

Country Development Strategy Statement

FY 1984

**JORDAN PRIVATE
SECTOR PAPER**

ANNEX V



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BEST AVAILABLE

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JORDAN
PRIVATE SECTOR PAPER

I. SUMMARY OVERVIEW

A. Status of the Private Sector

Jordan's economy is based upon a healthy free enterprise system. All of Jordan's official economic development plans have relied heavily on private sector support. The Government has viewed its role to be that of providing the public infrastructure required to permit the private sector to perform its role. Today, Jordan's private sector, as well as its economy, must be considered a success story. The private sector exceeded targets set for it by the 1976-1980 Development Plan and continues to demonstrate its capacity for further expansion as it moves into the new Plan period, 1981-1985. The private sector has shown dynamic growth, reflecting an ability to adapt to the constraints inherent to Jordan, such as a finite supply of water and a limited base of natural resources. The private sector has capitalized on the comparative advantages that exist for Jordan and is incrementally advancing toward a maximal utilization of Jordan's resources.

B. Government Involvement

With a view toward improving its balance of trade picture and the equitable distribution of the benefits of economic prosperity, the Government has involved itself in private sector affairs. Through direct

investment or tax and other cost reductions, the Government has successfully encouraged and coordinated the establishment of export-oriented industries processing Jordan's natural resources and imported intermediate goods and domestic import-substitution industries. Increasingly, new industries are being established in planned areas to provide a greater opportunity for an improved quality of life for Jordanians, as well as better enabling the Government to provide efficiently the required public infrastructure to such industries.

C. Current Role of Government

Reflecting the private sector's success, dynamism, and entrepreneurial spirit, the Government is now attempting to improve the public sector's ability to provide support in whatever areas it can, such as through technical assistance from specialized credit institutions; through rationalization of university, college, polytechnical, vocational, and secondary school curricula; through establishment of free zones and industrial estates equipped with public infrastructure; through establishment of classification systems for product standards and specifications, jobs and worker skills, and industries, e.g., construction contractors; and through continual modification and refinement of legislation affecting private sector growth and development.

D. AID's Role

Because of the success of Jordan's private sector, the Government's role is being reduced increasingly to that of identifying targets of

opportunity and endeavoring to address them. AID assistance will be limited to those targets of opportunity where we have a discernible contribution to make. It probably will include the provision of technical assistance in the form of experts and specialists. AID and other foreign donors have searched for ways to assist Jordan's private sector and, except for the assistance that has been provided through the Government, have reached a conclusion similar to the Governments i.e., Jordan's private sector is doing well and would benefit most from minimal public intervention.

II. THE PRIVATE SECTOR - JORDAN CONTEXT

A. The Government's Expectations of the Private Sector

From the beginning, Jordan adopted an economic system based on free enterprise and private initiative. Within this framework, the Government has played a pioneering role through participating with the private sector in implementing large-scale industrial projects and providing incentives and an appropriate entrepreneurial climate for private investment. 1/

The above quotation accurately reflects the importance of the private sector to Jordan. The objectives of Jordan's previous Development Plan, i.e., 1976-1980, were based on a number of assumptions one of the most important of which was a positive response by the private sector to the development effort. Of the JD 765 million planned

1/ Jordan's Five-Year Development Plan, 1981-1985; pg 4 (English version)

investment, the private sector was expected to provide 50 percent, or approximately JD 382.5 million. By the end of 1980, the private sector had exceeded expectations and had invested over JD 497.8 million, or approximately 59 percent of the total actual investments.

The current Five-Year Development Plan, 1981-1985, assumes the continuation of a policy of free economic enterprise and plans increased opportunities for private initiative and closer cooperation between the public and private sectors in the cause of development. It is expected that Governmental administrative and organizational obstacles will be overcome through appropriate policy measures. It is further assumed that the private sector will continue to respond favorably to development efforts and assume an increasingly important role in attaining such objectives. It is planned that this will be achieved through increasing savings and channelling them toward investment in development projects and through the private sector's generally performing as it has in the past. Of the JD 3,300 million in total investments planned for 1981-1985, the private sector is expected to provide JD 1,287 million, or approximately 39 percent.

B. The Government's Strategy

1. Trade Deficits

Jordan recognizes its severely limited resource base and its dependence on imported goods. Aggravated by oil price increases reflecting Jordan's complete dependency on imported energy, trade

deficits have been experienced (and more are planned). A substantial share of deficits has been (and will continue to be) the cost of capital machinery required to create industries to process Jordan's natural resources for export. Jordan accepts these deficits as the only way to approach a trade balance by the end of the current 1981-1985 plan. Further capital costs to create or expand export-oriented and import-substitution industries, as well as possible oil price increases, may prolong the time until such balance is achieved, but without this deliberate action, Jordan's economic development would stagnate.

2. Government's Activities: 1976 - 1980

Jordan has directly supported the critical Mining and Industry sector in its long-term effort to increase export earnings. Licensing procedures for industries and exports were simplified. The establishment of standard specifications and compliance procedures have begun. Extensive aerial surveys (AID financed) and geochemical investigations have been conducted to determine mineral resources. A sector study evaluating policies and infrastructure and designing an econometric model was carried out. Over 25 industrial projects worthy of detailed feasibility studies have been identified. Some industrial project studies have been conducted principally for cement, chemical fertilizer, potash, and Dead Sea brine derivatives, as well as studies for a range of medium-scale projects.

The Jordan Institute of Management, attached to the Industrial Development Bank, provided training in industrial management, accounting, and marketing to about 430 industrial employees by the end of 1980. The Vocational Training Corporation provided training to over 2,500 workers by the end of 1980. The Ministry of Education has increased the total number of educational institutions and has expanded the scope of their curriculum to include commercial and technical education paths. The Ministry has also opened numerous vocational training centers in both urban and rural communities. The success of these efforts can be measured by the fact that, during the period 1976-1980, 670 new factories and 2,300 small-scale and handicraft industries were licensed. Over 300 projects benefitted from the Encouragement of Investments Law, with nearly 40 percent directly responsive to economic development objectives in the Development Plan and thereby qualifying for all incentives available under the law.

a. Government Sponsored Incentives - Incentives, rather than restrictions, have been provided to encourage both domestic and foreign private sector participation in Jordan's development efforts. Several laws have been enacted that provide tax exemptions and other incentives to foreign firms establishing industries in Jordan that qualify as economic development projects. Incentives are also provided to foreign firms establishing regional offices in Jordan to provide their services to the Arab countries. Eligibility requirements and application

procedures have been cumbersome, and Jordan intends to clarify and modify them to further encourage their effectiveness. The Government must carefully consider its actions in developing, instituting, and conducting its incentives policy so as to avoid undesirable distortions to the free-market pricing systems that should efficiently control the allocation of resources.

b. Government Planned Industrial Zones - To further promote export earnings, and in recognition of Jordan's limited natural resources, Jordan is establishing free zones where firms may enjoy various incentives including customs free importation of raw materials or intermediate goods for processing for ultimate exportation. One such zone is at the port of Aqaba with others planned for the Syrian border at Ramtha, the Amman Alia International airport, and at Zarqa. To facilitate planned and coordinated economic development, Jordan has established the Industrial Estates Corporation which will assure adequate public infrastructure to approved industries locating within these estates. Disparities in regional development and employment opportunities, in industrial sub-sector growth, and in access to investment capital will be reduced by the planned nature of these estates.

3. Quasi-Governmental Organizations

Quasi-governmental organizations have been set up to encourage the development of private enterprise, especially in the agricultural and industrial sectors. The Agricultural Credit Corporation, the Jordan

Cooperative Organization, and the Jordan Valley Farmers Association provide credit to farmers to help them continue work in the agricultural sector. The Industrial Development Bank, which was set up with assistance from the IBRD and AID, provides credit to the private sector for a variety of industrial projects ranging from tourism to manufacturing. The Housing Bank and Housing Corporation contribute to the expansion of the housing industry, and the funds available from the Pension Fund, numerous insurance companies, and other special funds provide a significant source of investment capital.

4. Government-Regulated Banking and Finance Sector

Banking and finance is a rapidly growing sector in the Jordan economy supported actively by the Central Bank and is totally private, albeit government regulated. The Amman Financial Market (stock exchange) presently lists over 70 companies and over 11 bond issues with the Dinar-volume on an active day exceeding the one million mark. The Government encourages the establishment of local bank branches, savings institutions for small savers, loan facilities for small borrowers, and term loan facilities for commerce, trade, and production industries.

5. Government's Education Sector

To provide appropriately trained human resources, the Government initially with USAID assistance, established the Vocational

Training Corporation (VTC) to create Trade Training Centers throughout Jordan. Numerous other donors have begun contributing to this essential effort. During 1980 the GOJ introduced Community Colleges based on the U.S. model, to train technical and mid-level personnel. (AID assisted by enabling the responsible Ministry of Education officials to familiarize themselves with U.S. schools). The Government plans significant improvements to, and expansion of, this effort including continuation of the Ministry of Education's vocational school system and overall curriculum development. The expansion and improvements to the overall public education system has also served as a significant improvement to the quality of the labor force, with AID involvement at various levels.

6. Government Controlled Industries

To further an environment conducive to private sector initiative and growth, the Government refrains from involving itself in private sector affairs to the extent deemed practicable. Accordingly, the Government controls only a few sensitive industries which could be considered necessary for national security interests or represent investments beyond the capacity of the private sector, e.g., petroleum refining and distribution; cement, phosphates, potash, and fertilizer production; communications; and, to a lesser degree, tourism and transportation. Generally, the Government maintains a majority equity position in the major export-oriented production industries, with private interests accounting for the remainder. These "mixed" corporations

function as private enterprises, and their planned investments are included in the total for planned private sector investments.

7. Government Social Policies Affecting the Private Sector

Other Government involvement with the private sector is in the form of social policies. The Government continues to subsidize the cost of basic food items, such as wheat and rice, as well as petroleum products. The current Development Plan envisions the elimination of subsidies to permit the functioning of free market forces. The Government also collects customs taxes on imports which affects the free flow of goods and increases the factor costs of the private sector. The Government intends to review such tariffs and revise policies in a manner to support development objectives. The Government's Ministry of Supply imports various basic food items and commodities to assure an adequate supply at reasonable prices and establishes and enforces prices for most food items. During the last Development Plan-period, the Government established the Civil Service Consumer Corporation (CSCC) which is providing consumer goods to civil service and government employees at less than the generally prevailing market prices. The CSCC is able to purchase goods in sufficient quantities to obtain low prices which it passes on to its restricted clientele in recognition of the middle- to low-income status of such individuals. The Government intends to expand the number of CSCC marketing centers

during the 1981 - 1985 Plan-period and has recently decided to remove their tax-exempt status requiring that they be self-sufficient on a competitive basis. The Government also operates Consumer Markets (Parallel Markets) in competition with the private sector. These markets enjoy no special benefits and may only serve to keep privately operated markets from charging prices above those established as reasonable by the Government by providing a competitive source of supply to the consumer.

- Overview

The earlier sections clearly indicate Jordan's commitment to, and reliance on, the active participation of the private sector in Jordan's economic development. AID assistance has contributed to Jordan's efforts to provide the public infrastructure necessary to support a growing private sector. AID has financed roads, electrification, water exploration and distribution, wastewater collection and treatment, education, and community development projects. AID has supported studies to determine the composition of Jordan's natural resources and to identify the appropriateness of conducting feasibility studies to determine this potential for exploitation by either public or private interests. AID implemented projects for the Vocational Training Corporation and the Jordan Valley Farmers Association both directly benefitted private sector development. AID's Development Assistance Training Project has contributed generally to improving the quality of Jordan's human resources.

AID's contribution to the Arab Potash Company, a government controlled enterprise, will result in a positive impact on Jordan's trade balance and is providing technology and techniques of production that are transferable. AID assistance through the Technical Services and Feasibility Studies (TSFS) grants has created relationships between United States consulting engineering firms and Jordanian counterparts increasing the competence of the Jordanian firms. Numerous other activities under TSFS grants have supported Jordanian efforts supporting the participation of the private sector.

C. AID's Role in Private Sector Development

1. Support for Free Enterprise Economies

During AID's 30 year presence in Jordan, AID's role has been to assist the Government in carrying out its development objectives. As explained above, the Government has consistently relied upon the private sector to accomplish many of Jordan's economic development objectives and has limited generally its own role to providing public infrastructure required to permit the private sector to perform its role (e.g., roads, electrification, water and wastewater, and education projects). The preponderance of private sector-supportive objectives and programs of the Government has resulted in AID's assistance directly and indirectly supporting the private sector's role in the development process of Jordan. The success of Jordan's economy and its growing private sector are indicative of the relevance of the Government's development strategy and infer that AID's assistance has been effectively

utilized and has furthered the growth of a healthy free enterprise system.

2. AID Supported Private Sector Related Activities

A number of AID programs are directly and indirectly involving the private sector in Jordan's development process. These include:

a. Vocational Training Project - AID has financed the design, construction, and equipping of a vocational training facility, as well as consultant services to develop and initiate its programs. The facility will provide trained human resources for Jordan's expanding private sector.

b. Jordan Valley Farmers Association - AID has financed assistance to establish policies and procedures and to develop viable management and planning systems, farm management guidance, and credit facilities for the private smallscale farmers of the Jordan Valley who are responsible for significant private investment in the Valley's development.

c. Jordan Valley Agricultural Services - The needs of private Jordan Valley farmers will receive concentrated attention through an improved extension effort and focussed adaptive research financed by AID.

d. Village Development - A series of three AID projects has provided schools, health clinics, government administration centers, roads, domestic water and electricity, and home mortgage funds to encourage the development of the Jordan Valley. Observation and evaluations

have shown a marked increase of private sector activity in agriculture, commerce, and housing in the Valley as a result of these projects.

e. Development Assistance Training - The quality of Jordan's human resources has been and is being improved by providing a higher level of management and technical expertise for the private sector as well as Government entities, through this AID program.

f. Technical Services and Feasibility Studies Projects - These AID projects have supported:

- i. activities of the University of Jordan;
- ii. efforts to initiate a national senior executive management training program for both the public and private sectors and;
- iii. several feasibility and design contracts that have resulted in associations between United States consulting firms and Jordanian firms with the latter benefitting from the transfer of technology.

III. PRIVATE SECTOR CONSTRAINTS

A. Introduction

Jordan's confidence in its private sector is clearly expressed by the current Five-Year Development Plan, 1981-1985. Private investment

expectations are high, as are the expectations that all other resources required for such a significant contribution to the development effort will be available. The Plan does not, however, ignore the strain that it will place on Jordan's private productive resources. Rather, it addresses the known weaknesses, revealed or aggravated by the previous Plan, by including provisions to alleviate such problems through public sponsored programs or through incentives to encourage the private sector to effect remedial action.

B. Capital Resources

1. Long-term Investment Capital

An adequate supply of capital for investment is not a constraint. Adequate resources are available to finance establishment of all planned new industries and to provide needed long-term investment capital. Such capital, in the form of Jordanian Dinars and foreign exchange, is available on competitive terms and has not been an obstacle to development.

2. Medium-Term Investment Capital

There is, however, an inadequate supply of medium-term capital (1 to 5 years), and a lack of a formalized framework to direct the use of the available investment capital toward those development objectives established by the Government. The medium-term capital required for replacing or expanding productive plant capacity is not

readily available. Firms must rely, in large part, on retained earnings and depreciation accounts to finance these essential costs.

3. Investment Capital Utilization

All forms of investment capital generally flow to major projects, while investment funds required by small firms or individuals for housing are not as easily obtained. While, by and large, most of the investment objectives of the 1975-1980 Plan were achieved, the actual investments made, particularly by the private sector, were not balanced, resulting in over-investment in upper and middle-income housing projects, in real estate acquisition, in major production industries, and in under-investment in low income housing, in research and development, in small supporting industries, and in human resource development.

C. Human Resources

1. Management Skills

A constraint to the entire development effort is the shortage of skilled manpower required to manage, operate, and maintain the growing number of increasingly sophisticated enterprises, including both white- and blue-collar categories. While the private sector is represented by talented entrepreneurs with keen business acumen, the actual and planned growth requires an expansion of the management systems within individual private organizations. Each function within these management systems requires personnel equipped with modern

management skills. The effective functioning of these improved management systems then requires skills of the founding entrepreneur which are not necessarily existent. These shortcomings are apparent in all sub-sectors of the private sector, including manufacturing, banking and finance, commerce and service, agriculture, private cooperatives, and private voluntary organizations. The Government, educational institutions, and the private sector itself must take immediate action to address this rapidly growing problem.

2. Labor Productivity

The required improvement and expansion of the management systems in response to planned growth will necessarily draw upon the already relatively limited indigenous labor force which will require a concerted effort to raise the productivity of the remaining blue-collar element. This assumes growth as planned and a continuation of the flow of manpower abroad. If this assumption proves to be based on inaccuracies, then there could very well be any excess supply of domestic labor requiring a reassessment of needs on all levels, e.g., education, industry mix, and ratio of capital intensive production methods to labor intensive methods. Productivity may be increased by human resource development, i.e., training and education, and through utilization of new technologies. Again, the Government, educational institutions, and the private sector itself must address this issue of providing the necessary skills to Jordan's labor force.

D. Industry Efficiency

Further compounding the problems associated with insufficient investment in research and development and in the utilization of new technology to raise productivity, and value-added in general, is the relative isolation of the individual productive units from each other. For competitive reasons, firms have generally developed independently without adequate recognition of market characteristics and without industry coordination in any respect. Jordan's increasingly sophisticated economy can not afford such inefficient utilization of its limited resources. The various industry associations must be encouraged to strengthen their roles in disseminating market information, coordinating industry activities, and in standardizing industry practices (while the Government must guard against collusive practices). Through a more coordinated effort, individual productive units can lessen their development cost burden, thereby increasing overall efficiency.

E. The Construction Industry - Critical for Success

One of the more critical industries to Jordan's development objectives is the construction industry. The few established Jordanian construction firms suffer from all of the problems cited above and others. Jordan's development plans are beyond the capacity of its domestic construction industry requiring the importation of construction firms.

Jordan's labor supply is so short that an estimated 20,000 construction workers have been imported representing nearly 1 percent of Jordan's population. This need to import labor may be due to low wage scales as well as social pressures reducing the desirability of this type of work for Jordanians. The industry credit needs are so high that the greatest share of all outstanding commercial bank credit is extended to the industry, i.e., about 33 percent in 1979. These facts point to the need for a special effort to be exerted to develop the construction industry. Improved methods of management and equipment financing may enable domestic firms to increase their capacity. Greater industry cooperation and coordination might provide for the consolidation of the many minor contractors (usually family-unit owned and operated) into a more efficient productive factor.

F. Natural Resources

Jordan's private sector has developed and continues to expand within the constraints imposed by Jordan's severely limited base of natural resources. It has been as successful as it has and has contributed so much to Jordan's economic growth by developing industries which capitalize upon the existing comparative advantages (e.g., the climatic conditions of the Jordan Valley) of Jordan while avoiding industries that require inputs unavailable in Jordan. Generally, the private sector must avoid water-consumptive industries and must carefully consider energy availability and costs in any industrial

development plans. Given these constraints, Jordan's private sector is limited to developing further its existing base which is typified by light industry and service industries.

IV. JORDAN'S FIVE YEAR PLAN 1981 - 1985

A. Introduction

The Government's 1981-1985 Development Plan continues to reflect the importance of the private sector's participation in Jordan's development process. As mentioned previously, nearly 40 percent of all planned investment during this period is expected to come from the private sector. The past performance of the private sector has been excellent, contributing to the Government's confidence that the private sector will actively support those objectives identified as necessary for continued economic growth.

The Plan defines those economic activities perceived by the Government as requiring priority attention and development. Nearly all chapters of the Plan, each representing a sector or sub-sector of the economy, refer to expectations of private sector participation, constraints that may prevent such participation, and actions that may be taken by both the public and private sectors to alleviate such constraints. The constraints mentioned above in Section III affect all sectors of the economy and are restated in sector-specific terms throughout the Plan. While the Plan also includes sector-specific constraints, this paper discusses further only the sector-spanning constraints. Annex A is a listing of all Plan-identified constraints.

B. Management Know-how

The Plan identifies the lack of modern management know-how to be a pervasive problem throughout the economy, encompassing both the public and private sectors. The Plan identifies several ways to address this constraint.

1. Private Sector Industry Associations

The further development of associations comprised of the individuals participating in each sub-sector is being encouraged. These organizations range from the Association of Banks comprised of the commercial banks operating in Jordan to the Jordan Valley Farmers Association comprised of individual private smallscale farmers. Such associations can assume a more effective role in developing rules governing cooperation among members, in promoting the exchange of knowledge among numbers, and in presenting modern management methods to the members. The association itself should serve to demonstrate the effective utilization of management know-how.

The organization level above these industry associations, such as the Chambers of Commerce and Industry, serves a similar function, and the management of these organizations must be improved. These organizations should be a source of, or a conduit to, the required management know-how, as well as an oversight body to guard against collusion within an industry.

2. Finance Related Actions

a. Banking and Finance - The planned level of investment under the Plan requires significant financial management sophistication on the part of both the suppliers and consumers of capital. The Government intends to legislate means to permit improvements to the banking and finance sector. In particular, there are plans to further develop and expand the effectiveness of financial securities as sources of financing.

b. Specialized Credit Institutions - In recognition of the capital needs of certain sectors, the Government intends to further develop the effectiveness of the appropriate specialized credit institutions and to create new specialized credit institutions where needed. Such direct government intervention is reserved for those sectors, or activities within sectors, where private financial sources appear unwilling to participate and can not be encouraged to do so through incentives. An example would be the proposed bank for construction activities which would not only function as a source of medium-term financing but would also provide technical assistance for the proper evaluation and planning of any given construction contract undertaken.

c. Standardized Accounting Practices - As a means to facilitating the dissemination and adoption of modern financial management methods, the Government intends to require the adoption of

acceptable standardized accounting practices. This will provide a unified basis simplifying the process for conveying financial management techniques for all sectors of the economy.

d. Educational Institutions - In addition to the broader efforts mentioned below, the Government intends to require a curriculum expansion to include modern financial management techniques at various educational institution levels, including community colleges. Further, there are plans to improve the availability of and education through the expansion of adult and evening programs.

C. Human Resource Development

The Plan recognizes the interrelated nature of the several constraints and addresses the ubiquitous need for the provision of adequate and appropriate training and education for all levels of Jordan's human resources. This applies not only to the provision of management know-how mentioned above but also to the provision of basic skills for the labor force that is to be managed.

1. Human Resource Needs

The Plan recognizes the need for the conduct of a thorough human resource needs assessment without which educational institutions can not plan and develop appropriate curricula. Without such a survey the Government or private sector cannot accurately identify and develop programs

to correct what is known to be a constraint, but can not be defined.

2. Job Classification

As a basis for instituting an incentive system to attract and retain workers in various occupations, as well as to simply provide a basis for equitable compensation, a detailed system of job classifications is to be developed. Minimum qualifications, function description, and a scale of wage and benefits will be defined for each classification. The curriculum of public and private secondary, polytechnical, vocational and other specialized schools will be keyed to these classifications. While this approach does not permit the free-market forces to control wages, this may be necessary to attract Jordanians into trades not traditionally considered as socially or culturally attractive as, for example, engineering or any other occupation usually requiring a university degree.

3. Management Level Education

The curricula of all educational institutions are to be expanded to include modern management techniques for various industries. Adult and evening education programs are to be expanded to provide those mid-career individuals the opportunity to improve their skills. Industry association and individual private firms are being encouraged to develop educational programs for their members and employees.

4. Skilled and Semi-Skilled Labor Force Education

The Government is continuing to expand its program of providing a specialized technical education through secondary, polytechnical, and vocational schools. The establishment of a job classification system with known wages should provide a basis for individuals to select a career path for themselves. To encourage further vocational-type education, the Government intends to establish a special fund with contributions from private firms and trade unions to expand and support the Government system. Contributors will be more likely to use the facilities. The Government will exempt those organizations that establish their own training facilities if they are of an equivalent standard.

5. Private Schools

In addition to encouraging the establishment of training facilities within individual firms, the Government intends to expand the applicability of the Encouragement of Investment Law to include privately owned and operated educational institutions that contribute to meeting human resource needs and meet established standards.

D. Government Actions

While many of the planned actions described above involve the Government, the Government intends to take certain responsibilities upon itself.

1. Public Administration

The incorporation of modern management know-how into the various ministries and governmental bodies is essential for the planning and implementation of economic development programs.

2. Foreign Trade

The Government intends to establish trade promotion centers abroad and to establish and enforce standards for export products. The provision of export insurance should provide further incentive for export-oriented industries.

3. Technology Transfer

Through the Royal Scientific Society, in particular, the Government intends to provide the latest production technologies to the various sub-sectors of the economy. In addition, specialized departments within specialized credit institutions will provide technical assistance to individual applicants. The Government will continue to use budget resources to conduct basic research and development, but will also encourage private industry to increase their own efforts in this regard. To form a partnership in this effort of developing appropriate technology, further contacts between private industry and the Royal Scientific Society will be encouraged.

4. Domestic Production

The Government intends to continue its role in identifying and conducting feasibility studies of new industries appropriate for development within Jordan. The establishment of free zones, industrial estates, and small industry complexes will be continued. The availability of low-cost capital will be increased for high priority development projects, such as housing for low-income people. Tariffs will be adjusted to encourage and support the development of appropriate domestic industries. The Government must proceed cautiously in these efforts to avoid distortions to the free-market pricing system.

V. AID PRIVATE SECTOR STRATEGY

A. Sector Goal

AID's goal is to further Jordan's economic development by encouraging the growth of productive private enterprise in Jordan.

This goal is consistent with the broader goals defined in USAID Jordan's CDSS, with the emphasis placed on involving the private sectors in the development process by AID, and with the economic, political, and social traditions of Jordan.

B. Introduction

To better focus USAID's emphasis on private sector participation in the development process, and in support of Jordan's planned activities in this regard, USAID/Jordan has conducted this initial review and has

identified potential areas of opportunity for AID assistance. The relatively limited AID resources for Jordan, in terms of both staffing and funds, preclude the possibility of AID pursuing an extensive program supportive of many of Jordan's objectives as described above. Accordingly, AID will endeavor to provide assistance through activities that will have broad impact (as opposed to selecting an individual firm for support) and to utilize resources from public and private organizations external to AID. The following are areas for possible USAID support to the private sector which USAID will explore further over the coming months.

C. AID Coordination with the Government

1. Exploratory Team

Initial discussions with Jordan's National Planning Council (NPC) have explored the possibility of AID providing the services of a team from the Private Enterprise Bureau to evaluate the opportunities for private sector development relative to Jordan's economic objectives as stated in the current Development Plan. This team would also identify potential United States or international sources of assistance for the identified opportunities. Such an effort might better define activities for which AID could provide assistance.

2. Regional Market Approach

As part of the above study, or as an independent activity, NPC has indicated an interest in evaluating and identifying opportunities for expanding Jordan's role as a regional center for the Middle East. An

objective of such a study would be to develop strategies for implementing the more feasible of any identified activities. Particular interest has been expressed in identifying light industries that could be developed in Jordan which would supply the domestic market, but more importantly, would be able to serve the regional market. Emphasis would be placed on the means by which the Government would be able to encourage private sector implementation.

D. Currently Identified Potential AID Activities

1. Source of Funds

The TSFS grants will be the source of funds for USAID private sector activities including technical assistance, feasibility studies, and assistance for other efforts determined to be feasible and warranting implementation. The TSFS grants are being implemented by the NPC, therefore, activities tentatively identified for AID funding will require further discussions with and agreement by the NPC.

2. Manpower Development

Given the need for skilled managers, AID assistance to the Management Training Institute, an arm of the Industrial Development Bank, may be warranted. Continuing support for the Vocational Training Corporation appears appropriate to provide a means of developing a skilled labor force. Specialized curricula development assistance to universities and community colleges and assistance to develop adult

and evening education programs may be areas AID might finance or encourage United States institutions to provide. AID might also expand its sponsorship of seminars and workshops encouraging wider participation by members of the private sector. USAID is investigating further the establishment of a national senior executive management training institute at Yarmouk University. This concept was developed with AID-provided technical assistance and proposes to provide both public and private senior management level personnel from the region with intensive management training for periods of three to six months modeled after similar successful programs in the U.S. AID could utilize the expertise available through the International Executive Service Corps (IESC) in this regard (see para E. below).

3. Industry Associations

AID may be able to address managerial skills, techniques of production, and industry coordination constraints by developing programs for major trade associations, such as the Chambers of Commerce and Industry, Association of Banks, and the Association of Chartered Accountants. It may be appropriate for AID to encourage the establishment of relationships between such organizations and United States counterpart associations. The benefits to be derived from the IESC may be extended by presentations through such trade associations.

4. Accounting Practices

A need expressed throughout the Development Plan is for the adoption of standardized accounting practices in Jordan. A relationship

between United States and Jordanian accountants associations could contribute to meeting this need. Assistance to the Government's Audit Branch which licenses accountants might complement such an effort.

5. Banking and Finance

Needed improvements in the financial market may be effected through programs for the Association of Banks, but also through such United States organizations as the Securities and Exchange Commission, the National Association of Security Dealers, and the National Savings and Loan League which could impact upon the Amman Financial Market (stock exchange) and the growing number of savings and loan associations. The Amman Financial Market has already approached USAID regarding assistance in its planned computerization program and for staff training so as to facilitate expansion of its operations.

To direct more effectively the efficient utilization of the capital resources available from specialized funds and insurance company reserves, it may be appropriate to encourage relationships between such Jordanian institutions and United States counterparts. Private United States investment firms managing major investment funds may also be an appropriate source of expertise, as may be the IESC.

6. Light Industry Development

As identified in USAID Health Strategy Paper, there exists a potential to develop a private capacity to produce oral rehydration salts for both domestic and regional distribution. AID could play an active role in supporting a feasibility study, in providing technical assistance for production techniques, and in providing expertise in regional marketing.

7. Construction Industry Development

USAID has developed a strategy that will directly address Jordan's greatest constraint to development - water - and will strengthen the capacity of domestic engineering and construction firms participating in the development of the water sector.

a. Engineering Firms - USAID proposes to finance feasibility study, design, and construction supervision contracts for water and wastewater projects limited to Jordanian firms with the requirement that the Jordanian firm hire United States engineers qualified to train and assist the firm in performing all aspects of the contract's scope of work. The practice of providing "package systems" will not be permitted; the firm will be required to develop the internal capacity to provide the required services.

b. Construction Firms - Similarly, USAID proposes to finance construction contracts for water and wastewater projects limited to

Jordanian firms with the requirement that the Jordanian firm hire United States engineers qualified to train and assist the firm in performing all services required under the contract. It is envisioned that the costs of the U.S. engineers would be financed by AID separately from the costs of the construction contracts.

E. Input Source

Technical Expertise - To the extent practical, the services of the IESC could be utilized in AID's direct involvement with private Jordanian entities and could also be beneficial in AID's interactions with the Government by providing a private sector perspective to government planning. USAID will propose the use of IESC to the Government and, if desired, will pursue the establishment of an IESC office in Amman. If any event, the expertise available through the IESC will be exploited fully.

F. AID Next Steps

Further discussions with NPC are required before AID can proceed with any of the above activities. The decision to utilize AID's limited resources for Jordan to implement activities reflecting an emphasis on the private sector is that of the Government of Jordan. AID's goal of encouraging the growth of productive private enterprise to further Jordan's economic development has been the practice of Jordan "from the beginning"; AID can only offer assistance in continuing and refining this practice.

ACTIVITIES RELATING TO PRIVATE SECTOR DEVELOPMENT

JORDAN'S FIVE YEAR DEVELOPMENT PLAN

1981-1985

A. Banking and Finance

1. Modernize banking and financial legislation ensuring the secrecy of banking activities and development of procedures for issuing, underwriting, and marketing financial securities.
2. Use monetary policy tools to encourage time deposits and transactions in financial securities.
3. Lower interest rates of specialized credit institutions.
4. Promote an open market among banks.
5. Encourage stock and debenture issues, introducing new financial instruments, and simplifying transaction procedures.
6. Establish an institution to insure small deposits and to guarantee small loans for agriculture, industry, handicrafts, and construction.
7. Encourage establishment of specialized departments to evaluate prospective loans to the construction sector and investigate the possibility of establishing a specialized bank for construction activities.

8. Modernize the Insurance Law securing better organization and development of national insurance companies and establish special national insurance companies.

9. Augment the resources of specialized credit institutions and direct their resources to development objectives improving their project identification and development capabilities as well as their capabilities to provide technical assistance.

10. Encourage the Association of Banks to assume a more effective role in developing rules governing cooperation among members and in collection, classification, and publication of economic and financial information, the exchange of expertise among members, the upgrading of banking services, and in encouraging members to adopt modern techniques in the evaluation of loan applications and financial analysis.

11. Require universities to expand programs in monetary affairs, the banking system, and financial administration.

B. Mining and Industry

1. Increase the number of industrial estates and free zones.
2. Intensify mineral investigations and determine their investment potential.

3. Expand operations of the Industrial Development Bank's Handicraft Fund.
4. Accord priority and preferential treatment to local production.
5. Further modify industrial licensing procedures.
6. Expedite the completion, application, and control of standard specifications.
7. Expand the scope of the Encouragement of Investment Law.
8. Require the adoption of acceptable accounting practices.
9. Strengthen the staff of the Chamber of Industry and establish special sections therein for food, textile, electrical, and mechanical industries.
10. Organize on-the-job as well as external training programs in industrial management, productivity increase, cost accounting, and marketing.
12. Establish a fund to ensure exports against probable risks.
13. Maintain the 1980 industrial survey and develop staff to conduct

future surveys and to determine investment opportunities.

C. Manpower and Labor

1. Provide incentives for trained workers through establishment of job classifications and related wage schedules.

2. Provide incentives to discourage early retirements.

3. Provide incentives for increases in productivity.

4. Establish a Vocational Training Fund with contributions from unions, syndicates, and private establishments exempting only those organizations that establish their own training programs.

5. Provide the Ministry of Labor, Vocational Training Corporation, and Social Security Corporation with modern management techniques.

D. Education

1. Conduct human resources needs assessment for Jordan to permit adequate planning by secondary and university level institutions to provide for those needs.

2. Expand the establishment of vocational secondary schools and training centers.

3. Permit private schools to benefit from the Encouragement of Investment Law.

4. Expand evening and adult education programs.

5. Expand the role of universities and community colleges in helping the public and private sectors in examining and addressing their problems.

E. Science and Technology, Royal Scientific Society (RSS), and Statistics

1. Establish a Science and Technology Fund to be supported by public and private sector contributions.

2. Encourage major industrial establishments to establish their own research, development, and planning units.

3. Increase science and technology expenditures to 3-5 percent of GNP with 30 percent on research and development.

4. Increase the effectiveness of the RSS by securing more public and private sector contracts for services and by adopting more effective research management techniques.

5. Establish statistical units in all ministries and public corporations.

6. Coordinate with the Ministries of Finance and Customs on foreign trade statistics and the Central Bank on monetary statistics.

7. Expand data collection on all prices.

8. Coordinate with the Ministries of Finance and Customs on materials and commodity classifications for tariff purposes.

F. Trade and Supply

1. Develop a domestic export promotion section in the Ministry of Industry and Trade and establish a council involving the private sector to advise on increasing exports.

2. Expand the application of standards and specifications (regarding export goods, particularly) and establish a supervisory body.

3. Revise customs on raw materials and intermediate goods to facilitate their temporary entry for export-oriented goods.

4. Encourage increased domestic food production.

5. Provide incentives for the establishment of large-scale markets.

6. Expand storage capacity.

7. Develop the Ministry of Supply's capability in project management and operational procedures.

8. Encourage the import of cheaper food items.

9. Expand price controls on essential items, expand the Civil Service Consumer Corporation, and enact legislation to protect consumers.

G. Housing

1. Augment the Housing Corporation resources and authorize the issuance of the tax exempt bonds to finance its projects.

2. Direct Housing Corporation investments to low- and very low-income housing.

3. Improve the terms of Housing Corporation loans.

4. Require the Housing Bank to give priority to mid- and low-income housing with an emphasis on rural and agricultural areas.

5. Require the Housing Bank to support the establishment of building materials industries.

6. Increase the number of savings and loan associations, particularly those extending house loans to small savers.

7. Encourage companies to encourage employee collectives for housing and provide land for collective housing projects.

8. Apply the Encouragement of Investments Law to housing projects of the private sector.

9. Develop a secondary market for mortgages and financial securities earmarked for the housing sector.

H. Agriculture

1. Expand the use of contract farming.

2. Amend the Agricultural Credit Corporation Law to permit equity participation in private sector companies.

I. Cooperatives

1. Establish cooperative centers, increase storage capacity for inputs, and improve and expand marketing channels.

2. Expand the contracting approach between cooperative members and the Jordan Cooperative Organization marketing department.

3. Introduce modern banking practices in the Cooperative Bank.

4. Establish the Agricultural Machinery Cooperative with technicians for extension and maintenance.

J. Tourism

1. Convert the Hotel and Resthouse Corporation into a public shareholding company.

2. Establish a company to provide hotel management services and to train Jordanian staff in hotel management.

3. Organize training programs involving greater cooperation between public and private sectors.

4. Introduce relevant courses in universities and community colleges.

K. Ministry of Municipalities, Rural Affairs, and the Environment

1. Revise the Landlords and Tenants Law to increase revenues and to encourage private sector investments in housing and commercial buildings.

2. Establish four vocational training centers for women and one for men.

3. Provide assistance and training to craftsmen through the establishment of commercial markets for wares and provision of assistance enabling craftsmen to own maintenance and cottage industry workshops.

4. Establish four complexes in Amman to bring together mechanical trades and small industries in specially designated and easily accessible areas.

PRIVATE SECTOR PAPER

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ANNEX A - Activities Relating to Private Sector Development -
Jordan's Five Year Development Plan 1981 - 1985.