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RESEARCH TRIANGLE INSTITUTE

EXECUTIVE SUMMARY

JORDAN

URBAN DEVELOPMENT ASSESSMENT

Final Report

Prepared by

Office for International Programs
Research Triangle Institute

for the
Office of Housing and Urban Programs
Agency for International Development

August 1985

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PURPOSE

This assessment has been carried out under contract with the Agency for International Development (AID) to provide assistance to the Agency in:

- understanding the process and dimensions of urbanization in Jordan, and

- formulating a set of strategies for the USAID Mission in supporting urban development.

The UDA exercise should be viewed as the starting point for dialogue between the USAID Mission staff and the Government concerning GOJ policy in the urban sector and the appropriate roles for USAID involvement. The Urban Development Assessment (UDA) is focused on national-level analysis and is intended to fill in analytical gaps that have been left by previous and ongoing studies. Consequently, the UDA devotes primary attention to the issues of:

- Urban Employment
- The Role of Municipalities
- Municipal Finance and Management.

The UDA is, by design, an intensively focused exercize which relies heavily on secondary source materials and information supplied by key informants involved with urban development in Jordan. The work of the UDA team has been greatly enhanced by the contributions of a team of four local Jordanian consultants, drawn from the universities and the Royal Scientific Society.

CURRENT ECONOMIC CONDITIONS

Jordan's economy has experienced a slowdown of economic growth since 1980. The GDP growth of 10% per annum experienced between 1975 and 1980 slowed to 6% per annum from 1980 through 1983 and to just over 3% in 1983-1984. The sectors most affected by the slowdown in growth have been mining and manufacturing, trade and other services. Maintaining fairly strong rates of growth from 1981 to 1984 have been the construction, water and electricity, and agriculture sectors.

The GOJ is projecting a resumption of modest GDP growth of about 5% per year over the next Five-Year Plan period, 1986-1990. According to GOJ

planners, the sectors expected to lead this growth include mining and manufacturing and agriculture. The UDA team is not optimistic about the prospects of greatly increased growth in manufacturing, given Jordan's apparent lack of competitive advantage in this sector. On the other hand, the UDA team notes that Jordan's extensive human resource base has served as the true basis for past economic growth (with workers' remittances comprising 34% of GDP in 1984) and should be viewed as the foundation for future economic growth. The UDA team sees additional opportunities in the high-wage services sector, particularly those services that make use of Jordan's educated human capital.

EMPLOYMENT PROSPECTS

Employment must become a major concern of the government as labor supply is expected to exceed demand over the next 5 years - a situation that has not occurred in Jordan over the past decade. Projections of unemployment vary considerably, with a very influential study of the World Bank conducted in 1983 estimating potential unemployment of up to 30% by 1990. The UDA team conducted a similar forecast using more current data and arrived at unemployment estimates ranging between 14% and 15% by 1990. The differences in the two projections are the result of differing assumptions about how fast the female labor force participation rate will rise. The rate is quite low at present and is definitely rising, but current data suggest that the rate of increase is much less than assumed by the World Bank forecast.

Although the precise rate of unemployment growth is subject to debate, there is agreement on the trend and on the types of persons most likely to have difficulty finding work. The numbers of educated young people entering the job market will increase greatly as the higher education system output grows. These numbers are expected to exceed the demand substantially unless the economy of the Gulf region expands greatly and the regional demand for educated workers grows apace. Given the poor growth prospects in the oil economies, this is not expected to happen.

The need to stimulate employment demand finds the GOJ ill-prepared at present since it has not had to deal with this issue in the recent past. GOJ policies, institutions and programs have all been primarily focused on labor supply issues, primarily education. The problem is complicated by a lack of good information on the level and distribution of employment. The lack of current and accurate data is a particular problem since the labor supply is subject to sudden changes, given the volatility of labor supply factors.

The UDA Team believes that the major opportunities for job growth lie in the non-government services sectors, including both the so-called "knowledge-based industries" and tourism. However, the GOJ has not devoted much attention to these sectors, despite the fact that they employ the types of educated workers being produced by the Jordanian educational system. Development of employment in knowledge-based industries (information technology, medical services, engineering, financial and management consultancy, education and training) requires a coordinated approach, bringing together educational resources, enterprise development, venture

capital, and government stimulus through government contracting. If Jordan is to develop this potential, a national effort is required.

The geographic distribution of employment is likely to remain an issue with most jobs located in the Amman region. Amman possesses locational advantages versus other regions that are not easily overcome: large consumer market, industrial and service base, labor supply and housing and social amenities. The GOJ policy of encouraging employment and population dispersal to other regions of the country will likely not achieve its objectives unless sizeable incentives are offered. Given the current economic climate, the GOJ can ill afford such incentives. Indeed, given the prudent nature of past GOJ policies, it is not likely that the GOJ would seriously consider such incentives.

The development of employment opportunities in secondary urban areas will be linked to growth in services and small-scale manufacturing. These opportunities will depend on very local situations and, in many cases, will be tied to regional agricultural activity. There is currently little technical assistance available to small-scale enterprise. While there are credit programs aimed at small industry and handicrafts, credit offices are located in Amman and not convenient to most of the secondary urban centers.

THE ROLE OF MUNICIPALITIES

There has been little attention focused on the role of secondary cities and small municipalities until just recently. While decentralization of government services has been promoted in theory, the current situation is one of increasing centralization of municipal services as responsibility for major municipal services (water, sewer, electricity, transport) has been turned over to national agencies.

Having ceded authority for many of the traditional municipal services, local governments are ill equipped to take on other roles in economic development and land development. Furthermore, the central government is creating special purpose agencies to deal with these issues on an ad hoc basis, raising further questions about the appropriate role for municipal government.

The major issue is one of national policy choice: what role should municipal government play in service delivery, economic development and land development? If local government is to continue to play a diminishing role, then there is little need for municipal government strengthening. If, on the other hand, local governments are to become active promoters and providers of development-oriented services, then planning and management skills need significant upgrading. This, in turn, will require institutional development since no existing organization is equipped to provide this support to local government.

MUNICIPAL FINANCE

Local government expenditures account for a very small proportion of total government spending in Jordan, amounting to about 6-7% of the national government budget. Municipal governments have three main sources of revenue:

- a share of central government taxes
- locally-collected revenues
- loans.

The major change in municipal finance in recent years has been the tremendous increase in use of loans to finance capital expenditures of local government. An examination of the finances of municipal governments shows that small municipalities are much more dependent on centrally-collected taxes and loans than are larger cities. Furthermore, total debt service is rising rapidly and may account for over one third of expenditures by 1988.

Small municipalities depend heavily on increasing central government transfers to cover rising current expenditures and debt service. However, the pool of centrally-collected taxes has not increased since 1982, creating severe cashflow problems for about 30 small municipalities. The financial problems of small municipalities can only be solved in the short term by increasing the share of centrally-collected taxes, given that there are already built-in increases in future expenditures caused by previously incurred debt.

There is limited scope for increasing the revenue base of locally-collected taxes. However, there are indications that revenue collection efficiency is quite low for some municipalities and that those governments can substantially raise revenues by improving collection practices. Furthermore, there is indication that substantial improvements can be made in expenditure efficiency. In addition, overall expenditure growth in municipalities has been quite high in recent years. If municipalities continue to have diminished responsibility for public service delivery and economic development, one must question the need for increasing local expenditures.

Making improvements in revenue collection and expenditure efficiency requires monitoring of financial performance across local government units as well as the provision of technical assistance and training. This capability does not now exist, although there are several institutions that could perform these functions.

ROLE FOR USAID IN URBAN DEVELOPMENT

USAID has had limited resources to support urban development in Jordan and has marshalled those resources largely in technical assistance programs across a number of sectors. The Mission has made major contributions in the water supply and sanitation sector, with about 60% of the Mission's budget devoted to urban projects in the sector. Furthermore, the Mission supports technical assistance in regional planning and in the provision of advisory assistance to Amman municipality. The Mission has initiated several housing activities, including development of a shelter sector strategy and the financing of low-income housing through the AID Housing Guarantee program.

The selection of USAID program targets in the urban sector (water supply and, more recently, low-income housing) are well considered. From the UDA results, we suggest several additional high-priority areas for potential USAID technical assistance involvement:

- small-scale enterprise development, particularly aimed at secondary cities
- development of knowledge-based industries and tourism
- upgrading employment information and analysis systems
- upgrading national-level capability in monitoring and analysis of local government finances and public service standards/costs
- training in municipal management and finance.

There are also key issues in terms of national policy dialogue, the most relevant of which include:

- the need to shift GOJ focus from its previous concern with labor supply to that of stimulating labor demand
- the lack of attention paid to stimulating employment in the services sector, particularly those subsectors that might absorb the anticipated surplus of educated Jordanians
- the extent to which the policy of regional dispersal of economic growth may conflict with the need for higher overall economic growth
- the extent to which the manufacturing sector provides real potential for accelerated growth and at what cost
- the ability of the country over the long term to afford uniform high standards of municipal services and the methods of financing those services, particularly in smaller urban centers.