, efficient, accountable and equitable way is deemed essential. The Bank is deemed by the Government to be one of a number of key donor partners in supporting this process.

The project design is consistent with and supports the strategic objectives agreed in the CAS (FY 06-10), focusing on strengthening public sector management at the local level and providing greater equity and transparency in financial resource transfers, with greater emphasis on resource-allocation for underserved, underfinanced local communities. The project falls squarely

under the specific CAS objective of reforming the municipal sector listed as one of the four clusters: "Local development through increased access to services and economic opportunities".

The proposed operation is being prepared at the urgent request of the Government in response to the Bank's earlier analytical work on intergovernmental fiscal affairs and municipal finance issues. The Government has expressed that Bank involvement would be an important partner in bringing its global experience to help guide the process while serving as an effective catalyst to attract co-financing for the Project. It was viewed that with the Bank support, interest among donors to participate in co-financing arrangements would be elevated, while comfort levels among private investors to make subsequent investments would be heightened. This has proven to be the case, as Agence Française de Développement (AFD) has joined the Bank as a cofinancier and has also mobilized grant assistance to be provided for capacity building and institutional development within the project framework.

The Bank's extensive experience in financing large municipal development projects and its prior experience and partnership with both MOPIC and CVDB in the successful implementation of the Jordan Community Infrastructure Development Project (CIP), combined with its broad understanding of municipal planning and measures to facilitate service delivery capacity, enhances the likelihood of a positive outcome for the project. Given the Bank's diverse international experience in these interdependent areas, it is in a unique position to assist the Government in effectively integrating and coordinating other donor and governmental intervention strategies.

#### **4. Description**

The proposed project includes four components:

***Component 1: Strengthening National Level Institutions Involved in the Municipal Sector and Project Management Support.*** This component will focus on the Ministry of Municipal Affairs (MOMA) and the City and Village Development Bank (CVDB). In the case of MOMA, RLDP would support the ministry in developing rules-based policies regarding budget review processes and fiscal transfers, introduce a hard-budget constraint for municipalities, revise the municipal classification system, streamline revenue/expenditure assignments at local government level, update urban planning regulations, and rationalize regulatory procedures (e.g. procurement). It would also provide technical assistance to restructure the transfer formula and support the establishment of a Municipal Sector M&E database which would include both sector and project-specific baseline indicators and performance benchmarks.

With regard to CVDB, the project will focus on issues of governance and organizational capacity enhancement by assisting in restructuring its Board and oversight arrangement as well as supporting preparation of its Business Plan. Assistance to CVDB would also aim to strengthen and further develop its credit risk analysis and policies, develop appropriate analytical tools, forms, documentation systems and procedures, support development of curriculum, trainer certification and training of trainers.

***Component 2: Municipal Infrastructure and Service.*** This component would introduce a performance-based block grant (PBBG) system to finance sub-projects delivering basic municipal infrastructure and services (e.g. solid waste equipment, water/wastewater network

rehabilitation/extension, water catchments systems, roads rehab/extension, street lighting; retaining walls, etc.) to be selected on the basis of agreed priority criteria. Block grants would be provided conditional on meeting specific performance criteria, thus serving as an important incentive to for municipalities to undertake needed reforms. These criteria would be identified and applied on the basis of physical, socio-economic and performance-based dimensions. This component would also develop municipal assets that provide services while generating revenue streams (e.g. vegetable markets, bus/transport terminals, parking buildings, tourism facilities, etc.). The use of municipal asset management strategies/plans will be supported, together with methodologies for participatory planning, budgeting and implementation at local level. The implementation process at municipal level would be codified by a formal agreement in the form of Municipal Compact.

**Component 3: Municipal Capacity Building.** This component aims to strengthen municipalities to improve the delivery of municipal services in a sustainable way. Activities under this component have been designed at the local level to complement activities under Components 1, 2 and 4. Technical expertise would be provided, amongst other forms of support, including training, to strengthen municipal budgeting, revenue generation, asset management, urban planning, human resource management, investment project analysis and feasibility study preparation, and to develop and pilot mechanism for participatory governance.

In particular, assistance under this subcomponent will target three main areas of municipal management: (1) Municipal Financial Management and Local Resource Mobilization; (2) Strategic Urban Planning Practices and Urban Environment, and (3) Customized Municipal Training and Technical Assistance, particularly in areas related to sustainable delivery and management of municipal services and participatory governance.

**Component 4: Regional Economic Development Strategy & Investment Planning.** This component would include technical assistance intended to strengthen regional planning and to foster effective linkages and coordination among municipalities (i.e. the main agents of local development) in their development planning efforts. It will support and expand upon ongoing work of the Local Development Department of Ministry of Planning and International Cooperation (MOPIC) and explore current institutional arrangements to develop options for consideration to realign and improve regional and local government coordination. Financing would be directed toward activities that help identify regional competitive advantages and means of exploiting them in environmentally sound and sustainable ways.

## 5. Financing

Source:	(\$m.)
MUNICIPALITIES	3
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	20
FRANCE: FRENCH AGENCY FOR DEVELOPMENT	25.3
Total	48.3

## 6. Implementation

The Bank is jointly preparing the Project with Agence Française de Développement (AFD), which joined a Bank identification mission in December 2004 and subsequently set up a project preparatory facility that is co-financing Project preparation studies.

The Local Development Department (LDD) at MOPIC would function as the project management unit, becoming the focal point of communication with the Bank. LDD would manage activities and coordinate between various beneficiaries of the Bank Loan. It will have on its team a fully dedicated project manager, a procurement officer and a financial officer to be hired competitively in accordance with Bank procedures. In addition to LDD, CVDB would also hire/assign competent and dedicated staff to follow up and oversee implementation of the relevant project activities.

Components 1 and 4 of the project would be implemented by MOPIC. These involve reforms to central agencies that support or oversee performance of the municipal sector, as well as initiatives to foster and reinforce more effective regional development. Components 2 and 3 will be managed and implemented by CVDB through its Planning and Development Department (PDD), in close coordination with MOMA. Funding under this component represents about 80% of the loan and is expected to be mostly for works of smaller size (less than US\$ 500,000) located in municipalities throughout the country, excluding the Greater Amman metropolitan area.

An Inter-ministerial Committee would be setup to include representatives of MoPIC, MoMA, WAJ and MoF to provide advice on and review of investment identification activities and project implementation issues. It will also receive regular progress reports and updates from the LDD project team and actively contribute to the monitoring of the project progress and results. The Committee will also ensure timely resolution of critical implementation problems, effective coordination and communication between different agencies and ministries, project stakeholders and their institutions.

## **7. Sustainability**

The project's sustainability relates to continued commitment to Local Development, use of appropriate technologies in the provision/rehabilitation of urban infrastructure, and enhanced institutional capacity developed under the project. By focusing on Operations and Maintenance (O&M), the project will assist the project municipalities to execute planned maintenance in accordance with municipal plans and to better use limited resources. Appropriate technology and community participation promoted under the project will help facilitate local participation by project beneficiaries in project implementation, promote cost recovery and proper O&M.

Although RLDP enjoys support at the highest levels of the Jordanian Government and the municipalities, such political support in itself is not enough to guarantee the sustainability of project results. Improving the infrastructure conditions and strengthening the technical and financial management capacity of MOPIC, MOMA and CVDB will contribute to restoring and maintaining an acceptable level of service delivery in the short and medium-term. Longer-term sustainability, however, will depend on a combination of factors mostly beyond the reach of the project such as, for instance, improvement in the country's macroeconomic performance, continuing political stability, and successful implementation of institutional reforms. Last, it must be recognized that both the scope of the project and the absorptive capacity of MOMA and

CVDB are limited and that the sustainability of results will therefore require that investments and technical support efforts be continued beyond the completion of the project for a number of years through other operations supported by either the Bank or other donors.

## 8. Lessons Learned from Past Operations in the Country/Sector

This would be the first World Bank-assisted municipal development project in Jordan. Prior successful Bank experience in working with counterpart agencies at a variety of levels provides a foundation for going forward with a greater focus this time on institutional development. In addition, the Jordan Community Infrastructure Development Project (CIP, closed on June 2004) aimed at delivering small infrastructure investments at municipal level and provided a valuable wealth of lessons and experience, both for the Bank and the implementing agencies (particularly MoPIC and CVDB). In particular, some of the key lessons from the CIP relevant to the RLDP are as follows:

- ③ When using a demand-driven approach, it is important to develop a clear allocation system for the funds, with simple eligibility criteria, to assure objective assessment of municipal needs and transparent allocation of funds;
- ③ Importance to develop an appropriate, realistic and consistent Monitoring and Evaluation system at the outset of project implementation to ensure effective monitoring during the life of the project and meaningful learning at the evaluation stage;
- ③ Attention needs to be paid to the sustainability of investments at municipal level, this by strengthening the capacity of municipalities to Operate and Maintain such investment over time by improving both financial and human resources at local level.

In addition to the above, there are also lessons to be learned from urban projects in countries experiencing a similar low level of urban development and weak institutional capacity. These are:

- ③ Keep the project simple in terms of design, scope and institutional arrangements;
- ③ Emphasize the importance of combining capacity building and investments;
- ③ Set out modest goals that can be achieved within existing constraints;
- ③ Targeting a large number of municipalities is possible and doable if sound mechanisms are in place.
- ③ Clear implementation arrangements and well defined contractual distribution of roles is essential for a successful municipal development program.
- ③ Municipal Compacts do work. Modeled after the successful Tunisian experience, Jordan is one of only few countries in the region to experiment with the concept of municipal compact.

## 9. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	Yes	No
<a href="#">Environmental Assessment (OP/BP/GP 4.01)</a>	[Y]	[ ]
<a href="#">Natural Habitats (OP/BP 4.04)</a>	[ ]	[N]

Pest Management ( <a href="#">OP 4.09</a> )	[ ]	[N]
Cultural Property ( <a href="#">OPN 11.03</a> , being revised as OP 4.11)	[ ]	[N]
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	[ ]	[N]
Indigenous Peoples ( <a href="#">OD 4.20</a> , being revised as OP 4.10)	[ ]	[N]
Forests ( <a href="#">OP/BP 4.36</a> )	[ ]	[N]
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	[ ]	[N]
Projects in Disputed Areas ( <a href="#">OP/BP/GP 7.60</a> )	[ ]	[N]
Projects on International Waterways ( <a href="#">OP/BP/GP 7.50</a> )	[ ]	[N]

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