

AIRGRAM

DEPARTMENT OF STATE

2780127-②

PROJ. 278-127

C/P E (1) Cont

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PD-AAC-314-81

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ACTION

TO - AID/W TOAID A -345 X

Reference Section
Room 3650
11/9/56

N10
INFO

FROM - AMMAN

NOV 13 1969

SUBJECT - Pre-Development Studies PROP 278-12-995-127

REFERENCE -

AAC
ITAD
PRR
ENGR

NON-CAPITAL PROJECT PAPER (1) (PROP)

Country: Jordan Project No.: 278-12-995-127

Submission Date: 11/15/69 Original X

Project Title: Pre-Development Studies (Formerly Feasibility Studies)

U.S. Obligation Span: FY 1966 through FY 1971

Physical Implementation Span: FY 1966 through FY 1972

Gross life-of-project financial requirements:

U.S. Dollars 3,492,000

U.S. Owned local currency (equivalents) 105,000

Cooperating Country Cash Contribution
(in \$ equivalents) (2) 104,000

Other Donor -0-

Total: 3,701,000

- 4/3 - (1) Carried as a Capital Assistance Project but using T.A. and S.A. funds.
- (2) GOJ owned PL 480 generated local currency

PAGE 1 OF 12 PAGES

DRAFTED BY RMDangler/ga JCrane	OFFICE EM/EX CD/E	PHONE NO. 87	DATE 11/12/69	APPROVED BY: DIR:AMHandly
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AID AND OTHER CLEARANCES

PRG: JCrane

COI T: GLMoose In draft

AWO: DD Ostergaard (In draft)

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1. SUMMARY

The proposed project is based on the concept that funds for prefeasibility, feasibility and other pre-investment studies are needed to encourage investment, both private and public for the development of Jordan's Roads, Communications, Water, Industries and other valid projects. It should serve as a tool or catalyst to promote economic development and private investments that might not otherwise occur. Individual studies will be undertaken only insofar as specific interest and commitment on the part of the Government of Jordan and/or private investors can be identified. Studies will be undertaken only where there is a reasonable expectation that a full study will result in investment in development activities. Studies will not be undertaken for the purpose of creating a reservoir of on-the-shelf feasible projects awaiting funding. All studies will be described in detail, justified, and the Host country contributions and funds from private investment or donors identified in individual PIO/T documents.

As a result of the economic impact of the 1967 conflict, and particularly the psychological barriers to development, new investment both by the GOJ and the private sector more or less came to a standstill. By mid-1968 the GOJ showed signs of coming out of the shock - and development projects began to move forward again. Business activity also picked up although private investment of a capital nature has been largely limited to housing construction. Although the high rate of government expenditures financed by the Khartoum payments has resulted in a high degree of liquidity in the Jordan economy, the private sector is hesitant to invest under the present conditions.

The prime intent and purpose of this project is to support the interest of the GOJ and private investors by providing the basic information needed to make a judgment on the financial return which could be realized from certain investments. There is insufficient expertise in Jordan to ascertain the specific costs and benefits of a project proposal or show the feasibility of proceeding with it. This project will provide the focus and necessary planning information needed to proceed. Also it will serve to move other donor-assistance into project implementation. The end result of increased investment in development would serve to strengthen public support for the GOJ, provide employment opportunities, maintain the basic public services and in general to keep the population's hopes and confidence in their government alive.

Under this project heading, the GOJ and AID/Jordan signed the first ProAg on September 4, 1965 for the purpose of providing a feasibility study. Other ProAgs followed which provided additional USAID contributions to help finance additional studies and to provide for commodities to be used in pre-development studies of resources, and make possible participant training related to these studies. Release of funds for the sub-projects is controlled by PIO documents to be executed under the blanket ProAgs. The PIO's described the individual studies in detail and specified the contributions to be made by other parties.

Project Appraisal Report (PAR) No. 278-12-990-127, dated July 19, 1969, provides information on 21 on going sub-projects and identifies the current status of each.

The referenced ProAg(s), IAR and Mission Monthly Report to AID/W dated November 1, 1969, should be referred to afford a detailed insight into project activities already completed or underway.

The project is intended to provide for specific studies as the need arises and as definite interest is demonstrated. Individual PIO documents will describe the specific plan of action for each sub-project. Implementation will be through contracts in most cases, although TDY services and PASA's may also be used.

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TABLE I

Non-Capital Project Funding(Obligations in \$000)

Prop Date: November 15,1969
 Original : X
 Project No.: 278-12-995-127
 Project Title: Pre-Development
 Studies

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Fiscal Years	Total	Total CONT Cost <u>1/</u>	Personnel Services			Participants	Commodities		Other Costs
			AID	PASA	CONT	U.S. Agencies	CONT	DIR.	
Prior thru Oct. FY	3102	(1345)		42	1345			1715	
Operational FY 1970	127	(127)			127				
Budget FY 1971	263	(263)			263				
B+1 FY 1972									
Total	3492	(1735)		42	1735			1715	

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Note: Includes both T.A. and S.A. funding.

1/ Non-Add Column

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TABLE II

(\$000 Equivalent)

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Fiscal Years	Total	AID Controlled Local Currency		Other Cash Contributions Cooperating Country
		U.S. Owned	Country Owned	
Prior thru Oct. FY		105	104	
Operational FY 1970				
Budget FY 1971				
B+1 FY 1972				
Total	209	105	104	

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II. SETTING AND ENVIRONMENT

After the June 1967 conflict, Jordan East Bank economy was partly paralyzed by severe dislocations and by apprehension about the future. Complete implementation of Jordan's Seven (7) Year Development Plan became impossible and partial implementation of East Bank projects was politically difficult for Jordan to accept. About mid-1968, there were signs of the GOJ coming out of the state of shock and little by little some of the major important development projects in the Seven Year Plan were tackled.

By mid-1969, nine feasibility studies initiated prior to the 1967 conflict and eleven new studies were approved by the GOJ and A.I.D. Of these, six have been fiscally completed, two were cancelled, two are presently under contract and the remainder are in various stages of implementation. All active studies are progressing on schedule. The GOJ realizes the need for these studies and they are contributing funds, manpower and resources to them. The disturbing factor to USAID and GOJ is the lack of private investors willing to commit their funds at the present time. The economy of the country is characterized by excess liquidity with large private hoardings and large commercial bank cash holdings, and to the extent these funds are being spent they are tending to be dissipated in consumption expenditures. This in turn threatens a serious inflationary situation. The GOJ is quite concerned about this development, and they feel that through the use of feasibility studies they may be able to provide attractive investment opportunities to the private sector which will divert some of the cash holdings into development.

MONEY SUPPLY

(Millions JD)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969*</u>
Held by Public	23.0	26.3	30.3	51.5	63.5	73.0
Held by Banks	<u>1.4</u>	<u>1.3</u>	<u>1.6</u>	<u>1.5</u>	<u>1.8</u>	<u>1.8</u>
Currency Issued	24.4	27.6	31.9	53.0	65.3	74.3
Demand Deposits	<u>19.1</u>	<u>22.4</u>	<u>27.3</u>	<u>24.8</u>	<u>25.5</u>	<u>24.0</u>
Money Supply	42.1	48.7	57.6	76.3	89.0	98.8

* USAID Estimate

CONSUMER
AMMAN-ZERKA CONSUMER PRICE INDEX

Index 1967 - 100

	<u>June 1968</u>	<u>June 1969</u>
All Items	98.8	108.5
Food	95.6	123.4
Housing	100.7	100.8
Clothing	99.1	101.3
Other Goods & Services	102.2	100.2

The concern over the present political situation and the lack of military security inhibits investment. While these are legitimate concerns, to some extent they tend to assume greater importance than they warrant. It is expected that pre-development studies, to provide solid evidence that investment opportunities exist would help to shake the potential investors out of the psychological slump, start them thinking about investment gains, opportunities for long range development and hopefully move them to action. There is ample evidence that the GOI/JDB is generating new interest in development and making efforts to improve the management, planning and implementation of projects. This interest is genuine and as a direct result they have realized the need for pre-investment studies to ascertain the development potential of projects.

GROSS CAPITAL FORMATION

(Millions JD)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968*</u>	<u>1969*</u>
Private	12.8	13.6	15.2	11.6	8.0	10.0
General Government	6.0	10.4	12.5	15.0	13.0	14.0
Change in Stocks	<u>6.5</u>	<u>3.9</u>	<u>-1.3</u>	<u>-1.2</u>	<u>-</u>	<u>-</u>
Total Capital Formation	25.3	27.9	26.4	25.4	21.0	24.0

* USAID estimates

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III. STRATEGY

The end objective is to bring about greater investment in development activities from private, governmental, and foreign donor sources. This project is directed toward encouraging the allocation of available resources for investment as well as bringing in new capital. By providing funds for pre-development studies, one of the principal barriers to investment will be removed.

The studies financed under this project will be carefully selected to include only those where positive action leading to investments can reasonably be expected to follow. Pre-development studies will be used to confirm expressed interest in a project, and full feasibility studies will follow a firm commitment on the part of interested parties. Studies will be used also in areas where the GOJ has a diffused responsibility and lack of focus or coordination, and where different donors are tending to follow uncoordinated courses of action. In these cases they will tend to focus action, provide a coordinated approach, and maximize the outputs from various inputs. The project should result in considerable increases in resource application to development. Studies now being undertaken relate to over \$100,000,000 of potential new investments, not including the multiplier effect of such investments on further investment.

This project is also closely related to other AID/Jordan efforts, i.e. the vegetable seed processing study to the vegetable research and production project; the school facilities study to the school building planning project; urban problems studies to do specific studies resulting from the programmed urbanization development project; grain storage study to the wheat research and production project; ground water irrigation studies to all agricultural efforts; electric power studies to all development efforts in Jordan; building materials and ceramics studies to the U.S. and to the U.N. housing projects and urban development projects.

IV. PLANNED TARGETS, RESULTS AND OUTPUTS

The basic objective of GOJ and USAID/J is the completion of studies that are in progress as well as new studies that will be undertaken in the future, all of which will lead to new investment in development activity. The new investment directly attributable to these studies should exceed \$100,000,000. It is anticipated that through the multiplier principle, additional investment will result from this direct project investment.

Feasibility studies already completed and studies in process of implementation are listed below:

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TABLE "A"
Jordan Feasibility Studies - Completed
 (Technician Costs not included)

<u>Sub-Project</u>	<u>Obligations</u>	<u>Deobs</u>	<u>Expenditures</u>
Jerusalem Airport Development No. 1 ProAg 127/66/6	\$ 29,000	\$ 1,500	\$ 27,500
Electric Power Expansion No. 2 ProAg 127/66/6	48,500	29,505	18,995
Telecommunications No. 3 PASA-T/2-60018	7,500	699	6,801 ^{A/}
Arab Potash Company No. 4 ProAg 127/66/6	51,100	-0-	51,100
Airport Feasibility Study No. 5 ProAgs 127/66/6; 127/67/6.1 and 127/68/3.3	114,000	-0-	103,627 ^{B/}
Alia Equipment Study No. 6 ProAg 127/67/6.2	40,000	40,000	-0- ^{C/}
Zerka River Water Resources No. 7 ProAg 127/67/6.3	500,000	500,000	-0- ^{C/}
IRA Manganese Ore Benefication Study No. 8 ProAg 127/68/3.1	13,600	484	13,116
IRA Minerals Investigation No. 11 ProAg 127/68/3.2	5,000	-0-	-0- ^{B/}
	\$808,700	\$572,188	\$221,139

A/ PASA-funded from Appropriation No. 72-1161004.

B/ Awaiting advice on final billing (sub-project #5 - \$10,373 unexpended).

C/ Cancelled.

TABLE "B"
JORDAN FEASIBILITY STUDIES STATUS REPORT
(Active or Under Discussion)

Activity/Project	Planned Amounts	Remarks			
		Item	On Order	Shipped	Received
NRA Groundwater Equip. Sub-Project #9 Project 127/68/3.2	\$220,900	Trucks	99.3%	99%	-
	383,200	Casing	100%	85.6%	70.3%
	234,000	Bits	100%	100%	89.4%
	238,250	Rigs	100%	100%	28.8%
	121,600	Spares	100%	100%	0.01%
	75,000	Jars, etc.	100%	100%	94.9%
	327,000	Pumps	-	-	-
	1,200	Meters	100%	100%	100%
	12,000	Engines	-	-	-
	47,000	Tanke	100%	100%	100%
	50,000	Spares	100%	100%	86%
	<u>1,710,150</u>				
	Electric Power # 10 Project 127/68/3.2	\$ 50,000	Kuljian directed to conduct a supplemental study for submission by Sept. 10. Anticipate some delay due to late signing of contract amendment.		
Rantha-Amman-Jerusalem Highway Improvement Sub-Project #12	\$225,000	GOJ expects to complete proposed review and selection of firm for contract negotiations by October 4.			
School Building B Development # 13 Project 127/68/3.2	\$125,000	Two architects (Mr. Rud and Mr. Trout) arrived in September to bring DEJM team to six. Study appears to be proceeding with no difficulties. The firm's work has been exceptional well received by Ministry of Education and JDE.			

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Activity/ProA.	PIOed Amounts	Remarks
11 Grain Storage Sub-Project # 14 ProA. 127/68/3.2	\$ 75,000	AID/W and JDB approved proposal which would separate out Price Policy to be completed by two-man PASA team from Department of Agriculture. This team delayed. Awaiting new nominations.
East Ghor Irrigation Project drainage TDY- Sub-Project # 15 ProA. 127/68/3.2	\$ 4,000	David A. DeBruyn arrived September 28, 1969.
Glass Industry Sub-Project # 16 ProA. 127/68/3.2	\$ 58,000	Expect to received from JDB by Oct. 4, for AID/W approval, preselected firms which will be requested to submit proposals.
Building Materials Industry. Sub-Project #17 ProA. 127/68/3.2	\$ 64,000	
Vegetable Seed Processing Sub-Project # 18 ProA. 127/68/3.2	\$ 50,500	Expect to receive from JDB by Oct. 4, for AID/W approval, preselected firms which will be requested to submit proposals.
Fruit & Vegetable Processing Industry Sub-Project # 19 ProA. 127/68/3.2	\$ 62,000	
Groundwater Irrigation Azrak Area. Sub-Project # 20. ProA. 127/68/3.2	\$ 350,000	Possible delays anticipated due restrictions in project work area. JDB to continue pre-selection phase.
Ceramic Industry Sub-Project # 21 ProA. 127/68/3.2	\$ 75,000	See # 16 and # 17
Arman Traffic (Trans- portation) Study		JDB requested study. Lord Mayor of Arman has expressed interest to move this study as quick as possible, however, normal days can be expected.

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V. COURSE OF ACTION

Upon notification of approval by AID/W of this PROP, USAID/Jordan in coordination with GOJ/JDB will proceed to finalize a blanket ProAg to cover those studies that are firmly programmed, and prepare individual PIO documents to provide the specific implementation plans and timing. The ProAg will be amended, and additional PIO/Ts written as other studies become more firmly programmed and justified. USAID/GOJ plan to give special attention to Urban Development Studies. To determine the specific studies that might be undertaken, USAID in coordination with GOJ/JDB will select candidates to form a study team to be sent to the USA for the purpose of gaining experience and formulating plans in the area of Urban Development, conduct seminars in Amman to articulate urban problem areas, make use of TDY assistance from knowledgeable USAID staff located in other Missions where they have realized a degree of success in the Urban Development Area, and where it is deemed advisable, seek PASA assistance to strengthen the effort. During this process, USAID/Jordan should define specific Urban studies that need attention. USAID is also proposing an Urban Development technical assistance project, which should also result in the identification of specific urban problems that need study.

Under consideration also is a study of the feasibility of establishing organizations to mobilize private capital and know-how for investment in development activities. This might include savings and loan associations, mutual fund type operations, or something like the National Development Foundations.

SYMMS