ERF Policy Brief

The Binding Constraint for Achieving the SDGS: Institutions, Governance or Financing?

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About the authors

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In a nutshell

- *Progress towards the SDGs requires commitment to a sustainable development agenda, strong institutions, quality governance and adequate financing*
- *Jordan is committed to the SDGs and its governance structure can support the necessary actions to advance the SDGs*
- *In global rankings, Jordan scores highest in terms of its domestic financial system, institutions and skills, and lowest in terms of macroeconomic performance, private sector development and employment creation*
- *Looking ahead, the binding constraint in Jordan until 2030, save any new external shocks, is likely to be financing that been constrained by legacy budget deficits, high public debt and the still increasing debt repayment obligations.*

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Halfway since 2015, when the SDGs were globally adopted, their progress in the remaining time until 2030 will depend not only on the quality of institutions and governance as well as commitment to SDG agenda by governments, but also on ability to secure adequate financing.

This brief examines these requirements in the case of Jordan. Jordan's current strengths and weakness are summarized in Figure 1 in which lower percentages indicate better performance. Its rank is in the middle of the World Economic Forum's global competitiveness assessment. Jordan has a healthy domestic financial system, strong institutions, and an education system that has historically provided well-equipped workers home and abroad. Across all indicators (including those not included in the figure), Jordan's rank is lowest with respect to macroeconomic stability. Effectively this reflects low economic growth rates, wide budget deficits and high debt obligations. Expectedly, the macroeconomic situation adversely affects the performance and development of the private sector (second lowest) and labor market outcomes (third lowest).

The discussion in this brief suggests that Jordan is committed and has the capacity to advance the SDGs but is fiscally constrained to allocate additional financing toward the SDGs. As the SDGs effective constitute a holistic development agenda, this amounts to saying that Jordan prospects are saddled in the near term by the effects of high borrowing in the past and the resulting pressing need for fiscal consolidation. Accordingly, the contribution of the two sides of the private sector to the SDGs, namely an increase in production and halting the decline in household incomes, is likely to be subdued until 2030.

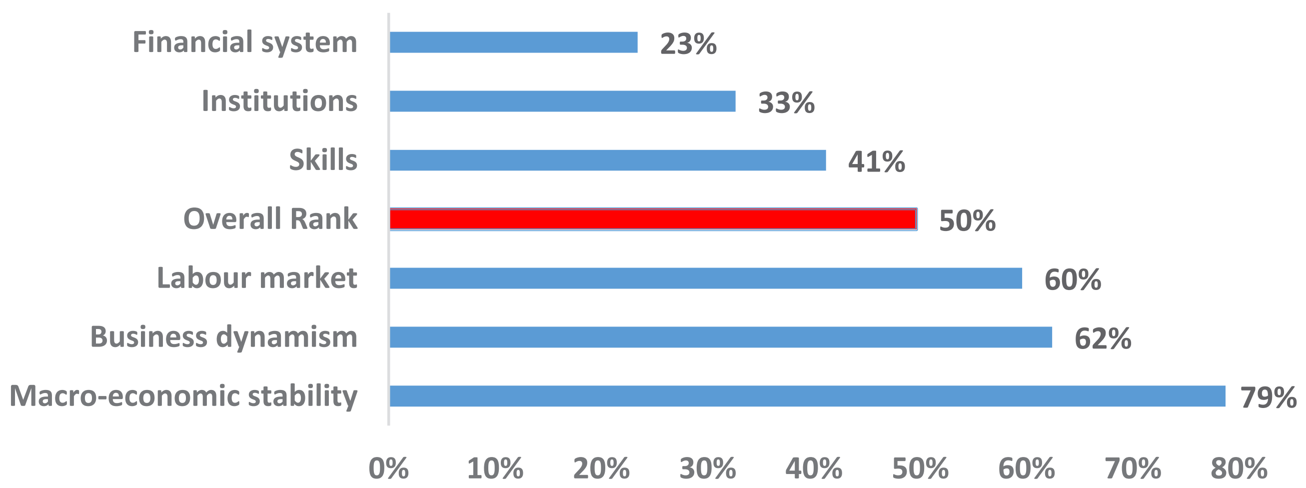
The institutional and governance framework

Jordan has enjoyed relatively high quality of governance compared to its neighboring countries. However, there has been a deterioration for most of the dimensions of governance included in the Worldwide Governance Indicators since the end of the economic boom in 2010 (Figure 2). The decrease in the consumption indicator has been the biggest one, nearly 70 percent. Concerning the indicators for political stability and the rule of law, the decline has respectively been nearly 30 percent and 25 percent. Regulatory quality has declined by over one-third but has been increasing in the last three years, after the country started implementing a substantial stabilization program supported by the IMF and several donors. None of these four indicators has regained the level it had during the 2000s. The change in voice and accountability has been minimal. This contrasts with the change in the government effectiveness that has improved significantly since 2010.

Jordan's analytical framework for the SDGs has advanced in concrete steps over time. Building upon the actions aiming to support the predecessor Millennium Development Goals (MDGs 2015), Jordan has integrated the SDGs into national and sectoral strategies, plans and programs. In 2015 Jordan developed a roadmap to implement the 2030 Agenda on Sustainable Development accompanied by an Executive Development Program (EDP). Jordan is one of the first countries to conduct a Voluntary National Review (VNR2017) that aimed to assess progress toward the goals. This review was followed by two more in 2020 and 2022.

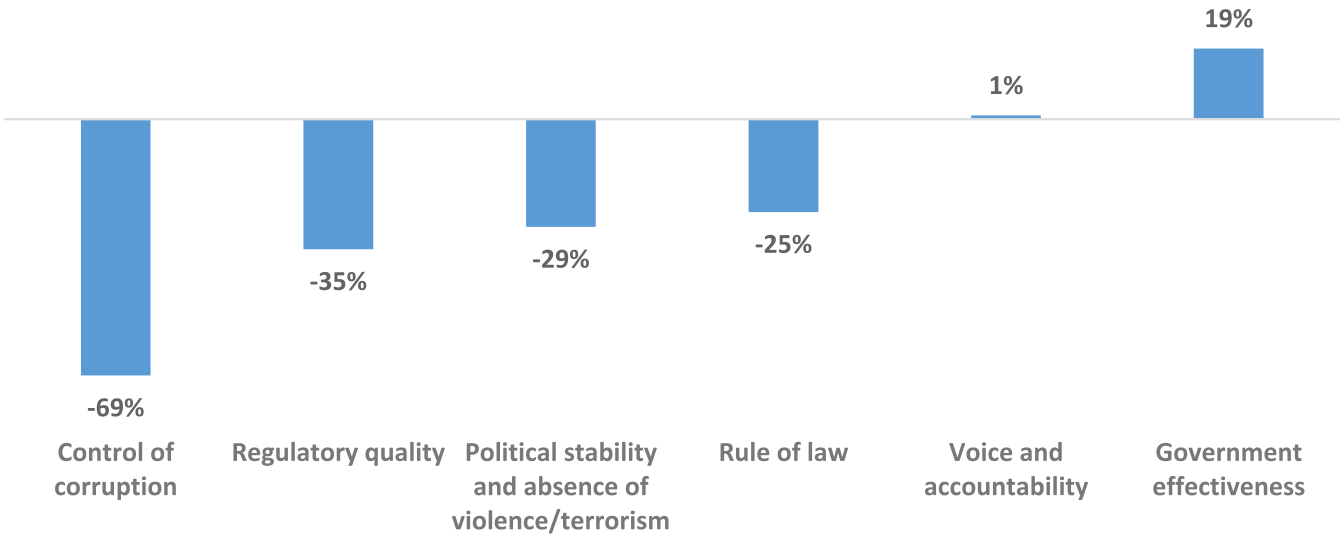
Institutionally, the governance of the SDGs is entrusted to a National Higher Committee headed by the Minister

Figure 1. Jordan's ranking in selected global indicators (2019-2021)



Source: Jordan Economic Modernization Vision 2033.

Figure 2. Change in the governance indicators, 2010 to 2022



Source: World Bank: Worldwide Governance Indicators.

of Planning and International Cooperation (MoPIC) who acts as a reference for all issues related to sustainable development. MoPIC, in coordination with the Ministry of Finance and the General Budget Department, links capital expenditures to the EDP so that priority funding is allocated to the SDGs. It also supervises and manages the mainstreaming of the SDGs targets and indicators, In addition, MoPIC ensures that there are linkages between the many sectoral task forces comprising of staff from ministries, other government entities, parliamentarians, the private sector, women/youth/local representatives, civil society organizations, academics and members of the donor community.

With the cooperation of the Performance Progress Unit at the Prime Ministry, monitoring and evaluation is carried out at three levels: Strategic and policymaking, planning and implementation. Jordan has established the Sustainable Development Unit in the Department of Statistics to collect relevant data and created a Development Portal (JDP) to monitor progress.

In conclusion, Jordan has set up a comprehensive institutional framework to support the implementation of the SDGs. With the improvement in government effectiveness and the more recent one in regulatory quality, it is well positioned to advance the SDGs, even if it does not fully achieve them by 2030. Translating Jordan's commitment and ability into actual progress toward the goals will depend on its ability to finance them. In turn, this will depend on whether fiscal consolidation is based more on austerity instead of accelerating economic growth through reviving private sector development.

The role of macroeconomic performance

The SDGs were introduced in 2015 at a time that almost coincided with the adoption of "Jordan 2025: A National Vision and Strategy". The Vision set the bar rather high. Had it achieved its objectives, Jordan would have made more progress across, and most likely achieve, most – if not all – of the goals.

The Vision expected that between 2014 and 2025 annual economic growth would reach 7.5 percent, revenues would exceed spending by 30 percent (so that public debt would be reduced to below 50 percent of the GDP in 2025, from 85 percent in 2014), public sector employment would shrink by more than 20 percent, and the average retirement age would increase from 51 years to 60 years. In the labor market, the expectation was that the unemployment rate would drop below 10 percent despite the fact that women's labor force participation rate would have increased from 15 percent to 24 percent. The poverty was to be reduced from 14 percent to 8 percent. The Vision also expected inequality (the Gini coefficient) to decline from 0.38 to 0.28, and the First Voluntary National Review in 2017 reduced it further to 0.25 – the lowest in the world.

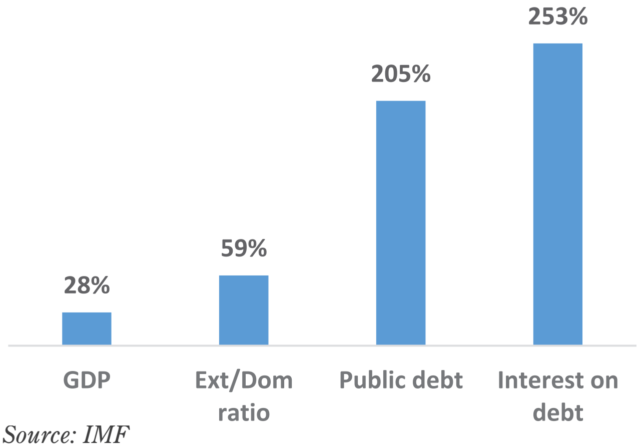
These expectations were not fulfilled, especially with respect to the economic growth rate with its adverse systemic effect on the SDGs. Jordan has a history of fiscal stress, and reliance on external support has continued until today. Though it defaulted only once, in 1983 following the collapse of the price of oil, it has since benefited from six debt restructurings under the Paris Club, and two stand-by arrangements (SBA) and five Extended Fund Facilities (EFF) under the IMF, the latest in 2020.

A reason for the increasing fiscal stress has been persisting budget deficits that averaged over 7 percent of GDP during the 2010s. The ensuing need for borrowing has resulted in growing public debt. Having been reduced by almost one-third during the boom decade of 2000s, the debt-to-GDP ratio has since nearly doubled to more than 110 percent (Figure 3). External borrowing has increased its share in debt since the mid-2010s and peaked at 200 percent of exports in 2020. Domestic borrowing has also resorted to the reserves of the Social Security Fund that are being depleted.

In the latest budget (2024), debt repayments reached JD1.7 billion compared to spending on key SDGs such as education (JD1.3 billion) and health (JD1.1 billion). Key domestic contributors to the increase in borrowing needs have been (in increasing order) rising spending on public salaries, pensions and debt repayments. The persistent deficits in the electricity and water sectors are another factor contributing to the debt.

The fiscal situation has significantly affected the private sector. Domestic borrowing by the government can result in "crowding out" credit to the private sector, when banks invest in less risky government bonds. This can undermine the earlier noted well performing domestic financial system (Figure 1). Gross fixed capital formation has been halved and foreign direct investment (FDI) has been reduced by more than 80 percent compared to 2010.

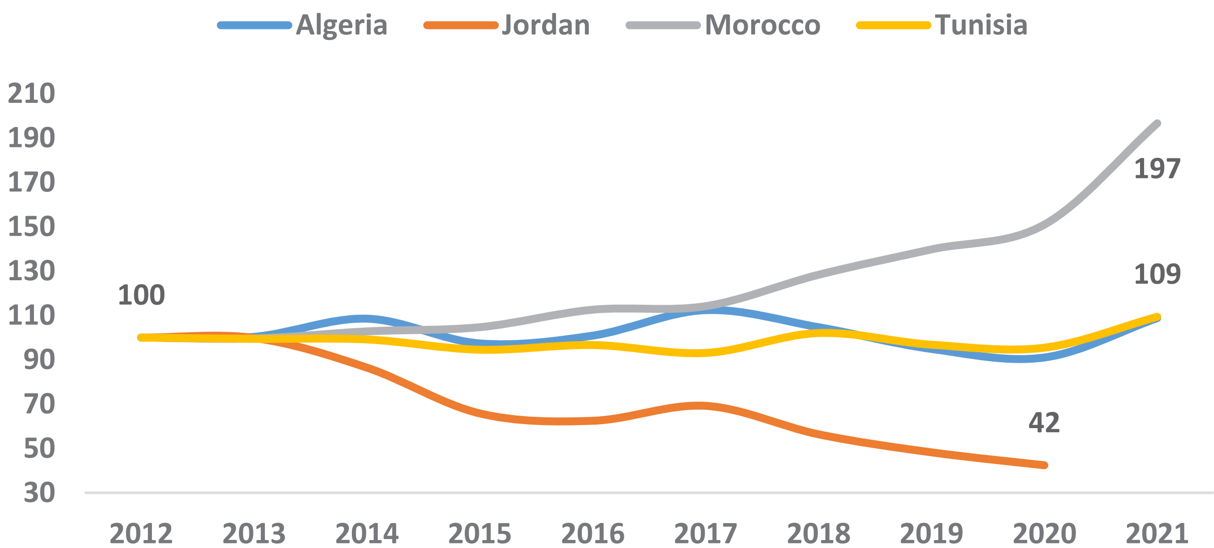
Figure 3. GDP and debt change, 2009-2021



Source: IMF

Business dynamism is ranked second lowest in Figure 1 as the private sector has moved into lower value-added activities. Jordan's rank has slipped by 37 percent in the Global Innovation Index since 2011. The value in the Economic Freedom Index has declined by 10 percent since 2019. Both labor productivity and total factor productivity (TFP) have declined over time and now are below the global, even MENA's, average. Since the end of the economic boom in 2010, there has not been a new listing at Amman Stock Exchange (ASE). The rate of new business creation has been declining over time (Figure 4).

*Figure 4. New Business Density Rate (index 2012 = 100) **



** The rate is the number of newly registered firms, in which ownership liability is limited to its investment, per 1,000 working-age people (ages 15-64) per calendar year.*
Source: WB (2022) https://www.worldbank.org/en/programs/entrepreneurship

The result has been low annual economic growth hovering around 2.5 percent since 2010. Combined with population growth, real per capita income has declined by almost 25 percent, of which almost half can admittedly be attributed to the influx of Syrian refugees after 2011. Unemployment increased from around 12 percent in 2010 to 19 percent in 2019 (even before COVID-19 when it peaked at nearly 25 percent) and now stands at 21 percent. Poverty has been increasing since the early 2010s.

Risks: many and diverse

Several economic risks have been identified by both the IMF and the rating companies among others. IMF notes that probabilistic projections, including its own, about the debt trajectory are often unreliable as they depend on factors both external and internal to Jordan. In addition to the ongoing War in Gaza that has now been extended to Lebanon, there is external uncertainty related to weaker global growth, tightening of financial conditions, renewed surge in commodity prices and lower international trade. In addition, climate change would require additional funding for mitigating its impact.

Domestically, the effects on the SDGs from the fiscal reforms and the stabilization program introduced in 2020 would depend not only on the extent of front-loading the many envisaged reforms and their consistent implementation thereafter, but also on whether the results of the reforms show up fully and quickly. According to the IMF, the legacy arrears in the electricity and water sectors "remain large challenges" and the "budget deficits in the two sectors carry significant debt sustainability implications". Electricity tariffs are high and likely to remain so, thereby posing a constraint to businesses in comparison to their external competitors. In addition, there are millions of arrears that the government has yet to pay to suppliers in the health, construction and other sectors.

Additional risks, also included in the IMF's reviews, include, first, delayed structural reform implementation; second, risks to fiscal balances from higher-than-expected costs related to large expected PPPs that may not materialize at least over the relevant time horizon; third, weaknesses in banking supervision and systemic risk analysis; and fourth, donor support that may not be as "robust, strong and timely" as it has been in the past. Noteworthy is the risk identified with the high cost of living, weak job creation and persisting unemployment that can give rise to social discontent.

Concluding remarks: weak financing prospects

The SDGs apparently are aspirational goals, as officially evidenced by their global status half way to 2030 and their expected progress until 2030. From a regional perspective, the MENA countries as a group have achieved none of the SDGs so far, and none is on track to be achieved by 2030. In fact, the region is seeing reversals in three SGDs, namely poverty (SDG1), hunger (SDG2) and peace, justice and strong institutions (SDG16). The region faces 'significant" or "major" challenges in the remaining SDGs.

In such a context, it will not be an exaggeration to claim that Jordan has done relatively well on the SDG scoreboard. This is so because of Jordan's commitment to the SDGs, its institutions and governance, and political stability compared to several other Arab countries. It also is so in part due to its previous achievements in several goals such as those related to education and health. Accelerating progress toward the SDGs would require strategies, plans and programs for each one of the goals. Jordan has produced and regularly updated many national strategies and plans relevant to each of the goals. Jordan has strategies and plans for financial inclusion, governance, agriculture, tourism, transport, ICT and AI, education, employment, health, social protection, the youth/women/elderly, energy, food insecurity, water, waste and climate.

The bigger challenge lies on the successful implementation of these sectoral strategies and plans and the success of the fiscal adjustment program at the macro level that will be judged not only by whether its will stabilize the economy but also on whether it leads to sustainable recovery and economic growth. This is critical for the financing of the SGDs that effectively encompass the whole development agenda. Key for Jordan moving forward will be to reduce the debt burden through faster economic growth rather than austerity. However, economic growth is projected to be at the same rate until 2030 as it has been since 2010 – around 2.5. This rate is a fraction of the interest rate paid on public debt (around 7 percent), while the debt is still increasing and expected to reach 115 percent of GDP by 2026 from 108 percent in 2021. The upgrading of Jordan's sovereign rating by one notch in 2024 will help but probably not much in the near term, as Jordan still remains in the group of "non-investment speculative" countries ("junk"), three levels below the lower medium investment grade.

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