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**A PROGRAM  
MANAGEMENT DOCUMENT**

**Action Plan**

**USAID/JORDAN**

**FY 1990**

August 1989



**Agency for International Development  
Washington, D.C. 20523**

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### ECONOMIC OVERVIEW

The outlook for the Jordanian economy has changed during the 1980s. The economy had depended heavily on external sources for growth; however, it is no longer able to do so as traditional sources of external funding, (private transfers and official aid) have decreased significantly following the economic slowdown brought about by a decline in the price of oil. The decrease in inflows revealed the structural weaknesses inherent in the budget as well as the balance of payments. The Government of Jordan (GOJ) had been able to conceal structural problems by drawing down on reserves and borrowing from foreign and domestic banks. Now Jordan finds itself at a critical juncture. Burdened with debt and a sizable budget deficit, the GOJ must shift from an economy dedicated to infrastructure development to one dependent on its own ability to earn its way out of debt and compete in the international community.

To reverse the weakening of its external position and bring about restructuring of the economy for sustainable growth, the GOJ has instituted a far reaching set of policy reforms. Through successive depreciations of the currency, the Jordanian Dinar slid 56% vis-a-vis the US dollar during the course of the past year. On July 31, 1989, the GOJ floated the dinar but only for commercial transactions on non essential goods. A second official exchange rate was established for essential goods. The GOJ plans to unify the dual rate before March 1990.

The exchange rate adjustment potentially helps promote exports as they become more competitive internationally and encourages import substitution. Consumers are also discouraged from buying imports and encouraged to switch to purchases of domestic goods and services. These actions were triggered not only by exchange rate adjustment but also by a series of measures including a temporary ban placed on the imports of cars, consumer electronics and other non-essential items as well as higher tariffs on luxury goods.

The exchange rate adjustment coupled with tighter controls on imports created new opportunities to produce for both domestic and export markets. Investment in these new opportunities has been promoted by easing in August 1988 of the business licensing system. Changes were also made to Jordan's investment law making tax holidays more attractive by providing a tax loss carry-forward and simplifying the law's administration. The increased investment that these policy changes promote, will in turn, help to create jobs for Jordan's 5% annual labor force growth. In a further move to encourage exports, the GOJ has also improved the existing duty drawback scheme and Central Bank discount facilities for export finance have been made more attractive.

To reduce costs so as to make domestic industry more competitive, import tariff levels were reduced for a number of raw materials. Market competition was further enhanced by removal of prior import bans on domestically produced items and the elimination of the industrial licensing system which had been a barrier to market entry. To dissuade employment of foreign labor, work permit fees for non-Arab labor were substantially increased. In the area of monetary policy, several changes have been instituted whereby interest rates were liberalized in September 1988, and credit policy has been selectively tightened. With interest rates being more market oriented, investment funds will be more efficiently allocated.

On the fiscal side, Jordan under the auspices of the IMF, has already done much in addressing the fiscal budget deficit. The core of the IMF standby agreement rests on annual budget reduction and constrained public sector credit expansion. To provide further relief to Jordan's hard pressed external position, debt rescheduling has now been partially completed in accord with a Paris Club meeting on July 19, 1989; a London Club meeting will be scheduled in the near future.

An austerity program aimed at reducing the budget deficit has been instituted. New tax measures to produce some JD 54 million annually, roughly 5% of total expenditure, have been enacted and government expenditures are also being curtailed in order to reduce deficit spending. For example, plans for a half billion dollar military aircraft purchase have been shelved and plans to equip Aqaba airport with new radar facilities have been cancelled. As part of the IMF Standby Agreement, the GOJ has pledged to introduce a broad sales and/or value added tax in order to make revenues more buoyant. Lower deficit spending will conserve foreign exchange and release domestic resources for private productive investment thereby enhancing the structural adjustment process.

The underpinnings of the Jordanian economy remain sound and the far-reaching policy measures implemented over the past twelve months have done much to address both short term and structural problems in the economy. In the agreement with the IMF as well as negotiations for structural adjustment lending with the World Bank, Jordan is expected to introduce further policy changes making the economic environment even more conducive to growth. These include:

- targeted reductions in government expenditures following a World Bank review;
- tax reform;
- simplification of import and export procedures and tariffs reform;
- improving institutions in export and investment promotion;
- strengthening export credit and insurance.

During the past six months, the Mission has monitored closely the IMF led debt rescheduling for Jordan now that is an important part

of the macro-economic and fiscal reforms the GOJ is undertaking. We have also worked closely with various IBRD teams that are preparing a complementary structural adjustment loan for the Trade and Industry Sector. We continue to monitor the exchange rate problem faced by the government and efforts to deal with foreign exchange shortages. We have discussed with the GOJ additional continued reforms to increase Jordan's export potential for local industries as well as to increase support for the domestic private sector.

#### USAID APPROACH

The Mission's program and policy dialogue agenda continue to target three objectives:

1. Improving productivity and marketing;
2. Increasing private sector investment in productive sectors;  
and
3. as a result of these activities, increasing employment.

Productivity improvements are essential for Jordan to reduce production costs and raise the quality of manufactured goods, agricultural products, and business services, thereby becoming more competitive in domestic and export markets. Raising productivity and cost recovery in key government services used by business (e.g. water and sewer, electricity, and transportation services) will reduce the fiscal drain on Jordan's economy and reduce costs to the productive sectors. Better merchandizing and improved export marketing efforts are needed to bolster the revenue performance of domestic enterprises and increase export sales. Improved productivity and better marketing will enable productive enterprises to pay better wages, thereby raising income.

The status of the Jordanian economy with its foreign exchange shortages and rising unemployment, coupled with the Government's fiscal problems, clearly verifies both the analytical basis and the necessity of USAID's revised private sector strategy (completed in 1986 for the five-year period through 1990). Since the CDSS predictions of foreign exchange shortages and rising unemployment have become facts, the logic of the argument for the private sector focus of the USAID program that was presented in the CDSS is even stronger today. The GOJ is undertaking economic structural adjustment to deal with many of the problems which the CDSS identified as serious. Both the IMF and the IBRD have agreed to structural adjustment lending in support of GOJ programs.

IMF and World Bank lending programs focus on short-term adjustments in macroeconomic and fiscal indicators, but fundamentally seek medium and long-term changes in the structure of the Jordanian economy. These changes depend on the expansion of productive enterprises to earn increased amounts of foreign exchange to stimulate job growth and encourage more efficient productivity. Essentially, the IMF and the IBRD are supporting the GOJ in its

adoption of a development strategy that follows our CDSS and the past three Action Plans approach for increased productivity, greater investment in the private sector and expanding productive employment.

The Mission has revised its policy dialogue agenda in response to USAID's reduced economic assistance levels, GOJ macro-economic adjustments, as well as the current budget and foreign exchange constraints Jordan confronts. The revised agenda constitutes a new set of policy objectives which are outlined in the following section (Review of Second Generation Policy Dialogue Issues). Unless major political and/or economic changes occur, the Mission sees no need for a strategy revision or update. Revision of the present CDSS would only be necessary if a Middle East peace settlement led to the need to program significantly larger levels of economic assistance (\$150 million plus per fiscal year).

To meet some of the immediate needs of the private sector in this present period of FX shortage, the GOJ and USAID are changing the nature of the CIP. First, under the "belt tightening", instituted by the GOJ to reduce public sector spending, a \$9.7 million CIP financed radar package for the Aqaba airport was cancelled. The Ministry of Planning requested that these funds be made available to the private sector. We consider this to be a major break-through.

The now available \$9.7 million can be made available as the basis for a revolving Export Support Facility from which exporters can borrow the foreign exchange they need to support their confirmed exports to hard currency markets. Then, upon the completion of their shipments and the receipt of the hard currency they can repay these borrowed funds, allowing further imports to support exports.

The \$18 million programmed for a Private Sector CIP in FY1990 will be considered for addition to this program under a cash grant mechanism, thus absent the Reg. 1 requirements. Thus targeted, the funds would have an impact reaching beyond the initial provision of foreign exchange to the actual setting in motion of a continuous cycle of foreign exchange earnings and economic growth. In brief, additional and sustained private sector funding will provide Jordan with valued and urgently needed short term assistance which will facilitate the more difficult transition to a recovery based on the longer term strategies of USAID's private sector project portfolio, in conjunction with World Bank and IMF assistance.

These additional resources could be tied to further policy reform to induce greater private sector investment and attendant employment creation. Possible areas include:

--reform of policies adversely affecting small enterprise development. USAID/Jordan has already planned a review of labor, tax, government procurement, and other policies that may discriminate against small enterprise development. Removing barriers to small enterprise development can be important to small business growth and the employment it typically generates.

--removal of procedural and policy barriers to the formation of public shareholding companies and the sale and purchase of equity. As part of the financial markets project, USAID/Jordan anticipates undertaking special studies of impediments to the raising of equity capital for new business formation or expansion. Facilitating access to equity markets would ease financing constraints and promote needed investment.

--counterpart local currency generated by the CIP program could in part be programmed toward activities supportive of further private sector growth. Thus, part of the counterpart funds could be set aside for such priority activities as funding of a small enterprise loan guarantee program, capitalizing an export insurance/guarantee facility, and creating venture capital funds.

As a final note, recent important developments in Jordanian-Syrian relations might affect the Mission's current strategy. Jordan and Syria have reached agreement on proceeding with the Maqarin (Unity) Dam. Since the 1950's, the U.S.G. has played an important role in mediating disputes over water rights and utilization in the areas bordering Israel, Syria, and Jordan. With the Maqarin Dam agreement, the U.S. will continue to provide facilitative functions with associated financial responsibilities.

The Dam will be constructed and should the U.S. choose to provide assistance, USAID/Jordan would require a slight shift in proposed staff resources to monitor construction. The enhanced funding levels provided for Maqarin Dam would also help strengthen the U.S. position as a major donor in Jordan, providing greater access to GOJ policy makers.

REVIEW OF SECOND GENERATION POLICY DIALOGUE ISSUES

USAID

POLICY DIALOGUE PRIORITY

LEAD    DEPUTY    GOJ

I. AID FIRST PRIORITY

I.1	Reduce food subsidies to release resources for more productive purposes; study incidence; develop better targeting of subsidies and other programs to meet poverty objectives.	REA	ARDO	Min Supply MOP
I.2	Reduce water system losses; develop water conservation program; improve cost recovery in water and sewer services.	ENGR	REA	WAJ MOF
I.3	Establish export credit/guarantee system.	PEPD	REA	CBJ
I.4.	Review/revise government policies to promote small enterprise development.	REA	PEPD	IDB Min. Ind. MOP
I.5	Remove procedural and policy barriers to the formation of public shareholding companies and the sale and purchase of equity.	PEPD	REA	Min. Ind. AFM
I.6	Eliminate the reference price system for fresh fruits and vegetables.	ARDO	REA	Min Supply MAF
I.7	Transform cropping system to information system to farmers on farmers' planting intentions.	ARDO	REA	MAF
I.8	Eliminate wheat production subsidy program.	ARDO	REA	MAF MOF
I.9	Promote private sector participation in alternative health financing schemes.	HPN	REA	MOH MOF

Note: Items above are numbered for reference purposes only; all items are of equal priority.

<u>POLICY DIALOGUE PRIORITY</u>		USAID		
		<u>LEAD</u>	<u>DEPUTY</u>	<u>GOJ</u>
<u>II. AID MEDIUM PRIORITY</u>				
11.1	Improve budget preparation, examination and control.	REA FRM	PEPD	MOF
11.2	Simplify import-export procedures as per McCue recommendations.	REA	PEPD	MOF Min Ind MOP
11.3	Seek privatization both of government enterprises and use of private sector to provide services.	PEPD	PRM	all gov. agencies
11.4	Reduce government monopolies, monopolies (e.g. RSS for government computer work).	PEPD	PSD	MOF others
11.5	Promote pursuit of international standards with respect to intellectual property rights.	PEPD	PSD	Min Ind
11.6	Develop consistent external commercial policy; examine benefits of joining GATT.	REA	PEPD	Min Ind
11.7	Create new financial instruments and accordingly change CBJ criteria for examination of prudential banking practices; promote use and, as appropriate, trading in such new financial instruments.	PEPD	REA	CBJ MOF Com Banks AFM
11.8	Eliminate "directed" credit by removing tax advantage and government guarantees on syndicated loans/bonds and eliminating Central Bank approvals on credit over JD 500,000.	PEPD	REA	CBJ MOF
11.9	Separate regulatory, stock distribution, and exchange market functions in AFM; establish ways to minimize insider trading.	PEPD	REA	AFM MOF CBJ
11.10	Promote labor market clearing and placement, both domestically and in regional labor markets, through career counselling, job placement offices, private employment agencies.	PRM	REA	Min Labor U of J
11.11	Reform Ministry of Education vocational community colleges so their programs are "demand-driven."	PEPD	PRM	Min Ed MOHE

<u>POLICY DIALOGUE PRIORITY</u>	USAID		
	<u>LEAD</u>	<u>DEPUTY</u>	<u>GOJ</u>
II.12 Encourage government's own capital projects to undergo environmental assessment.	ENGR	PEPD	MMRAE D. Antig
II.13 Set targets for reducing recurrent costs in health care service delivery including NMI, private hospitals, and primary health clinics; establish reliable cost accounting systems to measure costs and to monitor progress toward cost containment objectives.	HPN	REA	MOH NMI

POLICY DIALOGUE PRIORITY

III. SUPPORTIVE

- Rationalization of tariff structure, lowering of overall level of effective rate of protection, compensating for loss of tax revenue by introduction of national sales or value added tax.
- Simplify tax structure; close loopholes on income tax, thereby allowing lower overall rate.
- Reform petroleum product pricing by separating cost components from tax. Cost component should be moving average of international oil prices; tax should be fixed.
- Clarify and expedite operation of investment incentives; strengthen investment promotion efforts.
- Lift import bans and reduce other non-tariff barriers.
- Conclude Bilateral Investment Treaty with U.S.
- Conclude free trade agreement with U.S.
- Tighten debt management.
- Develop debt-equity swap mechanisms.
- Reform educational finance.
- Improve irrigation, water efficiency and cost recovery.
- Promote long-term birth spacing and breast-feeding policy and strategy.
- Enforce axle load limits.

IV. NOT ON THE AGENDA

- Public investment review, systematize assessment of economic cost/benefit of government projects.
- Reform government pension system.
- Improve efficiency in government operations; review government staffing levels, methods of work, procurement, develop related overall integrated manpower development program for public sector.
- Liberalize buy-sell operations of Jordan Investment Co. (ex. Pension fund).
- Implement energy pricing recommendations.

NEXT STEPS ON FIRST PRIORITY POLICY DIALOGUE ITEMS

	<u>ACTION</u>	<u>DUE DATE</u>
I.1	Sponsor study for Ministry of Supply to determine incidence of benefit of current food subsidies by income class and under various poverty definitions. Study should identify alternatives to improving status of poverty groups, including better targeting.	REA SOW 9/15/89 Study 12/31/89
I.2	Provide technical assistance to WAJ to develop comprehensive plan for reducing municipal and industrial water losses.	EEE Plan 9/30
	Offer WAJ technical assistance to develop a water conservation education program.	EEE 9/30
	Prepare analysis showing macroeconomic (i.e. public finance and external debt) impact of WAJ's lack of cost recovery.	REA 5/30
I.3	Complete study of alternative export insurance/guarantee schemes.	PEPD 6/30
I.4	Undertake expert review for IDB of government policies affecting small enterprise development.	REA SOW 10/20
	Complete Study	11/30
I.5	Complete cross-country comparison of methods used to price and market initial equity offerings. Prepare case study of price behaviour on AFM of new issues to test deviation from initial set price.	PEPD SOW 8/15
I.6	Prepare and implement program to experiment with lifting of reference price system.	ARDO Plan 12/31 Experiment 3/90
I.7	Complete design for information system.	ARDO 12/31
I.8	Mount seminar on economic costs and benefits of wheat production subsidy program.	ARDO 10/30
I.9	Provide assistance of health economist to NMI to examine health financing options and define role for private sector participation.	HPN 8/31

AGRICULTURE

A. Background.

Although a relatively minor component of the Jordanian economy, agriculture nevertheless has a broad impact due to the value added resulting from input-servicing and output-marketing in the service and industrial sectors. Agriculture provides about 7 percent of the GDP and employs an equal percentage of the labor force. Agricultural exports contribute roughly 10 percent of the merchandise export trade. Jordan is not agriculturally self-sufficient, importing four times the value of its exports. In contrast to the extraordinary 18 percent annual agricultural GDP growth between 1975 and 1980, real agricultural GDP growth has been stagnant since 1980, for many of the same reasons that the country's economic growth in general has slackened.

Two major USAID Projects, the \$27.5 million Jordan National Agricultural Development (JNAD) Project and the \$5.0 million Agricultural Marketing Development (AMD) Project, are working to overcome the major production and marketing constraints to agricultural growth and income. In addition, resources from both projects support the Mission's policy dialogue in reducing food and production subsidies, price regulation, and cropping restrictions. The success of these efforts can be measured by examining the indicators listed under each of the following broad agricultural program objectives.

B. Objectives and Indicators

1. IMPROVE THE EFFICIENCY OF AGRICULTURAL MARKETING

Indicators:

a. No. of metric tons (in 000s) of vegetable and fruit exports to the EEC & Gulf.

	1987	1988	1989	1990
<u>Veg</u> (Gulf)	250.0	280.0	390.0	485
(EEC)	1.7	2.2	4.3	15
(All Exp)	251.7	282.0	394.0	500
<u>Frt</u> (Gulf)	100.0	92.7	94.8	122.5
(EEC)	.1	.1	.2	1.0
(All Exports)	100.1	92.8	95.0	123.5

Discussion: Domestic and export marketing efficiency is very low. The AMD Project, which began in late 1988, aims to improve this efficiency through the introduction of grades and standards, marketing information and intelligence systems, and techniques to reduce marketing costs. Increased exports of fruits and vegetables to the EEC and the Gulf (which have already begun), serve as a proxy for improved marketing efficiency. As project interventions become institutionalized, exports should continue to increase. The recent devaluation of the Jordanian Dinar is facilitating this increase in exports and in fact now provides an extraordinary opportunity to gain a firm foothold in the EEC and to recapture lost market share in the Gulf.

b. Percentage of retail price attributed to marketing costs from wholesaler to retailer (for five major fruits and vegetables).

	1980	1985	1988	1990
Percent	30%	30%	28%	20%

Discussion: In most developed countries, the wholesale-to-retail marketing costs represent less than 20 percent of the average retail market price. As the AMD project improves the efficiency of fruit and vegetable marketing, Jordan's percentages should approach this 20 percent target. A large component of market costs today is wastage due to poor packing, storage, and handling. The AMD project is focussing its main effort in improving this area, especially post-harvest handling and the standarization of packaging.

## 2. IMPROVE THE EFFECTIVENESS OF AGRICULTURAL RESEARCH AND EXTENSION

Indicators:

a. Cumulative No. of research and extension personnel trained in farming systems research methodology.

	1985	1987	1988	1990
Trainees:	-0-	22	64	130

Discussion: Farming systems research (FSR) brings researchers, extension workers, and farmers together at the field level to address farmers' constraints and problems. The result is more relevant research, more appropriate extension messages, and improved agricultural production. The project is institutionalizing FSR through training, technical assistance, and support of specific FSR pilot projects.

b. Number of extension agents trained as subject matter specialists.

	1985	1987/88	1990
Trainees	-0-	6	25

Discussion: Subject matter specialists (SMS), who are assigned primarily to the regional agricultural service centers, provide the technical expertise necessary to address farmers' specific problems. Extension workers bring these problems to the attention of the SMS, who either address the problem directly or refer it to higher level experts or researchers for action. SMS are the main link between farmers and researchers, with extension agents providing the first level of contact with the farmer. One of the purposes of Master's degree training under the JNADP is to increase the number of SMS. Approximately 25 personnel are now enrolled in various Master's degree programs in US and Jordanian universities.

3. INCREASE AGRICULTURAL PRODUCTION AND INCOMES OF SMALL-TO-MEDIUM SCALE FARMERS (<5 hectares on irrigated farms, <20 hectares on rainfed farms).

Indicators:

a. Number of on-farm demonstrations in improved cereal technology.

	1985	1987	1988	1990
Demos	4	25	33	40

Discussion: On-farm demonstrations are critical for conveying new technology and information. Previous MOA demonstrations were usually conducted on agricultural research stations, with little or no farmer participation and thus only limited adoption of the technologies. Under the JNAD Project, all demonstrations are on-farm demonstrations with full farmer involvement (design, provision of inputs, management, harvest, and evaluation). On-farm demonstrations are also focal points for farmer field days and large scale extension activities. As on-farm demonstrations become routine for MOA, adoption rates by farmers of relevant and profitable technologies will increase, with ensuing increases in production and household incomes.

b. Cumulative percentage of wheat farmers adopting all or parts of the improved wheat technology package.

	1985	1988	1990
Adopting	7%	15%	25%

Discussion: In the early 1970s, foreign experts introduced an improved wheat technology, based upon shallow plowing, early planting, improved seed, and the use of fertilizer and herbicide. Despite demonstrated two-fold increases in production and significantly higher profits, adoption has been slow, mainly because demonstrations of the technology did not take into consideration on-farm conditions and farmers' risks. Under JNAD adoption rates are gradually improving, thanks to FSR methodologies, on-farm demonstrations, and a better understanding of farmers' constraints. Particularly noteworthy is the acceptance by MOA research and extension personnel that not all components are appropriate or feasible for all farmers, and that farmers need not adopt the entire wheat technology package in order to increase yields. MOA has begun encouraging farmers to select only those components best suited to their individual conditions. As adoption rates of components of the package improve, we anticipate increased cereal production and higher household incomes. A more assured cereal production base will facilitate farmer diversification into supplemental, higher value, non-cereal crops, which should improve household incomes further.

c. Number of metric tons of lentils, pulses, and forage grasses produced.

	1985	1988	1990
Tons	21	42	50

Discussion: The JNAD Project promotes the production of lentils and pulses as part of crop diversification primarily in low-to-moderate rainfall areas (i.e., 150-250 mm/yr), either as a substitute for or a supplement to barley. The project also encourages farmers in higher rainfall areas to produce lentils and pulses when anticipated seasonal rainfall is insufficient for wheat. Jordan was once an exporter of lentils and pulses, but production dropped off because of high labor costs in harvesting. JNADP is promoting the private sector manufacture of a harvester suitable for rocky soils; as this prototype gains acceptance, production of lentils and pulses should increase, with significant benefits to the foreign exchange situation, especially if exports are resumed. Under the project's rainfall forecasting program, farmers are encouraged forego wheat production and to plant lentils and pulses if anticipated rainfall is low. The project is also encouraging the production of forage grasses (e.g., alphalfa and medics) as part of the normal cereal crop-fallow rotation. In very low rainfall areas (below 150 mm) farmers are encouraged to forego cereal crops altogether and plant forage grasses. Increased forage will reduce the reliance on imported feeds and provide for expanded livestock production, all leading to major improvements in foreign exchange earnings/savings.

d. Number of on-farm demonstrations in diversified crop production.

	1985	1988/89	1990
Demos.	4	28	35

Discussion: Cereal production in Jordan is limited by rainfall. In low rainfall areas (150-250 mm), we are encouraging the production of barley rather than wheat; in medium rainfall areas (250-450 mm), we recommend wheat. In areas of higher rainfall and/or excessive slopes (>9%) we encourage fruit and vegetable production, especially if water for irrigation is available. Regardless of the rainfall pattern, farmers are encouraged whenever feasible to grow higher value crops in addition to (or in place of) their cereals. We believe this is the key to long-term sustainable increases in overall production and household incomes. To show farmers the variety of crops that can be grown, and the technologies employed, the JNAD Project is conducting numerous on-farm demonstrations in diversified agriculture. As MOA researchers and extension agents become increasingly adept at this technology and its transfer, the number of such demonstrations will increase, and ultimately the number of farmers who diversify production will increase. A good example of the type of success that can be achieved is in the adoption by farmers of onion and garlic production, which was pioneered largely through JNAD/MOA on-farm demonstrations and extension work (see discussion below).

e. Number of metric tons of onions and garlic produced.

	1985	1989	1990
Tons	14	46	50

Discussion: Surprisingly, prior to 1987, Jordan had to import onions and garlic to meet its consumption needs. The crops can easily be grown here and mesh nicely with cereal-producing regimes where irrigation is available. A number of on-farm demonstrations were begun in 1987/88 to improve the situation. Within two seasons, the number of adopters rose quickly and production soared. Today, Jordan is self-sufficient throughout most of the year in onions and garlic and is now exporting small quantities. By 1990, total self-sufficiency and a moderate level of exports should be attained. The success of this on-farm demonstration program on crop diversification will facilitate acceptance of FSR methodologies among MOA personnel and lead to further production increases. Incidentally, household income increases attributable to this onion and garlic production have been substantial (some households have seen their total incomes double due to this production).

HEALTH, POPULATION AND NUTRITION

A. Background:

Significant progress has been made over the past year in the modernization of the health sector in Jordan. For the first time in Jordan, the public health care system has been completely separated into two distinct entities responsible for preventive and curative care. While the Ministry of Health has been redefining its structure to respond to its new role as the primary body responsible for delivering preventive health care services, the National Medical Institute (NMI) has been tasked with managing all government curative care systems. The Mission views this development as a positive step which creates a unique opportunity to discuss important policy issues and alternative financing schemes affecting the present and future organization of Jordan's entire health care system.

Population growth rates in Jordan remain among the highest in the world. Although the GOJ still does not have an official population policy, the government has increasingly demonstrated its willingness to support and discuss birth spacing and family planning programs. The Minister of Health has provided enthusiastic support for the idea of birth spacing as an initiative consistent with existing health policies, thus strengthening the concept being promoted by USAID's recently initiated Marketing of Birth Spacing Project. Progress toward meeting health and population sector objectives are set forth below.

B. Objectives and Indicators

1. IMPROVE DELIVERY OF PRIMARY HEALTH CARE SERVICES

Indicators:

a. Number of nurses and midwifery students.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
--	366	366	538	750

b. Number of nurses working in primary health care.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
---	---	---	548*	625

Discussion: Expansion of facilities at the three colleges of nursing will continue to permit an increase in nursing student enrollments. If the MOH assigns 25% of the nursing graduates to PHC centers as agreed the increases indicated above will occur.

\*Includes 268 minimally-trained assistant nurses working at PHC centers.

The Primary Health Care Nursing Development Project is now in full implementation with a team of four professionals who have been instrumental in the establishment of the Nurse Tutor Training Institute and development of a curriculum which is specifically designed to graduate tutors in primary health care training for nurses, nursing assistants and midwives. Integration of PHC into the curriculum of the colleges of nursing and initiation of activities for a PHC nurse specialty program will bring the Government of Jordan closer to meeting this objective. Another indicator of improved services could be the mean number of clinic visits over time. The Mission is examining the feasibility of such an indicator with the Ministry of Health.

**2. INCREASE THE EMPHASIS OF PRIMARY HEALTH CARE AND PUBLIC HEALTH WITHIN THE MOH**

**Indicators:** No quantitative indicators have been identified; however, major progress has been made in meeting this objective.

**Discussion:** As a result of the creation of the National Medical Institute with responsibility for the government curative care system, a major reassignment of responsibilities within the Ministry of Health has taken place. USAID has begun discussions with the Ministry of Health concerning its technical assistance and training needs which will allow restructuring to concentrate on primary health care delivery, sectoral planning and assumption of the regulatory functions of a modern ministry of public health. Over the next year Mission staff will design a new project in family health which will concentrate on providing primary health care and family planning services, as well as assistance in restructuring the Ministry of Health. Possible indicators of progress in this area include: share of GOJ budget for preventive health services, immunization coverage, and number of patients per health care worker at PHC clinics.

**3. IMPROVE THE QUALITY OF CURATIVE HEALTH CARE AND FIND ALTERNATIVE MEANS FOR FINANCING CURATIVE HEALTH CARE WHICH WILL REDUCE THE BUDGETARY BURDEN ON THE NATIONAL TREASURY**

**Indicators:** No quantitative indicators have been identified for this objective.

**Discussion:** The Mission has identified assistance to the NMI as an important opportunity for USAID to help the Government of Jordan examine and explore health policy and financing issues. Technical assistance to the NMI to improve the quality of health care in publicly financed hospitals, to increase cost efficiency and to explore alternative health care financing mechanisms will commence shortly. In addition, short term technical assistance provided by the firm Birch and Davis to review national health insurance programs will begin 1 August. Part of this technical assistance will be used to help identify appropriate indicators that measure progress toward the objectives. Suggested indicators of progress may include: the percentage of national budget devoted to curative health care financing, increase in the percentage of curative health care services provided by the private sector, percentage of health care costs covered by private health insurance schemes.

4. NATIONAL CONTRACEPTIVE PREVALENCE RATE INCREASED FROM 26% IN 1987 TO 30% IN 1992

Indicators:

a. Contraceptive prevalence rates.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
26%	27%	27%	27%	28%

b. Birth interval (in months).

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
18	18	18	18	20

Discussion: Current statistics suggest that no appreciable progress has been made in contraceptive prevalence over the past three years. In August 1988 the Mission signed the first bilateral family planning project agreement in the history of donor assistance to Jordan. The Marketing of Birth Spacing Project began implementation in April 1989. Development of a marketing plan, commencement of the advertising campaign, and implementation of training programs for physicians and pharmacists by this project should contribute to progress over the next two years toward the goals of increasing contraceptive prevalence rates and increasing the birth interval.

c. Total volume of contraceptives sold or distributed.

	<u>1988</u>	<u>1990</u>
Orals	327,199	375,854
Condoms	314,614	366,607
IUD	14,157	16,143
Vaginals	31,462	37,911

Discussion: Indicators presented above are based on project paper predictions of progress under the Marketing of Birth Spacing Project. The MBS project will set up a management information system to collect data concerning the total volume of contraceptives sold or distributed, as well as that portion sold through private sector channels. An additional indicator which may be developed is a comparison of birth spacing promotion costs to changes in contraceptive sales volume.

d. Number of primary health care centers with a full range of birth spacing services.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
8	10	10	22	60

e. Number of health workers that have received training on contraceptive practices.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
--	--	--	50	290

**Discussion:** Birth spacing services provided in previous years by the MOH have been sporadic and primarily hospital based. Over the past year, AID/W resources have supported an important nationwide program to train MOH paramedical personnel in birth spacing and contraceptive service delivery and to fully equip 20 MOH centers. As a result of this program, 40 trainers and over 100 governorate level personnel are being trained in clinical service delivery; design and delivery of information, education and communication programs; monitoring and evaluation and management of family planning programs. IUD insertion services are being provided for the first time in public PHC centers. USAID is pleased with the upsurge of interest by management personnel in providing family planning services in MOH clinics and with the training which has been provided. In addition, the MBS project and the PHCND project will be providing training to health workers on contraceptive practices.

**5. EXPAND THE ROLE OF THE PRIVATE SECTOR IN PROMOTING AND DELIVERING BASIC HEALTH SERVICES, BIRTH SPACING AND SUPPLIES AT REASONABLE COST**

**Indicators:**

a. Number of Jordan Family Planning and Protection Association (JFPPA) centers.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
3	4	8	8	9

b. JFPPA center client visits.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
		34,667	42,794	59,500

c. Percentage recovery of clinic service delivery costs.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
			55%	60%

**Discussion:** As a result of feasibility studies conducted in 1985, three new centers were opened by the JFPPA with financial and technical support from AID. These are continuing to improve in quality and quantity of service provided. The Mission will continue to provide technical assistance to JFPPA through a buy-in to Pathfinder. At this point, the Mission is concerned not only with the number of centers under JFPPA management but, more importantly, with upgrading the service provided by the centers and the management of both services and the financial resources of the Association. The technical assistance to be provided to JFPPA over the next year will move the JFPPA toward a goal of financial self-sufficiency at all of the centers as well as look at feasibility prior to opening new centers.

d. Number of radio and TV messages on birth spacing.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
--	--	--	--	21

Discussion: Recently completed technical assistance to the Noor Al Hussein Foundation's Healthcom Project has been instrumental in the design and production of breastfeeding and birthspacing messages for the media. Nine breastfeeding T.V. spots and seven radio messages are now being aired and positive response has been forthcoming. An additional five messages on birth spacing have been developed and will be aired beginning in August.

In addition to the above private sector activities, the Mission has also been successful in providing technical assistance to a local pharmaceutical firm to establish a capacity to produce Aquasol, an oral rehydration salt, and has initiated discussions with local private sector firms concerning the production of several new health technologies. The Marketing of Birth Spacing Project will utilize the resources of private sector pharmaceutical manufacturers, advertising agencies, market research firms and pharmaceutical distribution companies to promote birth spacing and to make contraceptives more accessible to the public.

6. INCREASED AWARENESS OF POPULATION GROWTH AS A DEVELOPMENT ISSUE BY SENIOR GOVERNMENT AND PRIVATE SECTOR LEADERS

Discussion: The Mission's population strategy has for several years targetted on the establishment of a vigorous Secretariat to the National Population Commission. The Mission has recently concluded an agreement with the GOJ to provide operational support to the General Secretariat which has great potential to fill much needed policy, information dissemination and research gaps in the population field. Appropriate indicators of success might be: number of research papers completed by the NPC, number of seminars held, number of articles published, ratio of budget to staff.

WATER AND WASTEWATER

A. Background

In the early 1980s, the Water and Wastewater Sector became a high priority for the GOJ, as reflected in the 1981-85 Five Year Plan. The total cost of the water and wastewater facilities that have been constructed since 1981 exceeds \$330 million. A.I.D. has contributed approximately \$95 million to this effort. A.I.D.'s assistance to the GOJ has focused on the design, construction or improvement of potable water systems, altogether covering some 190 kilometers of water distribution networks. USAID also provided assistance for sewerage and wastewater treatment facilities, including the design and construction of 420 kilometers of sewage collection systems and five wastewater treatment facilities (with a total capacity 33 million gal/day). Studies have been completed on tariff rates and structure; training and technical assistance have been provided for system management, operation and maintenance, financial management (billing and revenue collection), water loss and leak detection.

The design and construction activities of USAID financed infrastructure is basically complete. The final segments of the Zarqa-Ruseifa Project will be complete by December 31, 1989. Studies and reports have been completed; recommendations are being forwarded to relevant GOJ authorities. The Mission's Policy Dialogue agenda continues to encourage the GOJ to adopt and implement these recommendations.

B. Objectives and Indicators

1. STRENGTHEN INSTITUTIONAL CAPABILITIES IN WATER MANAGEMENT AND SERVICE DELIVERY.

Indicators:

a. Number and percentage of population served by potable water systems.

1980	1985	1987	1988/89
1,500,000	2,210,000	2,610,000	2,670,000*
70%	88%	93%	92%

Discussion: The 1988/89 figures reflect end-of-project status since A.I.D. funding for construction will end by December 31, 1989. The original target for the number of additional persons to be served by potable water was 740,000; the number to be served by project completion is estimated to be 1,170,000, 53 percent over target. The small decrease in from 1987 to 1988/89 for the percentage of people served by potable water systems is due to the effect of population growth.

\* These are projected 1989 figures

b. Number and percentage of population served by sewerage and wastewater treatment systems.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988/89</u>
250,000 11%	445,000 18%	1,230,000 43%	1,290,000* 45%

Discussion: The number and percentage of people served by sewerage and wastewater treatment systems is approaching the maximum that can be economically justified. That is, the costs of construction and operation of sewerage systems and treatment facilities cannot be justified for most of the small villages and rural areas with potable water. Therefore, septic tanks, etc. will continue to be the preferred acceptable alternative.

2. MORE EFFECTIVE USE OF WATER RESOURCES - IMPROVE PRODUCTION AND CONSERVATION PROGRAMS.

Indicator:

a. The percentage of water unaccounted for

<u>1980</u>	<u>1984</u>	<u>1987</u>	<u>1988</u>	<u>1991</u>
	38%	54%		35%

\* World Bank Report # 7099 - 10 March, 1988  
Dual Focus Project New Bulletin #10 March 1989  
By World Health Organization

Discussion: The groundwater modeling of the North of Jordan aquifer will be complete by August 89 and will be used to project safe withdrawals without depletion. Training in leak detection and meter repair is complete and the equipment needed for leak detection and sewer maintenance is being procured as per recommendations of the Water Sector Assessment, October 1988. The Water Authority has implemented its program to reduce unaccounted for water. Their action plan has established schedules, budgets and the organizational units by size and number to meet both the short and long term targets. The short term target is to have the plan fully operational in water production source errors, leak detection and repair, meter accuracy and repair, illegal connection, and meter reading and billing errors by early 1991.

Policy dialogue on water conservation has been fruitful. The water authority indicated that a campaign to educate the public in water conservation is necessary and plans to request USAID's assistance to help them develop this program.

Several indicators were researched and all except the volume of water billed versus the volume produced (percentage) were rejected due to the lack of data available. The percentage of billed to produced will indicate the effectiveness of operation and maintenance and training in leak detection, meter repair and meter accuracy testing.

3. IMPROVE ECONOMIC UTILIZATION OF WATER RESOURCES BY LINKING CONSUMPTION TO ESTABLISHMENT OF EQUITABLE WATER TARIFFS.

Indicators:

a. Total revenue collections for water consumption and sewerage fees.

<u>1980</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>
\$30 m	\$61 m	\$66 m	\$72.4 m
(10m JD)	(20.7m JD)	(22.6m JD)	(24.6m JD)**
( )	(13.0m JD)	(21.6m JD)	(22.4m JD)

\* The Governments contribution in support of the water authority and includes funds for construction projects progress payments.

\*\* The 1988 Financial Statement shows revenue at 24.6 million JD, however, the computer generated report based on Billing Application was 17.6 million JD for revenue from water and sewer customers. See Revenue Collection Improvement Report, June 1989, CH2M-Hill/MBC.

Exchange rate used \$ = 0.34 JD.

Discussion: Policy dialogue on equitable water tariffs has been effective; the Water Authority requested rate increases. However, the central government has not approved rate increases to date. To the contrary, the Water Authority was instructed by the central government to reduce rates to compensate for the reduction in electric power rates (energy consumption charges were reduced approx. 600,000 JD and water revenue was reduced by the same amount). This issue will figure prominently in the Mission's continuing policy dialogue with the GOJ

## PRIVATE SECTOR

### A. Background

#### Private Sector Approach and Changes in Country Environment

The new realities and weaker position of the Jordanian economy during the latter half 1988 and the first six months of 1989 confirm the validity of USAID/Jordan's private sector focussed development strategy. In line with our CDSS predictions and approach, the Macroeconomic Overview in this Action Plan makes the case for the even greater need to develop the private sector as the engine of growth. During early 1989, the Government's own structural adjustment and the IBRD and IMF support for the changes were significant new factors that will facilitate the the expansion of private enterprises in Jordan. These positive new developments do not, however, obviate the tactics or direction of USAID private sector assistance.

Clearly the economic conditions today are different than when the CDSS was written three years ago. There is a tremendous need for foreign exchange, fiscal support and job creation - all problems identified in the strategy. Because of the significance of these problems, some short-term, quick disbursing support is necessary. However, our comparative advantage lies in helping to develop the manpower and institutions to enable the country to make the structural adjustments necessary to alleviate present economic problems. Through grant financing for our program, these medium and long-term institutional and structural changes can be financed without burdening the adjustment process by adding new debt.

The U.S., through USAID, and the Mission staff in particular have the comparative advantage in market oriented private sector approaches to development. Over the past three years, USAID/Jordan's private sector strategy has moved from a mere concept to a point where results are visible. The Mission has been able to promote effectively private sector reforms through project assistance and policy dialogue. At this stage we have a wide range of successful private sector interventions that are giving us practical Jordanian experience and the base for structural adjustment. Although we can provide some immediate assistance, we do not have the resources to provide gap financing as the IMF and IBRD does.

In line with the CDSS, we will continue to expand and refine our comprehensive program of project assistance to strengthen Jordanian institutions and the competitive position and efficiency of Jordanian industry, services and agriculture. Generally, these interventions have medium term objectives. Policy reforms are directly complementary to these efforts and a key factor in structural adjustment. The reforms or new measures included in our second generation policy dialogue (discussed in the Review of Second Generation Policy Dialogue) have both short and medium term impacts. The complexity of the economic and political impact of some of the reforms (tariffs for example) requires implementation over a longer term. Our policy dialogue sets priorities to balance the medium and long-term impacts and is adding new items as the economic realities change.

The Mission is adjusting its program to meet the most pressing immediate need of earning foreign exchange, and is reviewing an adjustment in the CIP to create a foreign exchange revolving fund to finance the import component for exports. The 1990 CIP will also be designed to support exporters and have an immediate impact on the foreign exchange problems of the country. Further, we have begun the process of reviewing all of our private sector projects to adjust them to the present economic situation. Generally, these implementation modifications have entailed placing more immediate emphasis on export development and investment.

The Mission continues to move forward with a comprehensive private sector program, which includes:

-- development of business skills among Jordanians through participant training;

-- strengthening business management and industrial engineering training institutions;

-- expanding or establishing private sector organizations and associations supportive of growth in the manufacturing and services industries, broadening the standards and certification functions of these associations, and strengthening their capabilities to initiate policy dialogue with the government on issues pertinent to development of their respective industries;

-- establishing experimental lending mechanisms for small and medium scale enterprises;

-- strengthening business service industries to provide technical assistance to improve local manufacturing, developing a local market for such services partly through the formation of model service firms, and exploring potential regional markets for the export of these services;

-- facilitating joint ventures and other teaming arrangements between U.S. and Jordanian firms and sponsoring information and technology transfer through staff exchange programs, seminars, and other means.

The individual projects and activities continue to converge and create a matrix supporting the growth of private businesses, industry, trade and investment through direct assistance to firms which provides immediate benefits to the private sector. USAID/Jordan's policy dialogue, in turn, supports a policy environment promoting institutional and longer-term reforms.

Recent successes of the private sector program are described in the following sections detailing objectives and indicators with accompanying discussions. However, additional activities to support the financial sector, export development, vocational training, applied science and technology for product development trade and small enterprise growth are essential. Specific bilateral and multilateral projects in these areas are needed to complete the matrix of support for the private sector.

We will continue building a private sector program that emphasizes management and investment capacity in industry, services and agriculture. To promote marketing of the products of the private enterprises in these sectors, especially outside of Jordan, our program assistance helps businesses to improve product quality and competitiveness. Again, the true success of our private sector activities is demonstrated by the fact that it has set the foundation and supporting structure for a structural adjustment that promotes the private sector as the engine of sustained economic growth.

#### Project Development

In the private sector program, project actions for FY1990 fall into two categories: (1) development of new projects and activities to address emerging or unresolved problem areas; and (2) implementation of the existing activities. Both project development and implementation are discussed in the relation to the objectives and indicators presented in the next section. The objective of this section is to highlight the new activities and present their rationale within the present strategy.

Two major private sector projects are planned for authorization in 1990. The Trade and Investment Project (\$10.0 million) will improve exports and investment for technologies new to Jordan by developing joint venture mechanisms, technology information channels, and venture capital operations. It will also assist in developing new export finance and insurance schemes and possibly in establishing an export credit agency. The Trade and Investment Project will also focus on developing specific industries that have a high potential for exports. Finally, the regulatory environment and export promotion functions will be strengthened. These interventions will develop local institutions and mechanisms that will introduce new technologies, information and financing arrangements.

The second major new start is the Financial Markets Improvement Project (\$5.0 million) which will increase the capacity of Jordanian financial markets to allocate capital to productive investment in the country, especially those enterprises with the greatest potential for generating exports and employment.

The proposed project purpose is to improve the regulation and operation of Jordanian financial markets. This will result in more efficient use of debt and equity instruments for productive investment in the country. This Project complements the Trade and Investment Project by focusing on domestic financing and improvements in the allocation and use of local credit. The Trade and Investment Project will focus on technology transfer foreign investment and export financing. Both projects encourage increased investment, however, the Financial Markets Improvement Project focuses on addressing institutional deficiencies in the local financial sector, while the Trade and Investment Project focuses on broader trade policies and export promotion.

During 1990, USAID/Jordan will also complete a number of major subproject activities. First, we expect to assist a group of Jordanian businessmen to establish a private Graduate Business School (GBS) which will train high calibre managers for the private sector. The GBS is expected to attract students from the other Arab states in the region. This will both earn and reduce foreign exchange expenditures for overseas education. Second, a small business advisory service component to complement our existing lending and loan guarantee programs is being developed. These programs will encourage employment and economic growth in small and micro enterprises. We also plan a series of assessments and promotional activities for industries that have a high potential for exports. Finally, we are considering modifications in the CIP and possibly the PETRA Project to provide short-term credit to finance inputs for export manufacturers.

## B. Objectives and Indicators

### Sector Wide Objectives and Indicators

#### 1. TRANSFORMATION OF JORDAN'S PRIVATE SECTOR INTO THE ENGINE OF SUSTAINED ECONOMIC GROWTH.

Indicators:

##### a. Private Sector Contribution to GDP (% of total GDP):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimates)	<u>1990</u> (projected)
56.9	56.6	53.5	48.4	48.0	49.0

\* IMF estimates that GDP fell by 3.5 percent between 1988 and 1989, but figures are not available yet. GDP should reflect an upward trend and increase in 1990, with a 3.4% growth rate projected.

b. Private sector investments in existing large and medium-scale industries and handicraft establishments (estimates in JD 000):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimates)	<u>1990</u> (projected)
--	12,000	15,225	17,450	18,075	19,000

c. Private Sector Employment (% of total employment):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimates)	<u>1992</u> (projected)
52.2	52.1	N/A	N/A	N/A	54.1

\* Figures for 1987 to 1989 are not yet available, however, private sector employment will increase by 2.0% between 1987 to 1992 according to World Bank Estimates. There is a surplus of skilled workers (estimated at 35,783 in 1989) and a shortage of unskilled workers (estimated at 4,366 in 1989).

d. Jordanian unemployment (% of total employment):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimated)	<u>1990</u> (projected)
6.0	8.0	8.6	9.2	9.8	10.5

\* Assumes no out-migration of skilled workers and that 50% of new unskilled jobs are taken by Jordanians.

e. Private sector assets (% of total assets):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimates)	<u>1990</u> (projected)
43.3	42.9	41.4	38.2	38.0	N/A

\* 1989 figures are only for the first two months of the year only.

f. Total domestic exports (USD 000):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimated)	<u>1990</u> (projected)
648.2	644.8	734.5	974.2	1065.0	1161.0

g. Available credit to private sector (% of total domestic credit):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimates)	<u>1990</u> (projected)
68.6	70.6	61.8	58.2	58.5	N/A

\* 1988 and 1989 figures are subject to change - 1988 figures are only through the first half of the year and 1989 figures are estimates.

h. **Businesses operating (No./% Change per year):**

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Small:	6,577/18.3	8,573/30.3	11,592/35.2	N/A
Medium:	5,326/20.7	5,530/ 3.8	6,434/16.4	N/A
Large:	1,164/15.0	1,209/ 3.9	1,204/- .05	N/A

**Discussion:** As a group, these general private sector indicators reflect the significant size and role that the Government plays in the economy. After growing by more than ten percent per annum for more than a decade, the Jordanian economy has been suffering from a severe economic downturn since 1985. The trend during the period 1985 through 1988 shows that the GOJ has increased its relative importance in the economy. When the regional economy declined in the early 1980's, the GOJ decided to increase its expenditures and investments in an attempt to increase economic growth.

These efforts kept the economy from contracting over the period but increased the GOJ's role and impact on the economy. Thus, the present task of structural adjustment to increase the size and role of the private sector has become more difficult.

As the economy declined, the public sector began crowding out private borrowing in order for the GOJ to sustain its level of activity. The value of the dinar fell by over two-thirds between 1988 and 1989. Although the availability of credit for the private sector grew, its relative share decreased over the period. The IMF structural adjustment lending and the IBRD's industry and trade adjustment borrowing call for shifting credit to the private sector to promote efficient credit use.

Additionally, labor force growth is exceeding job growth by a ratio of two to one. The estimated employment growth rate between 1987 and 1992 is 2.1 percent. The rapid growth of the labor supply, combined with the presence of guest workers, and an oversupply of skilled workers are contributing to rising unemployment. If labor conditions remain unaltered, the number of unemployed skilled workers will increase from 35,783 to 49,956 by 1992. Most of these workers are in the private sector. However, although the overall growth rate for traditional private services is low, demand for special services in areas such as consulting, contracting, and maintenance will increase. USAID's strategy has focused on improving the capabilities of Jordanians to meet private sector requirements. Training and technical assistance activities have been targeted to the manufacturing and service industries, in areas such as industrial engineering, marketing, merchandising and product design.

Our projections for private sector employment, contributions to GDP, assets, and credit use for 1989 show little change in the general trends. Annual productivity gains between 1987 and 1992 are estimated at a low 1.2 percent. Given the macroeconomic setting, USAID/Jordan is focusing its development strategy on increasing the competitiveness of goods and services that it produces and addressing unemployment through the development of small and medium enterprises.

Private sector growth is rapidly increasing in small and microenterprise firms, and many of these changes are not reflected in the overall sector indicators. The indicator for "Businesses Operating" shows an increase in the number of small- and medium-size firms. Two factors are important in this regard. First, the policy and regulatory changes in 1988 have made it easier to establish businesses. USAID policy dialogue and studies on business registration and operation were important in promoting these changes. Secondly, the constricting employment opportunities in Jordan and the return of experienced professionals from the Gulf states have resulted in more individuals establishing small businesses. Thus, the timing of our assistance to micro and small businesses (loan guarantees and advisory services) is opportune.

Export performance has also improved since the rapid depreciation of the dinar has enhanced incentives to export. The dinar return from exports is over 60 percent higher than it was two years. Certain commodity lines have increased more than threefold, such as pharmaceuticals, plastic products and electrical goods. The new Trade and Investment Project will develop specific industries that have a high potential for exports and encourage new mechanisms for export financing.

In the next year, the Mission will be revising sector indicators and developing new indicators with the assistance of a team of economists.

#### AID Private Sector Objectives and Indicators

##### 1. IMPROVE EFFICIENCY OF THE FINANCIAL INTERMEDIATION PROCESS AND INCREASE FOREIGN INVESTMENT IN JORDAN.

###### Indicators:

Indicators are under development. Indicators on U.S. and foreign investment in Jordan should be available by August 1989.

Discussion: Indicators are being developed to measure the efficiency of the financial intermediation process. Available data provide only a limited picture of debt and equity. The development of appropriate instruments, rules, regulations and procedures to strengthen and accelerate the financial intermediation process will be addressed in the proposed Financial Markets Improvement Project. The project will focus on domestic financing and improvements in the allocation and use of local credit. Other means to measure the success of this objective will also be developed in the next year.

In the banking sector, our assistance to date has focused on changing conservative bank lending practices. The PETRA Project has demonstrated the feasibility and desirability of lending on the basis of cash flow analysis and lowering collateral repayments. Under the PETRA model, loans have been secured by secondary collaterals, including promissory notes and liens on equipment. PETRA has further succeeded in convincing existing lending institutions that small businesses will borrow at market rates of interest. A number of local banking institutions have adopted these improved lending practices, and the Cities and Villages Development Bank will sustain the PETRA concept.

In addition to changing bank practices on lending, USAID/Jordan will introduce assistance to various venture capital operations. The Financial Market Improvement (FMI) Project will introduce new mechanisms (e.g. secondary markets for bonds and mortgages) to improve financial intermediation and assist venture capital operations. The FMI Project will also promote equity investment by encouraging private placement market and venture capital opportunities. Finally, it will provide the Central Bank with resources to analyze its policies and regulations to create an environment conducive to expanding private sector development.

To encourage foreign investment, USAID/Jordan has used the CIP to finance the private purchase of American equipment, sponsored a Trade and Investment Mission to the U.S., and established linkages between Jordanian and U.S. businessmen under training programs and the IFSC. The proposed Trade and Investment Project will promote foreign investment and equity financing, and should begin to impact on national figures in 1991.

**2. IMPROVE THE BUSINESS PRACTICES OF JORDANIAN MANUFACTURING AND SERVICES ENTERPRISES BY IMPROVING MARKETING, DIVERSIFICATION, EFFICIENCY AND PRODUCT QUALITY IN THE PRIVATE SECTOR.**

**Indicators:**

Indicators reported below represent the aggregate totals of five projects: Management Development Project, Industrial Development Project, Private Services Sector Development Project, Development Administration Training Project and Private Enterprise and Technical Resources Assistance Project.

a. Total number of individuals and firms trained via A.I.D. projects in production management, planning, control, product design, quality assurance, and other business related skills (includes academic programs):

(No. of individuals/No. of firms)

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimated)	<u>1990</u> (projected)	<u>Cumulative</u>
442/30	450/28	456/87	742/207	996/227	1,172/N/A	4,257/818

b. Total number of staff trained in private sector support institutions and private sector support organizations assisted by A.I.D. programs:

(No. of staff/No. of private sector support institutions)

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> (estimated)	<u>1990</u> (projected)	<u>Cumulative</u>
0/2	8/2	8/3	16/7	28/8	30/8	67/N/A

**Discussion:** In the manufacturing and services sectors, USAID/Jordan's goal is to increase and diversify exports of Jordanian products to traditional markets as well as those in the U.S. and Europe. The Mission has used a two-pronged approach to assist the manufacturing and services sector through: (1) direct assistance to firms which provides immediate benefits; and (2) developing local institutions to strengthen the institutional base over the longer term. The Mission has provided technical assistance and training to improve the business management practices individuals and institutions in the private sector. The indicators shown are really measures of the level of USAID support for this objective. Current indicators are limited to project specific data encompassing approximately 13 major projects and subprojects that offer an array of technical advisory services and training to improve the management practices of private sector enterprises. The Mission will be revising indicators to include measurements on sales, employment and exports once the Private Sector Information System is in place. These indicators will measure the impact of USAID assistance and include indicators on new job creation, the cost of creating new jobs and the number of interventions by the institutions we're supporting.

The table above shows a steady increase in the number of targeted firms that are being reached by A.I.D.-funded projects. From 1985 (the year prior to the start of the private sector program) to 1988, the estimated number of assisted firms increased six-fold. While such an increase is impressive, it is still a very small percentage of the universe of targeted enterprises. Manufacturing enterprises alone number just over 6,000.

Recognizing this problem, USAID/Jordan has increasingly tried to focus its resources on those businesses that have the most potential for growth. For example, major consulting activities are now underway at the three largest pharmaceutical companies in Jordan. This sector has already proven to be one of the most dynamic in terms of foreign exchange earnings and job creation. Such companies have important backward linkages into the economy. They also tend to be leaders in management practices. Thus, if they adopt more advanced management techniques, it is likely that others will follow, although they may not be directly assisted by USAID/Jordan.

Additionally, over the past year, the Mission provided assistance to establish private sector support organizations to promote increased trade and investment. The Mission sponsored a Trade and Investment Mission to Atlanta and Pittsburgh in May 1988 and assisted in establishing a Trade Association under the PETRA Project which incorporates 24 private sector companies. The development of an Import Support Facility and a Commercialization of Technology/Venture Capital Fund are being planned.

### **3. IMPROVE PRIVATE SECTOR DEVELOPMENT THROUGH POLICY REFORMS.**

#### **Indicators:**

- a. Refer to sector wide private sector indicators.**

**Discussion:** USAID/Jordan has supported this objective through its policy dialogue with the GOJ on a wide range of measures and by encouraging private sector organizations to complete policy and procedural analyses on investment, interest and pricing. USAID/Jordan's policy dialogue agenda for the private sector focuses on linking the Mission's dialogue to specific A.I.D. projects supporting privatization, banking and business activities.

Since the GOJ has faced serious economic problems in the last year, it has made significant changes in policy and procedures to promote private sector development and export. As a result, USAID/Jordan has achieved considerable success in the main areas of the original policy reform agenda. Procedures to establish new businesses have been simplified, and custom procedures are now being reformed. An improved investment incentive package has been assembled.

Interest rates have been liberalized, and the Central Bank's regulations have been modified to encourage term lending in commercial banks. A number of new programs and institutions to promote exports are also being established. The Mission has recorded its accomplishments by preparing an updated list on all new measures and policy reforms since the CDSS (1986). A new listing of priority policy reforms and new measures was also developed this spring.

In line with USAID/Washington's guidance, USAID/Jordan is focusing future activities on micro-level interventions and projects that support private sector policy dialogue and reform. The CDSS stressed the need for greater focus and convergence on specific sectors in USAID's projects and policy dialogue. In 1990, the Mission will focus on promoting vocational education, developing specific industrial sectors and developing policies to conserve environmental resources.

Three items of priority on the new policy agenda concern private sector development, and numerous medium priority and supportive agenda items encourage private sector initiatives. USAID/Jordan is pursuing discussions to: (1) establish export credit/guarantee systems; (2) review/revise government policies to promote small enterprise development; and (3) remove procedural and policy barriers to the formation of public shareholding companies and the sale and purchase of equity. Major progress has already been achieved in removing barriers to the formation of public shareholding companies. Recently, the GOJ adopted an amendment to the Companies Law that facilitates the conversion of Government establishments into public shareholding companies.

Other items on the Mission's new policy agenda which encourage private sector development include: (1) Seek privatization both of government enterprises and use of private sector to provide services; (2) reduce government monopolies and monopsonies; (3) create new financial instruments and criteria for examinations of prudential banking practices; and (4) eliminate "directed" credit by removing tax advantage and government guarantees on syndicated loans/bonds.

Possible indicators for measuring the success of policy reforms in the future include increased private sector employment and income at the small and micro level. Appropriate indicators will be determined once the Private Sector Information System is fully operational.

**4. ASSIST THE GOJ TO REDUCE ITS OWNERSHIP OF COMMERCIAL ENTERPRISES THROUGH DEVELOPING AND IMPLEMENTING PRIVATIZATION PROGRAMS.**

**Indicators:**

- a. Privatization indicators: No progress to date.

Discussion: Progress in achieving privatization objectives has been limited due to a lack of political will to transfer and divest government resources to the private sector. It is not clear what policies the new Government, installed in April 1989, will have on privatization. Indicators to measure progress toward privatization which the Mission will collect after privatization activities gain momentum include: (1) number of privatizations; (2) value of assets/stock transferred; and (3) number of employees moved into the private sector.

While no specific quantifiable indicators have been achieved towards privatization, progress has been made in planning for privatization. USAID/Jordan has assisted in the privatization planning of: (1) Royal Jordanian Airline; (2) Public Transportation Company which furnishes municipal bus services in greater Amman; (3) Telecommunications Corporation; and (4) the Amman Development Corporation which is responsible for real estate development.

Some recent progress has also been made in the policy framework for privatization. In January 1989, the GOJ revised the Companies Law to facilitate the conversion of public establishments to public shareholding companies. Three companies -- Royal Jordanian Airline, Telecommunications Corporation and the Public Transportation Corporation -- have already submitted new company bylaws to the Prime Minister's office for approval. During the past year, USAID/Jordan also extended technical assistance to one new privatization candidate, the Jordan Electricity Authority (JEA). JEA should present its case for privatization to the GOJ within the next few months. Furthermore, in December 1988, the Government enacted a new law which transferred Government ownership in public shareholding corporations from the Ministry of Finance to the Jordan Investment Corporation, a wholly government-owned entity. This move is significant in that it is the first step in a process of selling off Government shares to the general public.

USAID/Jordan's immediate strategy is to promote education and training to help build the political will and understanding of the benefits and processes of privatization. We have sponsored privatization training and seminars for key decision-makers in both the public and private sectors.

USAID/Jordan sponsored eight private and public sector officials at three separate privatization seminars, and 25 public and private sector officials recently attended an A.I.D.-sponsored seminar on the "Role of Private Sector in Development," in which privatization was one of the topics discussed. Given our present concern about the level of GOJ commitment to privatization, we will seek clear demonstration of the political will to privatize before making any major new expenditures.

**Public Sector Improvement Objectives and Indicators**

**1. IMPROVED EFFICIENCY OF PUBLIC GOODS AND SERVICES.**

**Indicators:**

a. Number of participants completing development administration training programs for the public sector (cumulative figures):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u> (projected)
142	247	373	467	557	647

b. Number of major studies completed for GOJ which have impacted on the delivery of services (cumulative figures):

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u> (projected)
--	2	5	14	20	22

**Discussion:** While not a principal thrust of the Mission's overall program, this objective takes on increasing importance as the current economic downturn continues. The indicators shown are really measures of the level of USAID support for this objective. Efforts will be made over the coming year to define some proximate measures of public sector efficiency itself. However, the studies conducted on public goods and services have resulted in USAID/Jordan moving out of some areas of GOJ operations. Our approach is now focused more specifically on GOJ services that support the private sector, especially in manufacturing and service sectors which have a high potential for growth. Furthermore, we are stressing growth in the private sector over reductions in government services and the importance of cost containment.

The trend which is shown above for training indicates a fairly constant level of USAID support. A closer look at the data indicates some concentration, but generally still a broad approach to manpower development for the public sector. As we move into the 1990's, there is a need to concentrate on a few key areas where real improvements in efficiency could make a difference to public sector efficiency and private sector growth.

We expect, as one subobjective, to focus more heavily on those institutions whose policy or regulatory functions are of vital importance to the expansion of the private sector (Ministry of Finance, Industry and Trade, Central Bank). Cost containment, similar to the water tariff rate adjustment, will also be advocated in other sectors. Efficiency in the public finance field is also critical. Other areas where substantial efficiency improvements are possible include water and irrigation services and agricultural marketing.

USAID has also conducted some studies for parastatals focusing on privatization. Some training has also focused on improving managerial and technical skills in both the public and private sector. Other studies have examined water, agricultural marketing and agricultural subsidies as well as public financing issues. As the trend indicates, the bulk of the necessary analytical work related to improved efficiency in these fields has been carried out. The number of studies completed peaked in 1988. Additional analytical work should be conducted selectively to further support arguments for improved efficiency which have already been made and to promote private sector growth to the maximum extent possible. In most cases though, further policy dialogue is necessary to persuade key GOJ decision makers to implement existing recommended measures to improve efficiency, reduce cost or privatize where appropriate.

#### Housing and Urban Development Objectives and Indicators

1. IMPROVE STATUS OF LOW AND MODERATE INCOME GROUPS BY INCREASING THE SUPPLY AND EFFECTIVE DEMAND FOR AFFORDABLE HOUSING AND HOUSING LAND.

##### Indicators:

Figures reported are aggregate totals for the private development, urban development and individual loans programs. For all housing and urban development indicators, 1990 projections are for the first half of the year only. Indicators are reported in JD 000.

1. Total value of mortgages to low and medium income groups issued through the Jordan Housing Bank:

<u>1985 to 1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u> (projected)
12,026,911	3,071,678	2,508,144	1,913,775

2. Total number of mortgages to low and medium income groups issued through the Jordan Housing Bank:

<u>1985 to 1987</u>	<u>1988</u>	<u>1989</u> (estimated)	<u>1990</u> (projected)
3,221	859	704	520

c. Number of people benefitting from the A.I.D. HG program:

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
6,120	6,297	9,102	N/A

d. GDP in the Construction Sector

<u>1982</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
155.8	124.4	112.5	110.6	N/A

Discussion: Indicators in the Housing and Urban Development sector reflect the downturn in the economy, which has had significant effects on the provision of low cost homes to poorer families in Jordan. The decline of the construction industry has caused the level of low and middle income housing construction activity to fall as well. The number of people employed in the construction industry has dropped tremendously since 1982 due to decreases in the levels of Egyptian imported labor. Past trends in construction have been generally similar to the macro economic trends, but more pronounced. During the period of high economic growth from 1978 to 1982, the value of construction activities grew by 22 percent -- nearly twice as fast as the economy as a whole. Similarly, since the economic downturn, the value of construction activities has declined by five percent between 1982 and 1987 compared to an overall growth in the economy of about 2.5 percent.

The immediate prospect for the revival of construction activity to the levels reached during 1978 to 1982 are weak. Projections for the program through June 30, 1990 do not reflect substantial positive changes. We expect housing activity to remain depressed for both the Private Developers and Individual Loan Program that we have supported under our first HG loan (HG-001). In spite of the increased cost to low-income individuals, the Low Cost Housing Program (HG-001) achieved its targets. USAID has changed its assistance approach under the Low Cost Housing Policy Support HG Loan Program to promote policies that make housing construction more affordable to lower income families. This new HG authorization builds upon the Government of Jordan's National Housing Strategy which seeks policy reforms to increase the number of affordable homes and mortgage loans available through the private sector. USAID/Jordan will work with the Ministry of Public Works and Housing to encourage policy reforms to increase private sector participation in the construction and financing of low-cost housing. The Ministry will also be in the lead in examining institutional, land and credit policies and regulations to increase affordability. Both USAID and the GOJ expect to see some changes in the basic indicators in 1991.

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C. Appendix

Sources, Definitions and Assumptions for Sector Wide and Program Indicators

1. Rationale for Objectives: The overall private sector objective and four A.I.D. program specific objectives were selected from the objectives identified in the 1986 CDSS and the FY 1989 Action Plan. Some objectives and subobjectives were consolidated for the FY 1990 Action Plan because the indicators used to measure progress are identical.

2. Assumptions and Definitions for Sector Wide Indicators:

Definition of Private Sector: Includes agriculture, forestry and fishing; mining and quarrying; manufacturing; wholesale and retail trade; restaurants and hotels; land transportation; sea transportation and storage; financing real estate and business services; private education services; private health services; non-profit institutions; and domestic services of households. Electricity and water supply; air transportation; and other social services were not included.

Definition of private sector assets: Includes loans and advances; corporate bonds; and domestic investments.

Assumptions for private sector credit: Claims on private sector are compared to total available domestic credit to calculate private sector credit.

3. Assumptions and definitions for A.I.D. program indicators: Projects which fund training for both the public and private sector (e.g. Development Administration Training, Management Development Project) assume 50 percent private sector participation for 1989 and 1990 projections.

4. Sources for Sector Wide Indicators:

- o Central Bank of Jordan Monthly Statistical Bulletin, April 1989
- o International Financial Statistics, June 1989
- o IMF Staff Report for Standby Agreement, June 1989
- o GOJ Five-Year Development Plan, 1986-1990
- o GOJ Employment Surveys, 1985-1987
- o Jordan Country Development Strategy Statement, FY 1986

5. Sources of A.I.D. Program Indicators:

- o Project Implementation Reports
- o GOJ Project Offices
- o A.I.D. Records (project evaluations, etc.)

USAID/JORDAN PROJECT AND PROGRAM EVALUATION SYSTEM

In the FY 1988 Action Plan review, AID/W approved the Mission's improvements in managing the private sector portfolio, but noted that special emphasis on monitoring and evaluation of the private sector program is needed to: a) produce reliable information on the development impact of the private sector program, and b) demonstrate that the Mission's private sector strategy contributes more to Jordan's development than alternative approaches.

The FY 1990 Action Plan Guidance (State 397057 of 12/9/88) and the Mission's response (Amman 00424 of 1/11/89) outlined the following elements of the evaluation strategy with particular attention to tracking the Mission's progress in implementing the private sector program:

- A. Private Sector Baseline Socio-Economic Survey.
- B. Private Sector Information System (central data base on client firms).
- C. Special Studies (Private Sector Index and Trade Data Study).
- D. Program Level Indicators.
- E. Follow-up Studies.
- F. Project Level Indicators.
- G. Project Evaluations.

Discussion

Items A. - D.

We expect the Private Sector Baseline Socio-Economic Survey to be available October 1, 1989. The Mission is currently proceeding to implement the Private Sector Information System; a scope of work for the System is done and a contractor will be selected in the near future to work with Mission personnel to establish the System. A Trade Data Study has been completed. A Private Sector Index will be established pending arrival of a new Regional Economic Advisor, now estimated for February, 1990. Program Level Indicators are included in this Action Plan.

E. Follow-up Studies

AID/W and the Mission have held various discussions on undertaking tracer and case studies. These studies would estimate the effects of project assistance on the operations of client firms and the effectiveness of business training, and/or show how project assistance has a catalytic effect on an industry or sub-sector.

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While the Mission readily acknowledged the benefit of these types of short studies (especially when they result in success stories), actual work had to be deferred subject to the availability of funds and Mission staff time. We now understand that AID/W funding may be available in FY 1990 to finance contracts for the studies. The Mission has developed a scope of work for the case studies which we hope to begin this fiscal year (Attachment V).

#### F. Project Level Indicators

As an ongoing activity under discrete projects, project information systems are being developed as part of project implementation. Internal project reporting systems based on key output indicators will improve information on project performance and progress toward project objectives.

Based on recommendations from an evaluation of TSFS III and IV, a project assistance tracking system is now operational for TSFS V, and PETRA is using a similar approach. Tracking of technical assistance activities to private sector firms is planned for the NMIS component of the Industrial Development and the Private Services Sector Projects. Data bases on the trainees/graduates of programs supported principally by the DAT IV and the Management Development Projects, as well as for the training activities/components of Private Services Sector, Industrial Development and PETRA, will be maintained. The CIP currently tracks the value of loans provided to private sector firms for commodity imports.

#### G. Project Evaluations

All the above evaluation activity is in addition to ongoing project evaluations. In FY 1989, the Mission scheduled six evaluations plus one ad hoc evaluation. These are proceeding on schedule with five substantially completed by mid-July. Currently the Mission evaluation plan includes five project evaluations for FY 1990.

**PROGRAM MANAGEMENT DOCUMENT : ACTION**

**PLAN -- USAID / JORDAN, FY 1990**

**JORDAN**

**ACTION PLAN**

**PD-ABE-097**

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