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USAID and The Private Sector in Jordan: A Chronicle

The Genesis, August 1985 - August 1988

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By Rami G. Khouri

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Foreword

The United States has been cooperating with the Hashernite Kingdom of Jordan in its economic development since 1952. In the intervening years, the United States Agency for International Development (USAID) and its predecessor agencies have worked intensively in a variety of sectors throughout Jordan.

We believe that, in that time, firm bonds of mutual understanding and common professional views have been developed. Whether in agriculture, health, infrastructure, education and training, water and waste water, industry or tourism, Americans and Jordanians over nearly two generations have worked side by side for the development of the Kingdom.

Countries, like people, go through ages and stages of development. What is important is, at first, to get the basics right; to provide the physical infrastructure needed to provide for basic human needs; to create the human resource development institutions required for an educated and healthy population; and to develop the natural resources - the land, water and minerals - of the nation. Jordan has succeeded brilliantly in this generation of development. The national building phase, while not complete, is reaching a state where additions represent marginal gains and where optimal and equitable operations of past investments are the keys to human happiness.

During the 1980s Jordan began to enter a second generation of development where, economically speaking, it became subject to many of the issues, problems and challenges of a developed country. It sought to overcome dependency on outside direct assistance, to provide enough jobs for its burgeoning population, and to earn the foreign exchange it needs to import the raw materials, capital goods and consumer necessities its population wants. In this changing milieu, USAID began, in 1986, to rethink, adapt and reposition its economic assistance program to remain germane to Jordan's evolving economic objectives.

This volume is the story of a major part of that program. While it has been prepared by Rami Khouri under a contract with USAID, Mr. Khouri has had complete freedom to interview all the key participants, both Jordanian and American, in candor and has had access to all pertinent documents of that period. We hope that this story will be of use to all parties involved, to development practitioners in donor and recipient organizations and to the general public.

Lewis P. Reade
Director, USAID/Amman
Amman,Jordan

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Author's Preface

This report has been prepared, in response to a request from US AID, with two principal aims in mind:

1) to document why and how US AID and the Jordanian government launched a private sector development aid strategy in Jordan in the second half of the 1980s, and,
2) to indicate the successes, failures, sensitivities and evolving attitudes that characterised the private sector strategy.

The report has been researched through extensive interviews with the people who formulated and implemented the private sector strategy, both Jordanians and Americans. It seeks to document personal sentiments, economic trends and project progress as the strategy is being implemented -- rather than after-the-fact. The report was funded by US AID.

This report is intended to be useful to Americans, Jordanians and others who are or may become involved in similar efforts, by pointing out approaches and dynamics that worked well and others that did not. This initial report, covering the first three years of the private sector strategy (1985-88), focuses heavily on the economic issues and political/psychological sentiments that surrounded the policy dialogue. The individual projects are treated in a more descriptive manner, given that in most cases it is still too early to assess their impact on the economy.

The aim is to follow up this report with a second edition in late 1990, which would document developments until the Autumn of 1990, or five years after the launch of the private sector aid strategy. If needed, a third report may be issued in the mid-1990s, when it would be possible to make a better assessment of the impact of the private sector programme on the economy of Jordan.

In all interviews, the author traded confidentiality for candour, in order that this study could present an honest and accurate account of the views of all concerned. Therefore, all quotations are anonymous, and it is not possible to thank by name all those Americans and Jordanians, in the public and private sectors, who were so generous with their time and thoughts. They all have my thanks, appreciation and friendship. I hope that this work, in some way, now or in the future, may contribute to the goals of socio-economic justice and equity which we all share.

Rami G. Khouri

I

Launching the New Experiment

In mid-August 1985, the United States Congress passed a supplemental foreign aid bill providing Jordan with $250 million in grant aid over a period of three years. While not in itself particularly novel -- the United States had provided Jordan with economic and developmental aid worth $1.6 billion between 1952 and 1985, as well as substantial military sales credits and technical training -- the supplementary aid would mark the beginning of a novel experiment in channeling development aid to the private sector.

The additional funding for Jordan came at a decisive moment during the formulation of new strategies within AID -- strategies which saw the private sector, market forces and the enterprise culture as the most appropriate means to promote balanced and sustainable growth throughout the developing world. At the same time, the Jordanian government was looking to the private sector to play a more substantial role in several key areas, notably exports, foreign exchange earnings and job creation.

But broad philosophical commitments were unmatched by practical knowledge on the ground, and few people on either side of the development aid dynamic had any experience in channeling funds to the private sectors of developing economies. Soon after AID initiated a formal assessment in the summer of 1981 of how it could best promote growth with equity in developing economies, AID senior staff concurred on the new private sector option.

In May 1982, AID published a policy paper entitled "Private Enterprise Development", which specifically sought to "direct a refocusing on the importance of free enterprise and the market mechanism in the development process." This "renewed emphasis on private enterprise for development" was seen to be directly responsive to the "four pillars" of AID's wordwide strategic emphasis: economic policy reform, institutional and human resource development, private sector intiatives, and technology development and transfer. The policy paper noted that AID had made the commitment to enhancing the role and the strength of free and competitive markets in Third World countries because it was convinced:

"1. that economic growth is central to the alleviation of poverty in the Third World;
"2. that private enterprise is the engine that makes growth occur most quickly;
"3. that a free and competitive market environment stimulates private enterprise, and,
"4. that allocations of resources through competitive markets are almost invariably fairer and more equitable, over time, than allocations made by government."

By 1983, nearly half the AID missions around the world had initiated private sector projects. By 1985, when a revised "Private Enterprise Development" policy paper accentuated AID's new commitment to promoting economic development through free market forces, nearly all missions were working with the private sector -- though the quality, impact and aims of individual projects varied widely from country to country. It had also become clear that AID officials in the Private Enterprise Bureau in Washington could not formulate a single, global private sector strategy, because such efforts had to be tailored to the political, social and economic circumstances of each country.

By the summer of 1985 -- half a decade after the rise of the free marketeers -- AID revised its policy paper which provided general guidelines for AID missions around the world to follow in developing country-specific private sector strategies. These included:

- promoting mechanisms to help governments privatise some public institutions;
- improving domestic financial markets by encouraging bankers to lend less on the basis of collatoral and more on the basis of cash-flow analysis;
- enhancing access to credit by the poor and by micro-enterprises of less than five people; and,
- conducting "policy dialogues" with senior government officials and private business people, with the aim of conceptualising long-term private sector strategies and modifying government policies which distorted or inhibited free market forces.

In June 1985, AID's first long-range strategic plan, entitled "Blueprint for Development: The Strategic Plan of the Agency for International Development," said that "in devising a long-range development strategy, AID has reoriented its approach to emphasise four basic programmatic components: policy dialogue; institutional development and training; technology research, development and transfer; and reliance on the private sector and market forces."

By the middle of the 1980s, AID-Washington was firmly committed to the ideology and the practicality of using foreign aid funds to promote economic development in the Third World through the private sector. It only needed a proving ground to test out its new approach.

In Jordan, during the first half of the 1980s the private sector had assumed a greater role in domestic economic and social development. Since Jordan was established in the early 1920s, its economy had always relied on substantial external financing (particularly foreign budget support and development loans). Such funds were channeled through the government, and helped maintain the public sector as the single biggest employer and the main driving force of the economy. High Arab aid flows in the boom decade of 1974-83, averaging nearly JD 200 million a year, allowed the government to sustain this role, with the government's budget often equalling 50-70% of gross domestic product.

Simultaneously, buoyant private remittances from Jordanians in the Arab oil-producing states fuelled rapid growth in the construction, real estate and retail trade sectors. By the early 1980s, lower oil incomes in the Gulf states started to impact adversely on the two key underpinnings of the Jordanian economy, in the form of reduced public sector aid flows and a flattening out of private remittances. The economy's ability to finance previous levels of investments and imports was suddenly constrained. By 1984, the economy was suffering lower foreign budgetary grants and private remittances, declining foreign exchange reserves and increased domestic and foreign borrowing.

The outlook for growth was aggravated by negative developments in other key sectors. The recession in the Arab oil-producing states meant that fewer Jordanians found jobs in the Gulf, while thousands of Jordanians in the Gulf returned home. This reverse migration accelerated an already worsening unemployment problem in Jordan. Transport services to Iraq and the Gulf were also hit by the regional recession, tourism growth was stagnant, agricultural exports to the Gulf suffered tough new competition from Turkey and from domestic suppliers throughout the Gulf, and revenues from mineral exports (notably potash, phosphate, chemical fertiliser and cement) were flat due to depressed international prices.

Pressing needs

In view of these simultaneous negative developments, Jordan approached the mid-1980s with a pressing need to identify new sources of foreign exchange and employment to revitalize its economic growth. Throughout 1985, when Jordan's economic planners were putting together the 1986-1990 five-year social and economic development plan, the new reality was hard to ignore: as Jordan's traditional regional sources of employment, foreign aid and foreign exchange dwindled, the domestic economy, with its large public sector, simply could not maintain the rate of economic growth on its own.

Additional pressure came from demography. Jordan has one of the world's highest population growth rates (3.8%), due to high fertility and natural birth rates, declining infant mortality rates, rising life expectancy, some in-migration from the Israeli-occupied West Bank, and the repatriation of thousands of Jordanian families from Arab oil-producing states during the mid-to-late 1980s. Given the young population (over 50% under the age of 15) and the high education rate, prospects of finding jobs for all school-leavers in the decade to 1995 seemed daunting indeed.

For nearly four decades after the establishment of the Hashemite Kingdom of Jordan in 1946, the fundamental structural constraints of the economy had been camouflaged, and their consequences deferred, by a combination of hard work at home, effective political action by the Jordanian leadership, serendipitous regional circumstances, and timely bilateral and multilateral assistance. By the mid-1980s, though, Jordan faced the historical inevitability of a national reckoning in its economic, demographic and material resources. In view of these economic and demographic trends, the private sector loomed as the only feasible source of economic growth and new jobs in the short-to-medium term.

The $250 million American supplemental aid bill provided some short-term relief, particularly from balance of payments pressures. It also included a clear political message. Though the cash injection was in line with a tradition of over three decades of American aid to Jordan, it also reflected the American government's desire to support Jordan's sustained, though ultimately unsuccessful, efforts in the first half of the 1980s to launch a regional negotiating process to resolve the Arab-Israeli dispute. Jordanians recognised that the American munificence was unlikely to be repeated. The $250 million was a one-time grant, not a Jordanian foot in the door of perpetual American support.

American officials saw the $250 million as providing not only a brief breathing space -- but also an opportunity to use the aid to propel the economy on a path of sustained growth, and therefore to decrease or perhaps even to eliminate future reliance on foreign aid. Jordan had most of the requisites for long-term economic expansion: raw materials for the mineral-exporting industries, a base of high-value agricultural exports in the Jordan Valley, a skilled workforce, a competent managerial and entrepreneurial class, a strategic location amidst several large, friendly and familiar export markets, proven domestic capital financing capabilities, a complete, modern physical infrastructure, and a dynamic private sector that was both able and willing to compete in regional and international markets. The question that posed itself to Americans and Jordanians alike in the late summer of 1985 was: how could the $250 million be best allocated to promote sustainable long-term growth, rather than simply to plug existing gaps in government funding requirements?

In AID headquarters in Washington, the previous several years had seen the formulation of novel private sector aid strategies, particularly in developing countries that had strong private sectors, relatively developed physical infrastructures and governments that were ideologically comfortable with private enterprise. Jordan was precisely such a country, but the brisk passage of the supplemental aid bill created timing pressures which precluded the formulation of a long-term private sector aid strategy by a mission in Amman which lacked the requisite staff and skills.

The US AID staff and portfolio in Jordan had always concentrated on a traditional mix of water, infrastructure and social development projects implemented by the public sector, and had no substantive experience in working with the private sector. It was suddenly handed the task of channeling tens of millions of dollars through the private sector.

The $250 million supplemental bill had earmarked $160 million for a Commodities Import Programme (CIP), and $90 million for projects. The mission had precisely six weeks to commit the $80 million tranche of the $250 million which was earmarked for the 1985 fiscal year, which ended on September 30. In September 1985, the mission allocated $50 million to a CIP programme (50% public and 50% private sector imports), and $30 million to the Ministry of Education's schools construction project.

The turning point

In November 1985, AID Administrator Peter MacPherson visited Jordan and left with an appreciation for Jordan as a middle-income developing country, with an established physical and human infrastructure, a stable government starting to face some major fiscal constraints, and a dynamic private sector. He thought the $170 million balance of the $250 million should be channeled largely through the private sector.

MacPherson instructed the Asia/Near East Bureau of AID to send to Jordan a new AID director with a private, rather than a public, sector focus. By mid-December, AID-Washington had picked Lewis P. Reade for the job. After over 20 years of private business experience, Reade had spent 1980-82 in the AID Near East Bureau, 1982-84 as Director of the AID mission in Jamaica, and the eight months previous to his Jordan assignment in AID's Private Enterprise Bureau in Washington. On December 17, 1985 he was notified that he would be sent to Jordan to assess the situation, with an eye to formulating a private sector approach to development. Reade arrived in Jordan as US AID mission director on February 15, 1986, and began to implement a swift shift in AID activities in Jordan.

He arrived as the AID mission was preparing to draw up the FY 1988 Country Development Strategy Statement (CDSS), US AID's 3-5-year outline of its view of the economic development priorities of the host country and the appropriate AID response. The Jordan CDSS for FY 1988, issued in mid-1986, was the first official statement of the new AID private sector strategy in Jordan. It was formulated after a series of policy dialogue and project identification consultations with senior Jordanian officials in the economic, fiscal, monetary and planning sectors.

It noted: "The two most serious economic issues that will face Jordan in the near to intermediate term are rapidly increasing unemployment and balance of payments/foreign exchange shortages. This US AID/Jordan CDSS strategy is designed to address as directly as possible these two economic problems. The centrepiece, and major change in this CDSS, is the strategy to work directly with private sector manufacturing and service industries to empower them to be the new engines of Jordan's income, employment and export growth. Over time, this will mean a significant restructuring of the economy toward the private sector."

The US AID mission identified eight external and internal factors which combined to define the recessionary environment, and which were addressed in both the government's 1986-1990 five-year plan and US AID's CDSS.

In US AID's view, the four external factors were:

1. reduced Arab aid
2. declining private remittances
3. flat earnings from export industries due to depressed world mineral prices
4. a shrinking Jordanian share in traditional agricultural and industrial export markets in the Gulf.

The four internal factors were:

1. high annual growth rates of the population (3.8%) and labour force (6%)
2. insufficient jobs for new entrants into the labour market, particularly university graduates
3. a relatively relaxed government attitude to adopting new anti-recessionary policies and programmes
4. a Jordanian tendency to exaggerate the severity of the economic slowdown (in the words of one AID official, "Jordanians talked themselves into more of a recession than there really was.").

As US AID formulated its private sector development strategy and the Jordanian Ministry of Planning put the finishing touches on the five-year plan, both recognised the two main consequences of the trends in 1985 and early 1986:

a). Unemployment was rising, after several decades of Jordan's being a labour-exporting country whose excess manpower found well paying jobs in the Arab oil-producing states. By 1986, the government put the unemployment rate at around 8%; US AID assumed it at a higher 10-11%, and anticipated it would rise to 13-15% in the absence of decisive policies. The World Bank had recently warned that unemployment might rise as high as 30% if existing policies were not amended.

b). Foreign exchange reserves were dropping. Though the government's total gold and foreign exchange reserves had stopped growing and stabilised at around the JD 400 million ($1.1 billion) mark since the start of the 1980s, net foreign exchange available to the government had dropped significantly to a low of JD 136 million ($374 million) in 1987, from its high of JD 353 million ($970 million) in 1981. An increasing portion of the government's foreign reserves in the mid-1980s comprised "other foreign assets" -- Central Bank credits to Iraq worth JD 186 million ($511 million) in 1987. Jordan's access to this sum in the event of urgent need remained untested.

In both cases, action through the private sector seemed the most practical strategic means to redress the emerging imbalances, though US AID and the Jordanian government differed on the precise manner, extent and timing of new policies and programmes. The public sector (government and armed forces) already employed some 250,000 people, or half the domestic workforce; and para-statal institutions such as the national airline or the phosphate, electricity and water companies were already over-staffed, leaving no possibility of increasing employment significantly in these sectors. The private sector, a senior US AID official noted in retrospect, "seemed the only logical way to create jobs."

Similarly, the public and para-statals sector could not realistically cut their expenditures very much to save foreign exchange, though the private sector could achieve the same aim by increasing exports and establishing legitimate import-substituting industries.

In the late winter and early spring of 1986, senior staff from US AID and the Ministry of Planning launched a series of meetings to identify sectoral issues that needed to be addressed. By the spring of 1986, both sides had agreed in principle that the private sector should be the focus of developmental and growth strategies, particularly in view of employment and balance of payments objectives.

It was agreed that if a specific sectoral objective could be attained through the private sector, rather than through or alongside public sector activity, such private enterprise should be encouraged by both government policies and AID funds.

This new focus on the private sector was bolstered by several other domestic and global factors, including:

a) an incumbent prime minister, Mr Zeid Rifai, a successful businessman and farmer who was a strong advocate of private enterprise;
b) the expressed views of Crown Prince Hassan that the government could not indefinitely maintain its traditional level of provision of public services and facilities;
c) the hard lessons of the 1976-1984 period, when several state-owned enterprises (in timber processing, cement and chemical fertilisers) proved to have been poorly conceived and/or managed, and were either liquidated or merged with stronger entities, while the government had to spend tens of millions of dinars bailing out several other public ventures (such as the Zerqa Ma'in spa, the Cities and Villages Development Bank and the agricultural marketing and processing firm);
d) the recognition that dwindling foreign exchange reserves and rising public debt meant that the state treasury could not continue its traditionally high level of funding or guaranteeing the loans of public sector institutions and para-statals, particularly commercial enterprises such as the national air carrier, land transport companies, and mineral exporters;
e) recent successes in other countries in the privatization of public entities.

Constraints to be addressed

By the summer of 1986, after several months of meetings with Jordanians from the public and private sectors, US AID had identified the following "areas of constraint" which it felt had to be addressed for the private sector to emerge as the "engine of economic growth" in Jordan:

1. Some government policies and practices were seen to be inimical to private sector growth, particularly cumbersome government licensing procedures which US AID thought reflected a "paternalistic" government attitude to potential private investors. The incentives structure -- comprising foreign exchange rates, interest rate ceilings, government-guaranteed borrowing, financial market segmentation, taxes, tarrifs and import restrictions -- was seen to favour import-substitution over exports, and in some cases even "to direct investment away from the productive sectors altogether." The net result, US AID thought, was to constrain private enterprise, and consequently

to encourage the public sector to step into the economy.

2. The government's significant direct role in the economy (accounting for about 45% of employment, 41% of GDP and 37% of exports) included equity shares in or total ownership of many commercial enterprises in the fields of manufacturing, mining, dairy products, agro-industries, transport, tourism, communications, power generation and water. Such a policy may have crowded out private investments and reduced opportunities for private entrepreneurs who have a better track record than the public sector in exporting and in generating productive employment.

3. Financial constraints facing private businesses stemmed from a conservative banking sector that favoured collateral-based overdraft lending for trade transactions over term loans for productive ventures assessed on the basis of cash-flow analyses. The market was also seen to lack some services and secondary instruments (mutual or venture capital funds, factoring, convertible bonds), which may have denied credit, or made it more expensive, for some worthy projects.

4. Goods and services produced in Jordan suffered from erratic quality standards and efficiency, due to weaknesses in three related fields:

a.) a lack of management skills in such areas as employee delegation and motivation, marketing, production, finance and strategic planning;
b.) poor product design, innovation and adaptation, in both industry and the services sub-sector, with insufficient linkages between the research and technology community and businessmen;
c.) problems in product quality and costs, reflecting poor plant design and layout and a lack of management systems for production planning, inventory control, cost analysis, quality control and maintenance.

5. Private sector business organisations, such as the Chambers of Industry or Commerce, or the Engineers or Contractors Associations, were perceived by many private businessmen and by US AID as:

a.) too weak to adequately represent their members' interests before the government;
b.) lacking the motivation and/or staff expertise to provide the range and quality of services required by the membership;
c.) sometimes working at cross-purposes due to lack of coordination, which weakens their posture in dealing with government agencies.

6. Marketing and promotion efforts were weak across the board, whether for industrial and consumer goods and services sold in Jordan, or for invest-

ment opportunities or exports marketed abroad. As demand for Jordanian products or services declined in the Gulf in the early 1980s, Jordan's need to find new markets accentuated the country's marketing, advertising and promotion inadequacies.

7. Some inefficient public services and facilities were also seen as a constraint on economic growth, such as slow customs clearance of goods at Aqaba port.

The Jordanian government concurred in many, though not all, of these observations, as it had already made clear in the 1986-90 five-year plan and during the early stages of the macro-economic policy dialogue. In both cases, the government expressed its support for two key concepts: giving preference to free enterprise, market forces and private initiative, and restricting the public sector's role in the economy to providing infrastructural services and appropriate policies and creating "initial momentum" for large-scale projects (such as the potash and phosphate projects) which were too big for the private sector to launch on its own.

In the CDSS it issued in mid-1986, US AID outlined a proposed strategy composed of two parallel, interlocking and symbiotic efforts: direct AID financial and technical support to projects, and indirect impact on the economy "through policy dialogue and by demonstrating to the government the beneficial impact of focusing on the private sector." From its inception, US AID's private sector orientation sought to establish direct linkages among the several different projects, and also between the projects and the policy dialogue.

The policy dialogue among senior officials sought to "modify existing government policies" with the aim of helping the private sector "to realise its full potential to revitalize the Jordanian economy." US AID's policy dialogue agenda targeted four areas which, based on discussions with the private sector, had been identified as being of most concern:

a.) market entry restrictions
b.) an inadequate incentive structure (comprising activities such as taxation, price controls and exchange rates)
c.) financial market controls which may discriminate against private sector access to capital
d.) government ownership trends which could be redressed by a policy of privatisation.

US AID's direct project support was directed at eight areas, roughly corresponding to the perceived contraints outlined above. Project aims were:

1. To help establish a policy framework conducive to private sector growth,

by assessing government policies in fields such as market entry restrictions, price controls, import monopolies, financial market controls, and fiscal policy and tax collection; training of policy-makers and potential business leaders; and developing private sector interest groups of manufacturers, exporters or consumers.

2. To help the government reduce its ownership of commercial ventures by promoting a privatization programme.

3. To improve financial intermediation by introducing new services and products (such as venture capital); providing training and technical assistance in such areas as project lending, cash flow and risk analysis, and primary and secondary capital markets; improving financial disclosure by promoting a new financial accounting standards association, improving the terms and conditions of the existing US AID-financed Commodities Import Programme, and providing funds for construction and mortgages of low-income housing.

4. To help private firms improve product quality and develop new products, by increasing the quality and quantity of business managers; establish productivity centres to help manufacturers improve their products and performance; improve industrial engineering, maintenance and design capabilities through a new programme at the University of Jordan; upgrade standards development through existing public institutions; improve the quality and range of services which support economic development; and help small entrepreneurs.

5. To strengthen or help launch private sector business organisations, in the fields of the private business sector as a whole, manufacturers or exporters.

6. To improve the marketing and promotion of Jordanian products, services and investment opportunities, through productivity centres, feasibility studies, investment promotion, and an exporters' association.

7. To increase the social consciousness of the private sector by establishing consumer groups and a United Way-type charity appeal.

8. To improve the efficiency of public sector services and facilities related to private enterprise, such as the customs, port and industrial licensing institutions.

II

Policy and Programme Dialogue

The CIP agreement stipulated that formal policy dialogue sessions should take place twice a year, with both the Jordanian government and US AID raising macro-economic and policy issues which either side thought needed discussion or studies. US AID expected the consultations would provide "a formal opportunity to improve understanding of macroeconomic performance and of policies and programmes affecting Jordan's financial circumstances, growth and development." The AID mission also stated that it would "continue its on-going, programme-related policy dialogue discussions carried out in the context of developing, negotiating and implementing various AID projects."

The agenda which US AID proposed for the first economic policy consultation in January 1986 quickly put forth the American view that these meetings would discuss a very wide range of policy issues. The extensive agenda which US AID drew up included the Jordanian government's fundamental development strategy, including investment priorities, means and extent of fostering private sector activity, and any anticipated shifts in broad macro-economic policies; domestic resource mobilization, including increasing public revenues and promoting private savings and investments; the balance of payments, imports and exports and the trade balance, the exchange rate, and capital flow projections; patterns of public and private investments, privatization of government entities, private sector investment trends and capital pricing; labour force supply and demand, education, migration, and anticipated increases in unemployment; and subsidies in relation to factor and product pricing.

In fact, the policy dialogue expanded with time to cover other issues deemed pertinent by the Ministry of Planning and US AID, including birth-spacing, water pricing policies and third party studies (such as a World Bank report on small- and medium-scale manufacturing industries).

For the Jordanians, the policy dialogue was contentious from the start. Whether in formal sessions or informal discussions throughout the year, senior Jordanian officials tended to participate in the policy dialogue half-heartedly, feeling that such discussions were more appropriately handled with the World Bank or the IMF, rather than with a bilateral donor. The feeling was clearly picked up by the Americans, with one US AID participant remarking after the fact: "Soon after the start of the policy dialogue, it was obvious that the Jordanians questioned the legitimacy of the whole exercise, and perhaps felt that they had been dragged into the policy dialogue kicking and screaming. The net result was that we resented the fact that on macro-economic policy issues the Jordanians were always more open and forthcoming with the World Bank and the IMF than they were with us. They seemed to view the policy dialogue sessions with us merely as briefing sessions."

The political and psychological dynamics of the dialogue were not always conducive to brisk action. The Americans wished to use the opportunity of the $250 million supplementary aid to achieve two related aims: 1) to propose and to prod conceptual and structural changes in the Jordanian economy and its use of foreign aid, and, 2) to develop the AID programme in Jordan as a showcase of how American foreign aid could promote sustained growth with equity through private sector activities in developing countries.

The US AID mission in Jordan was on the cutting edge of a dramatic new global experiment in development aid. American AID staff in Amman were pioneers, breaking new ground and charting the way for others to follow. They assessed the whole spectrum of economic activity in Jordan, and liberally proscribed changes to be made or studies to be done. They were prodded by the professional excitement inherent in innovation on such a significant scale, and were simultaneously aware of powerful political pressures from Washington, which was watching the Jordan programme carefully to assess the validity of such a major commitment to the private sector. As a senior Jordanian planner commented several years into the programme: "They had a political directive to help the private sector, and we had to accommodate them."

Differences on how to proceed

Though Jordanians had independently reached the same broad conclusion on the private sector's role, there were significant differences of approach, timing and tone on how to proceed. The Jordanian government was much more cautious than AID. It embraced the concept of an enhanced private sector slowly, in the face of the stark reality of the limits to public sector financial and managerial capabilities. Officials were not only ideologically less convinced of the sweeping changes which AID suggested, such as privatization or changes in financial markets or business licensing practices. They were also dubious that such novelties could be introduced into Jordan without substantial disruption. Such caution also may have reflected a negative perception of the private sector, particularly by some public officials who associated the private sector with exploiting workers and consumers, avoiding taxes or accumulating excessive private wealth.

As a senior Ministry of Planning official closely involved with the initial stages of the policy dialogue said in retrospect: "In drawing up the 1986-90 five-year plan, we confirmed a more important role for the private sector, though we lacked the time to identify specific targets and programmes. The general idea we had agreed upon in the government was to focus on principles, such as promoting private sector exports and encouraging small- and medium-scale firms. After the plan document was finished, we started tackling the issues one by one, starting with the encouragement of investments and promoting small-scale industries by enhancing the environment in which they operate. We did not view the private sector as a distinct sector of the economy as such; the idea of private enterprise was always in the back of our minds as we started to address problems in specific areas, such as agricultural exports, small- and medium-scale industries, services, or the financial system."

Jordanian officials were slowly feeling their way towards a new equilibrium between public and private enterprise -- conscious of how much they needed to learn about the private sector, and therefore committed to moving cautiously in adopting new policies. The government's prudent approach was also influenced by a major, though unspoken, fact: redressing the economic equilibrium by transferring financial aid and economic decision-making powers from the government to the private sector would also mean a transfer of some political power. In a small country whose economy was traditionally dominated by the public sector, economic and political power were virtually synonymous. Few governments anywhere in the world relinquish some of their economic prerogatives without compelling cause, and Jordan was no exception.

More dispassionately, the Americans viewed Jordan as a market, with objective economic forces that could be influenced by methodical changes in regulations, procedures, incentives and disincentives. It was the proving ground for a new American concept of foreign aid and national development, a manageable and amenable laboratory where the future would be conceived and tested.

Jordanians, on the other hand, viewed their economy in more subjective terms. It was something rather traditional and dear, and not lightly tampered with; though perhaps imperfect and slightly outdated, it was nevertheless the practical, on-the-ground manifestation of complex political, social and psychological forces that had combined during the previous six decades to form Jordanian society.

The differing perspectives emerged early in the policy dialogues. A senior Ministry of Planning official recalls: "It was healthy to have the new and different viewpoints advocated by AID, but they had two shortcomings: they were sometimes pushy, repeatedly advocating preconceived ideas without fully understanding the full realities of the local system in Jordan; and we sometimes thought they treated us as experimental guinea pigs on whom they could try out new ideas. They should look at problems more thoroughly and from a Jordanian perspective, and they should not assume that we could change the system overnight by trying out new ideas and seeing what happens."

In their meetings with US AID throughout 1986, Ministry of Planning senior staff confirmed that the Jordanian government aimed to create "a new investment climate to stimulate the growth of the private sector." Such a policy orientation had been indicated already by a series of government measures in the preceding several years, notably stimulating exports via tax exemptions and concessionary re-financing facilities, the development of free zones, industrial estates and customs facilities, simplified customs duty rebates for imports that are subsequently re-exported, studying export-oriented credit guarantee and non-commercial risk insurance schemes, and promoting domestic production by prohibiting some imports and raising tarrifs on others).

Several public firms were already targeted as potential candidates for privatization (such as the national air carrier Royal Jordanian, the Telecommunications Corporation, the Water Authority, the Electricity Authority and the Public Transport Company), while thinking has started on how to help Jordanian consultants and tourism sector firms win a greater share of regional business. Government officials, bolstered by a battery of IMF, World Bank, AID and other studies, were also examining how to stimulate private sector activities and exports, including export financing and credit guarantees, non-commercial risk insurance, export market information systems, an export promotion agency, a higher export council, greater emphasis on barter trade, and enhanced export promotion activities by the Industry and Trade Ministry.

Conceptual differences

Despite the apparent similarities in the approaches to economic expansion adopted by both AID and the government of Jordan in 1986, significant conceptual differences were already emerging vis-a-vis the most appropriate manner and pace of promoting the private sector. US AID staff were not fully convinced of the depth of the government's commitment to greater reliance on the private sector -- five-year plan concepts notwithstanding. US AID felt that similar pronouncements (except for the novelty of privatization) had been made in previous five-year plans without being fully implemented. It was also noted that the 1986-90 plan envisaged a continuing major role for the public sector in investments, economic growth and job creation (specifically, the plan anticipated that the government or government-controlled enterprises would account for about half of all new jobs, 60% of investments and 25% of GDP growth).

For their part, Jordanian officials were irritated by what they perceived to be a tendency by US AID to claim too much credit for the concept of promoting the private sector. The Jordanian government had already noted most of the problem areas which US AID highlighted in its 1986 CDSS, and in a few areas Jordanian teams were formulating appropriate strategies.

"AID has tried to take too much credit for the idea of promoting private sector growth as a response to the new economic realities of the 1980s," a senior Planning Ministry official recalled in retrospect. "The concept of privatization, and of greater reliance on the private sector to generate investments and jobs, started with the Rifai government and the directives of King Hussein in the spring of 1985. Conceptually and philosophically, the government of Jordan had reached this conclusion at least a full year before AID started examining how it could work with the private sector in spending the $250 million American supplementary aid. It's all there, woven through the fabric of the five-year plan: credit to small firms, promoting exports and developing marketable services. And, we had other precedents, in the form of UNDP, EC and other donors' grants being used to help the private sector directly or indirectly, through training schemes and credit facilities delivered through specialised credit institutions."

A Jordanian planning minister recalled that the government had reached the conclusion in 1985 that the public sector had neared the limit of what it could do in terms of building infrastructural facilities. Therefore, it looked to the private sector to pick up the slack in productive economic investment and growth. But the government was keenly aware of its limits in influencing the private sector; it saw itself as having only an indicative role in promoting private investments. While it recognised the increasing importance of the private sector for future economic growth, the government appreciated that it had only "tenuous and indirect" control of private enterprise.

"In August 1988, we decided that the most logical approach was to liberalise the economy. There was a convergence between the lessons we learned from our own experience, a global trend towards greater private enterprise, and the private sector approach of AID. We feel that AID spent too much time and money discussing concepts which we were aware of, and which we were assessing or already implementing on our own (such as privatization, interest rate deregulation or tariff policies). They also claim too much credit for private enterprise concepts which we had pinpointed independently. Some policy changes we implemented were far bolder than what AID reports recommended, such as in the field of licencing deregulation. Some studies, particularly on privatization, were trivial and useless. They told us things that we already knew. We discovered that our indigenous approach was often deeper and more hard-headed. Some of the AID studies, on the other hand, were substantial and helpful. On the whole, we found that AID's input in policy formulation was useful, though not crucial. In retrospect, we would have done exactly the same thing, with or without AID."

A senior Planning Ministry official recalled: "We have a sharp private sector, which did not need much help from us during the boom years. But in the period 1985-87 they were more hesitant to invest or to enter into new fields. They were moving slowly due to the regional uncertainties and the domestic slowdown, and we were moving cautiously because we were trying to change our whole way of thinking. The combination generated a deliberate attitude and a prudent pace on the government's part. This was reinforced by specific policy constraints; in privatization, for example, we have to be very practical, to make the institutions profitable and efficient before going public. The whole reorientation towards greater private sector emphasis is not something that can be done in a year or two. We need much more time to learn about the private sector, and to work out new relationships."

Also, not all senior Jordanian officials were convinced the private sector could rise to the challenge. Some had reservations about the private sector's lack of technological and managerial expertise, or thought the private sector "was still a baby that was used to easy money." Others doubted whether the private sector could successfully tap new markets in the Gulf, Europe and even further afield.

US AID had correctly identified a measure of government suspicion of private enterprise as a constraint; but it had somehow failed to see that this constraint was very much operative in US AID's efforts to work with the government in drawing up a new economic growth strategy with a much larger private sector role.

A year into the formal discussions, the Americans appreciated Jordanian sensitivities about the dynamic at hand, but remained resolutely convinced of the importance of "dialoguing" and trying to bring about policy changes to meet Jordan's economic challenges. In a January 1987 meeting, US AID officials displayed the candour and frustration that have characterised much of the policy dialogue experience.

The Americans said in that meeting: "...We continue to raise issues on the government's economic policy not because we have an ideological ax to grind. Rather, we do so because we believe improvement in the economic policy environment and delivery in government services used by the private sector are important to mobilizing private sector growth and accomplishing our shared desire to increase Jordanian employment and relieve foreign exchange shortages."

They reviewed official Jordanian government positions on allowing free market forces to determine prices of factors of production and final outputs, and asked bluntly: "Do you really mean it?"

They added: "Despite the seeming congruence in basic philosophy on allowing free market forces to operate and the respective roles of government and the private sector, we continue to note discrepancies between statements of philosophy and practice."

Productive agreements

Though both sides agreed that informal dialogue through personal contacts, and within the context of discussions on individual projects, was more useful than the formal, structured meetings, the dialogue did result in several productive joint efforts. In September 1986, both sides agreed to conduct studies in six areas: industrial licensing and other business regulations, application of the investment incentives law; small enterprise development; the trade regime; financial market liberalisation; and efficiency in government-provided services.

Two particularly useful studies that were made by joint American-Jordanian teams in 1988 were on the subjects of investment incentives and import-export procedures, conducted respectively by an Arthur Young/ Royal Scientific Society team and an Arthur Young/Jordanian interministerial committee and Ministry of Planning team. Both studies will likely be seen to have contributed to specific policy changes, and they exemplify how US AID and the Jordanian government can work together effectively when several conditions are met: both sides independently agree on the need for the study, specialists or officials from both sides are jointly involved in the research and writing of the reports, and there is clear political will on the part of the Jordanian authorities to make the necessary legal or administrative changes in the sector in question.

Other efforts that emerged from the policy dialogue were less successful, because there was not a clear meeting of minds on the pertinent issues. For example, an American tax consultant who was brought to Amman for two weeks in 1986 to work with the Ministry of Planning on an assessment of tax policies instead spent most of his time with the finance ministry, apparently without many results. This might have been anticipated in view of the obvious resistance by the key Jordanian minister to American offers to discuss fiscal and tax policies and to implement a formal institution-building project.

Two American consultants who spent a month in Amman in 1986 recommended a restructuring of the Ministry of Planning to allow it to focus more on top-level sectoral analysis and planning, rather than on routine monitoring work which other ministries were already doing. US AID viewed this as a good example of how it helped identify a relevant issue during the formal policy dialogue, and financed an expert study which may have helped institute administrative changes, and which in turn may have impacted positively on economic growth. Jordanian officials believe the American contribution, though useful, was less crucial than it was perceived to be by US AID.

Another example of how the two sides perceived the same dynamic in different ways was the dialogue on financial market liberalisation. The US AID mission funded a series of studies on different aspects of the financial market in Jordan, at least two of which were specifically requested by Jordanian government agencies (study topics included mergers and acquisitions, the stock exchange, credit to small businesses, interest rate liberalisation, and mutual funds). In May 1988, US AID co-sponsored a one-day seminar with the Central Bank of Jordan on interest rate deregulation. US AID officials thought their input into the debate on financial market mechanisms directly helped to prod the Jordanian government to liberalise the market in 1988. Most concerned Jordanian officials and private bankers, on the other hand, felt that the AID-funded studies and the seminar only reiterated viewpoints and re-evaluated issues that Jordanians had been discussing among themselves for nearly two decades, or since the early-1970s.

The situation was further complicated by the fact that Jordanian government officials did not always share a single view on key policy issues, such as interest rate deregulation, and liberalisation of business licensing procedures.

Tucking the contentious policy dialogue into the munificence of the $165.5 million CIP grant, may have been an unconscious, and ultimately impossible, effort by US AID to reconcile two opposing forces: to satisfy the strong political demands of AID-Washington for policy dialoguing, while being sensitive to a clear Jordanian aversion to such a dialogue. As one senior US AID staffer in Amman succinctly summed up the situation in retrospect: "One of the problems we faced in the policy dialogue was that we were talking to two audiences at once, Washington and Jordan."

III

Walking the Fine Line

US AID staff in Amman were often intense in their enthusiasm, and keen to move quickly. Many of the ideas they proposed or discussed with the Jordanians already had been tried and tested elsewhere, in both industrialised and developing countries. The mission's high level of intensity reflected the fact that it was involved in a pioneering effort, on the frontier of global development aid policy formulation. The AID administrator had personally and specifically mandated the mission to break new ground in channeling development aid to the private sector. Amman staff were anxious to innovate, to launch new programmes and to show some results during the three or four years of their posting in Jordan. They were genuinely convinced that many macro-economic policies were a constraint to private sector growth and overall national development.

And, there was the major time pressure factor. Unless the Amman AID mission committed and spent the entire $250 million allocated by Congress in three years, any unspent money would be taken away from Jordan and used elsewhere. One project officer deeply involved in the inception and early implementation of private sector programmes recalled shortly before leaving Jordan: "The time pressures were immense. We should have spent more time with our Jordanian government contacts and partners in order to learn together about how to work most effectively with the private sector. But the time wasn't there, and this was compounded by the related problem that we and the Jordanians were working according to two different time horizons. We had to achieve results quickly, while they preferred a slower pace."

The mission staff's dynamism and enthusiasm, therefore, were generated by both personal and professional dictates. Unfortunately, these qualities were sometimes perceived by Jordanians as signs of an "aggressive, high-handed and pushy attitude," particularly in comparison with the scores of other foreign donors in Jordan, whose work was conducted "in a more dignified and businesslike manner," according to one Jordanian minister. He also noted that no other foreign donor found it appropriate to discuss overall policies and priorities with the Jordanian government (with the exception of World Bank and IMF consultations which were specifically mandated to do so). Some Jordanian officials sometimes found US AID "presumptuous" in its approach, and even, at times, "obnoxious".

US AID recognised these Jordanian sensitivities, but felt strongly that it had to keep raising macro-economic and policy issues with the Jordanian government for several reasons:

a.) the economic challenges and potential problems which Jordan faced were so significant that, as a senior US AID official said, "we felt we had a duty to tell the Jordanian government, 'we're your friends, and as such we have an obligation to help where we can and in any manner we can'";

b.) policy and projects had to be closely coordinated, because it was useless to provide funds for projects that would ultimately fail if the policy environment in which they operated was inappropriate; and,

c.) the terms of the Commodity Import Programme specified regular, formal consultations on policy issues, which the Jordanian government had understood and agreed to.

US AID personnel felt that some of the criticism they elicited reflected the fact of their permanent presence and high visibility in Amman. As one American official explained: "We were telling the Jordanian government the same thing as the World Bank and the IMF, though they come into Jordan once or twice a year while we are here raising these issues every week, and perhaps in a rather vocal way. But that's why we're here. We have a mandate to help make real changes in macro-economic issues, especially in relation to the policy environment for private sector business activity. We and the Jordanian government shared the same views about long-term goals. But in the short term we felt it was our duty, as friends of Jordan who were committing substantial funds to economic development, to keep raising the real, hard economic issues in a candid manner."

(In retrospect, most of US AID's views proved relevant, and its predictions accurate. Many of the policies they advocated were adopted by the Jordanian government, often in something of a crisis atmosphere in 1988/89, when the economy suffered a severe foreign exchange shortage and the government could not honour its foreign debt service obligations. Measures taken, some unilaterally and others in conjunction with the IMF-agreed adjustment plan, included floating the dinar, raising fees and charges for government services, curtailing imports, freezing public hiring, reducing the budget deficit, liberalising interest rates, easing new business licensing regulations, and reassessing investment encouragement and import-export procedures and formalities.)

One US AID senior staffer noted in retrospect: "After 1986, the policy dialogue became the core of our programme in Jordan. (AID Administrator)

McPherson's view was very clear: policy issues were too important to ignore, and we were specifically mandated to pursue policy dialogues with the Jordanian government in a candid and direct manner. The money we put into projects was probably less important than the policy issues which related to the projects. We wanted the government to adopt the policies we talked to them about; it was not important for US AID to get credit for policy changes, but it was important for Jordan to implement changes in its economic policies."

Another US AID official deeply involved in the policy dialogue recalled at the end of his stay in Jordan: "In view of the relatively good infrastructure and the trends in availability of public funds, we felt it was very important to get the government to think less in terms of individual projects and more in terms of policies and programmes. In fact, in the long run this may turn out to be the area in which AID's work in Jordan has the most likely impact."

Pragmatic as they were, US AID officials felt that the risk of heightened Jordanian sensitivity was offset by the fact that the Jordanian government had a say in all studies and research projects, and veto power over new projects. If Jordan did not like American suggestions, it could simply turn them down, which happened on several occasions (tax and fiscal policy projects, the first small entrepreneur project, studies on exchange rates and devaluation, and aid to private sector publishing, for example). But US AID may not have sufficiently appreciated the underlying psychological and social realities which made it difficult for Jordanians to turn down too many American suggestions. Even if Jordanians did not agree with all aspects of a study or a project, they were likely to accept it in order to proceed with those elements which they liked. Also, Jordanians often felt that even if they did not always agree with the general approach or detailed content of some US AID-proposed studies or initiatives, going along with them was the inevitable price to be aid for the provision of the overall American aid package.

A senior US AID officer in Amman said: "We felt obligated to raise issues and highlight subjects which we thought were priority for the Jordanian government, and simultaneously to offer our research and analytical capabilities to help deal with those issues. We recognised that the Jordanian government viewed policy dialogues as more within the purview of multilateral rather than bilateral donors, and we were aware of the very fine line between giving advice as a concerned friend and meddling in internal Jordanian affairs."

Jordanian criticisms

The Americans thought they walked the fine line with great care, while the Jordanians saw the Americans as overstepping it frequently. This fundamental disagreement about the appropriate American role in Jordan's economic development irritated Jordanians, and probably heightened criticisms of other aspects of US AID work in Jordan. These criticisms included:

1) Jordanian officials complained that US AID sometimes tried to bypass public institutions in order to deal directly with the private sector, and that some US AID staff were too quick to accept rumours, anecdotes and complaints of private individuals as the basis for launching studies or even for making recommendations.

"There were several cases where we sensed that US AID wanted to go directly to Jordanian private sector business people, to go behind our back by using the attraction of the money they had to offer. We did not like that, and stopped it whenever we learned of such efforts," one senior planner said. "They sometimes saw themselves as another ministry of planning, and never hesitated to look into any aspect of the economy which they felt deserved assessment, with or without our concurrence, in some cases even calling meetings of private sector business people on their own without sufficiently coordinating with the relevant government agency."

Though aware of this negative Jordanian reaction, US AID staff continued their direct approach to the private sector precisely because of the enthusiastic response they often encountered among private firms and individuals. Americans often found working with the private sector much more efficient than working with government officials. One US AID mid-level officer explained the situation as follows: "We were told by our superiors to stay away from the government of Jordan as much as possible, and we obviously needed to talk directly to the private sector. I think the problem was that we probably went too far in avoiding the government, and keeping it out of the picture in some cases."

2) Jordanians also criticised US AID's habit of bringing in an American team of specialists to spend a relatively short period of time in Jordan (typically, from one to six weeks) preparing a report on an economic sector or sub-sector. The methodology resulted in reports which effectively became irrelevant, because they were perceived by Jordanians as standard, off-the-shelf proposals imposed from outside. A senior government official explained:

"There is an important behavioural concern which the Americans seem to overlook: if you participate in a study, you are more likely to accept its recommendations and to implement them. US AID too often gave us reports prepared by American experts who were here for a few weeks and who based their analyses and recommendations on interviews with a small number of Jordanians, without ever developing a real feel for Jordanian attitudes or sentiments. Therefore, the final reports would suffer from two principal drawbacks: they would tell us things we already knew, and they would make recommendations that we would probably ignore because we were not involved in formulating them."

Most Jordanian officials also thought US AID spent too much money, time and effort on generating studies which identified problems that were already well known to Jordanian business people and officials. Several financial sector studies were typical of this phenomenon, particularly in light of the high calibre of the senior Jordanian bankers. It was felt that US AID could be more effective by devoting proportionately more resources to helping Jordanians resolve problems or redress imbalances, rather than in simply documenting problems and constraints which Jordanians themselves had repeatedly identified and discussed. Shortly before leaving Jordan in the late 1980s, a senior US AID official recalled in retrospect that "many of the studies we did turned out to be more educational for AID staff than they were for Jordanians."

"We don't need so many studies," a Jordanian official said, "we need to make use of American expertise in improving the policy-making capacity of Jordanian individuals and institutions. If we don't raise our level of expertise in analysis and problem-solving, we'll keep making the same mistakes and keep suffering from the same deficiencies. We have learned that studies by Jordanian experts usually lead to proposed solutions which are more realistic, more likely to be approved by the government, and more enthusiastically implemented by government officials, because at one point these officials were involved in formulating the recommendations. We feel US AID has appreciated our feelings on this point. Now we prefer to get one American expert to work with a Jordanian team for a longer period of time, perhaps three months or more. This way, the Americans can know Jordan better, they can teach Jordanian experts some new skills, and they can contribute more meaningfully to a Jordanian-American team effort in proposing policy recommendations that have a better chance of being implemented. We now reach agreement on areas which we both feel need studying, such as investment encouragement, business establishment procedures or import/export constraints, and agree on how we can work together to address the issues with a combination of Jordanian and American expertise."

3) Jordanians thought that many US AID staff and consultants failed to appreciate the full political, economic and social implications of some of their recommendations, which may have been due to an ideologically and professionally inspired enthusiasm. The result, in the words of a senior government planner, was that "US AID was too pushy on some issues -- such as privatization -- which they wanted to force on us without sufficient studies of their full implications. They thought such changes should be done quickly because they worked in the United States, France and England, and they would surely work as well in Jordan. We felt that they did not appreciate the full consequences of tinkering with our country and our system. For them, it was a question of simple adjustments that had proved workable elsewhere. We felt that we could not afford to try something and make a big mistake. We made our feelings known, however, and the Americans became more sensi-

tive to our concerns and priorities. They became more aware of the delicacy of dialogue on such major macro-economic issues."

Satisfaction with project implementation

Jordanian criticism was tempered, however, by widespread appreciation of, and satisfaction with, the specific projects that were approved and that were being implemented with American funding. By the time a project had been agreed by both sides, the contentious macro-economic and policy issues would have been resolved; consequently, American and Jordanian staff could work together efficiently to implement specific goals which both sides agreed upon.

Jordanian counterparts working with US AID officials on day-to-day implementation of projects had virtually universal praise for US AID staff and consultants. Jordanians typically commented that US AID personnel were efficient, understanding, courteous and sensitive to Jordanian needs and feelings, and were always open to hear Jordanian views or suggested modifications to projects. Senior Jordanian officials also praise US AID for being responsive to Jordan's needs, and for accepting Jordanian priorities of US AID allocations. Another positive attribute was US AID's capacity to modify programmes in mid-course, to move experts around within the country and to adjust specific project components as required by the circumstances that prevailed during project implementation. Such pragmatism, flexibility and responsiveness to Jordanian on-the-ground realities was in rather dramatic contrast with US AID's more aggressive and ideological approach to macro-economic policy issues.

Another explanation for the praise/criticism dichotomy was the fact that the policy dialogue, macroeoconomic issues and other controversial matters usually only involved a few senior officials on both sides. The vast majority of mid-level and line Jordanians and Americans who worked with one another on project implementation did so with considerable efficiency, harmony, respect and warmth.

The Americans may not have appreciated the full extent of Jordanian irritation with the new US AID approach, while the Jordanians suffered it as an inevitable corollary of the financial aid they were being offered. From the American perspective, this was part and parcel of development dynamics in the Third World: of having to convince governments to deal with looming economic issues before they reached crisis point, and, as a US AID senior official in Amman explained, of "pushing on issues which we feel are important, of being a catalyst for change, of advocating policies which we feel are appropriate, while realising that the political will of the government is the final determinant of changes on the ground."

From the Jordanian perspective, the result was a policy dialogue of questionable value, but a useful series of projects which coincided with the long-term economic expansion aims which US AID and the Jordanian government agreed upon.

IV

Projects and Activities

During the first half of 1986, the US AID Amman mission simultaneously drew up the new CDSS with its private sector focus, shifted the emphasis of the policy dialogue with the Jordanian government, re-evaluated existing AID-financed programmes with a view to injecting a private sector component into them where appropriate, and started formulating a series of new, often pioneering, projects whose common denominator was to promote the private sector as the "engine of growth" of the Jordanian economy. Despite some differences in perspective, emphasis and timing between US AID and the Jordanian government, agreement in principle was reached relatively quickly on a range of new projects, most of which were initiated in early 1986. By Summer 1988, US AID's private sector-related efforts in Jordan included the following key projects and activities:

1. The Commodity Import Programme
2. The Private Enterprise Technical Resource Assistance (PETRA) Project
3. The Industrial Development Project
4. The Management Development Project
5. The Exporters' Association
6. The Private Services Sector Project
7. The Small Enterprise Development Project
8. Privatization efforts

Private Enterprise Technical Resource Assistance (PETRA) Project

It was symbolic of US AID's new approach that one of the first new projects off the drawing board was the most innovative, complex and controversial: The Private Enterprise Technical Resource Assistance (PETRA) Project. The first attempt to work directly with the private sector, it was designed to channel financial and technical assistance directly to private Jordanian companies which had promising ideas and market prospects, but which may have lacked adequate access to commercial loans due to the banks' conservative, collateral-based lending criteria. The initial project paper signed on August 26, 1986 was very broad, reflecting the feeling of all concerned that the project was experimental, and therefore would evolve and change over time. It aimed to enhance the performance of private companies across the full spectrum of economic activity, within the overall objectives of increasing productivity, jobs and exports, reducing imports, and improving the balance of payments. The project paper pointed out, however, that "of all the (US AID Jordan) projects aimed at assisting the private sector, PETRA is the only one which specifically targets the broad spectrum of the private sector."

Eligible beneficiaries were classified into four categories: micro enterprises (1-3 employees, mainly family-owned workshops and small low-tech service firms); small (4-25 employees, family-owned with hired labour, low- or medium-tech); medium (26-100 employees, family or public ownership, medium-tech); and large (over 100 employees, often with government equity, relatively high-tech).

The project sought to help individuals who were looking to start a new business or existing firms that sought to expand into new products or markets. The project officer at the time recalled that in PETRA's early stages, "we had no idea what kinds of requests we would receive."

PETRA was initially conceived in mid-1985 as purely a granting mechanism, though it was not clear whether the decisions on granting funds to specific business ventures would be made by US AID, Jordanian institutions or a combination of the two. US AID and the Ministry of Planning agreed initially that decision-making authority on funding would rest with a high-level, predominantly public sector Jordanian committee. The concept was to establish an intermediate funding institution or a venture capital-type fund that did not take equity stakes in schemes, but rather provided funding on the basis of risk assessment and cash flow, as opposed to lending against collateral. US AID staff were conscious of the experimental nature of the project; they held out the possibility that the PETRA experience might indicate that such an endeavour was more appropriately handled by existing banks and other specialised financial institutions. US AID launched the PETRA project to introduce the concept of risk-based lending, to educate officials and the public accordingly, and to test the demand for private sector access to capital.

A more detailed working plan in early 1987 was included in Project Implementation Letter No. 1, which was signed between US AID and the Ministry of Planning on March 3, 1987. The $10 million earmarked for the project were divided into $7 million of general funds which the PETRA office would disburse to business groups, non-profit organisations and private firms and individuals, and $3 million of set-aside funds which the Planning Ministry and AID would jointly allocate for project design and support, general activities (such as trade missions) or other private sector initiatives. The principle was established that over the life of the project, PETRA funds would be matched by private sector spending on a 50/50 basis.

A PETRA office would be established to receive and review applications, which would be screened and passed on for final approval or rejection by the PETRA Committee. The committee was composed of nine members, including the secretaries-general of the ministries of planning, finance and industry and trade, the central bank deputy governor, the general manager of the Industrial Development Bank, the US AID director, the directors-general of the Agricultural Credit Corporation and the Cities and Villages Development Bank, and one representative from the Chamber of Industry (representing the private sector). The PETRA Committee would meet monthly and make decisions by simple majority vote.

The PETRA project office opened on June 1, 1987. When word spread that the office was accepting requests for direct financial assistance to the private sector, there was a widespread impression that American money was being handed out for free. Consequently, applications started coming in by the score, from individuals and small businesses throughout the country, including many farmers, beekeepers, small craftsmen and other one-man operations requesting help in the form of grants.

The concept evolves

The initial concept of giving grants to enterprising individuals or companies quickly evolved into providing a combination of grants and loans. It was thought that profit-making commercial projects should be supported through loans that would be repaid from profits. By July 1987, PETRA decided to offer interest-bearing loans to commercial projects, with repayments financing a long-term revolving fund. Other projects benefited from loans whose terms varied with the nature and commercial extent of the project (the loans ranged from 0-8% interest, grace periods of 0-3 years, and repayment periods of 1-8 years). The first financial award by the PETRA project, to the Azraq fish farm, was a loan; and though some grants would be awarded, mainly to projects with a social development or training component, the bulk of PETRA's funding would comprise loans.

The first six months of the project were dominated by two kinds of applications: from medium and large firms (over 20 employees) with relatively clear business plans, or individuals and micro firms which suffered from having no feasibility studies. Over 200 applications were submitted in the first six months of the project, of which about 25 were funded.

The project felt that it was not reaching its intended target audience of small firms with growth potential. A disproportionate share of funding was going to charitable or voluntary groups' income-generating projects, to medium or larger firms that could probably receive commercial bank credits on their own, or to traditional activities (such as farming, livestocking or workshop industries) that did not reflect the element of innovation which PETRA valued. Therefore, the PETRA office commissioned a Jordanian firm to carry out a public awareness campaign in January 1988. Press advertising and a nationwide door-to-door campaign which distributed 15,300 information leaflets on the project to small and medium-sized firms resulted in a renewed surge in applications. (The database of 16,000 small and medium sized firms throughout the country, which was compiled for the awareness campaign, has subsequently been useful to other established lending institutions with similar target audiences, such as the IDB, the CVDB and the ACC). By June 1988, over 750 applications had been submitted, from a wide variety of firms, individuals and economic sectors.

Several patterns started to emerge. Some of the hundreds of individuals who sumbitted requests for their one- or two-man workshop operations had already been refused loans by the Industrial Development Bank's small scale industries and handicrafts fund, following the IDB's decision to slow down lending due to relatively high default rates. Emboldened by AID and World Bank studies which showed that small firms of up to 10 people are the backbone of most Third World economies, PETRA was keen to target this sector of the economy. There was also a desire to "move the money", in view of the project's relatively slow start. But, US AID and some committee members felt the PETRA office presentations to the committee were insufficiently analytical and detailed for the committee to be able to make a decision, which elicited demands from the committee for more information. US AID thought the PETRA office staff focused more on the "social good" aspect of applications, without rigorously examining project feasibility. The committee and US AID wanted more thorough assessments of the degree of risk involved in lending to a project, and believed that business ventures requesting assistance should be both feasible and innovative. This prompted a feeling among PETRA office staff that a banker/bureaucrat mentality dominated the committee by mid-1988 -- by charging interest to commercial projects, by being too strict in assessing innovative requests, and, in some cases, by requiring guarantees (such as promissory notes) to recoup loans.

The large demand in the economy for access to credit with relatively low collatoral was confirmed by the number, range and geographic and sectoral distribution of applications. The project's original concept was proving valid: there were hundreds, probably thousands, of Jordanians with good commercial ideas which would not be translated into fact because they lacked access to credit.

By June 1988, the PETRA project had approved 52 requests with funding of JD 904,170. Thirty projects received grants worth a total of JD 489,000, and

22 projects received loans worth JD 405,000, while four projects had both grants and loans. The sectoral breakdown was as follows:

Sector	Number of projects	Support given (in JD)
Handicrafts	5	254,000
Industry	16	168,000
Tourism	3	78,000
Agriculture	6	76,000
Education/training	14	91,000
Services	2	51,000
Printing/publishing	3	18,000
Venture capital project	1	140,000
Misc.	2	8,000

The geographic distribution of the funding allocated to projects was as follows: Amman (JD 608,068), Jerash (25,000), Salt (49,000), Ma'an (17,000), Na'ur (483), Irbid (20,000), Mafraq (11,500), Zerqa (33,000), Madaba (13,750), Jordan Valley (9,000), Azraq (25,000) and Aqaba (30,000).

The breakdown of beneficiaries was: micro-firms (13 projects), small (9), medium (7), large (3) and non-profit institutions (20).

It is still too early to measure the project's impact on long-term goals such as job creation and export promotion, though initial indicators suggest some quantifiable impact. The PETRA office calculated that its funding efforts created 80 new fulltime jobs and 399 part-time or seasonal jobs. Among the positive trends were the fact that about 71% of funding was for projects outside the Greater Amman region, 28% went to projects that directly help women, 37% helped the micro-business sector, and 26% went to non-profit organisations -- indicators which suggest that the PETRA project was on the way to meeting its initial goal of helping new, innovative and commercially feasible ideas to get off the ground and to have an impact on economic growth in Jordan.

Initial structural weaknesses

As the project started to mature and to settle into a pattern of grant and lending criteria, some structural weaknesses of such a broad and flexible project appeared. By mid-1988, some US AID and PETRA office staff felt that more private sector participation on the committee would be helpful, as some of the public sector members were not directly in touch with private sector needs and priorities. Some people associated with the project thought that its original purpose -- to fund ventures that may not have been able to secure commercial bank loans or equity partners --was largely maintained, but its dynamism and innovation were perhaps being chipped away at the edges. There were accusations that the banker/bureaucrat mentality of the committee tended to conservatism rather than dynamism, and that it may have strayed from the original project rationale of lending on the merit of an idea, its anticipated cash flow, the quality of the entrepreneur, and the risk assessment of its chance to succeed in the market.

Some PETRA office staff complained that the committee started to ask more about how the borrower would repay the loan, and slightly less about the feasibility of the idea that was presented by the borrower. The committee and US AID, on the other hand, saw this trend as a logical consequence of insufficient risk assessment work by the applicants and the PETRA office staff, which inevitably nudged the committee towards more conservative lending criteria. One of the problems was that the PETRA office staff suddenly found themselves in the position of having to process and evaluate loan applications -- a field in which they had little experience or training, and they also lacked legal access to credit-worthiness information on the applicants.

The composition and nature of the committee also had to be re-assessed. Most committee members were senior public sector officials whose busy schedules precluded their being able to prepare adequately for all meetings. The committee did not meet every month as originally conceived, and not all members were fully prepared to review each project. Some did not have the time or interest to review the project papers which they received before the meetings. Committee members sometimes delegated others to attend meetings in their place.

Committee members and PETRA office staff were often subjected to personal or political pressures to approve projects which were submitted by friends, professional colleagues or family members. On the whole, such pressures seem to have been handled satisfactorily, given the checks-and-balances inherent in the intra-committee and the committee/PETRA office/US AID dynamics. Individual committee members could block a project which the rest of the committee favoured. Some members were particularly qualified in certain sectors of the economy, but largely glossed over projects in other sectors. This led to certain committee members having disproportionate influence in assessing projects in certain fields of the economy (such as agriculture, finance or industry); this, in turn, may have compounded the problem of some individuals on the committee being viewed by applicants as the crucial person to influence or to lobby in order to secure approval for a project in a specific economic sector.

The committee members and office seem to have successfully handled the pressures of "wasta", or influence, but at a price paid by the efficient operation of the office and the committee. Some clearly ineligible requests from influential people or individuals with personal or professional links to members of the committee or the office were not rejected outright, but instead were shelved for further study, as a means of not offending the applicant. This caused a backlog in applications, and some were reviewed more than once. In order to avoid saying "no" to an applicant, the committee and the office ended up saying "maybe" several times. In this way, personal sensitivities of applicants were not ruffled, though the professional credibility of the PETRA office began to suffer as it began to exhibit delay behaviour associated with government bureaucracies.

The experimental nature of the project and its design also contributed to the changes that took place and to the internal dynamics within the staff and the committee. PETRA office staff sometimes received conflicting signals from US AID in Amman, while the precise relationship of US AID to the PETRA office and committee was undefined from the start. US AID provided the $10 million funding, but the committee and the office were independent bodies that were not directly answerable to US AID. US AID direct involvement in the PETRA office began when the first PETRA office director left the job after only a few months of work, and US AID personnel effectively assumed management responsibility until a new director was hired.

The committee chairman was supposed to guide the PETRA office staff and oversee the quality of their work, but seemed reluctant to take up that responsibility. US AID would have assumed the burden but thought it inappropriate, in view of the desire to establish the PETRA office and committee as autonomous entities not linked to US AID. Consequently, PETRA office staff sometimes received different viewpoints and signals from the committee chairman and members, from Jordanian government officials, and from different individuals within US AID.

While US AID was supposed to maintain a small advisory role, in fact it sometimes became more directly involved in PETRA work. For instance, applicants would sometimes approach US AID staff with an idea before submitting the proposal to the PETRA office, or US AID staff would ask a PETRA staffer for a certain piece of work without first informing the PETRA office director. Given its mission to work with Jordanians to promote economic development, US AID felt it was obligated to meet with Jordanians who approached it for preliminary discussions on project ideas. After broadly assessing whether the proposed projects met PETRA criteria, US AID always referred the would-be applicants to the PETRA office to submit a formal application and to discuss the idea in detail with the PETRA office staff. Though US AID saw this as a rational and logical dynamic which did not infringe upon the role of the PETRA office, the PETRA office staff read it to mean that US AID remained directly involved in receiving, assessing and approving project proposals.

US AID was also concerned about the lack of strict financial accountability in the disbursement of PETRA funds, a problem which was quickly resolved by hiring an accountant who followed a strict system of financial reporting and liquidation reports (with receipts) by beneficiaries.

"Aims being met"

An interim assessment of the PETRA project by the US AID Amman mission in Spring 1988 concluded that the overall aims of the project were being met, that "the general assumptions about the project remain correct and that overall the project has matured and begun to make progress," though several changes were recommended. These included strengthening the number and quality of staff to improve presentation, evaluation and monitoring of projects; involving committee members more deeply in project management issues such as formulating criteria for proposal assessments and project evaluations, long-range strategic planning and office staffing and training; clarifying the US AID/PETRA office relationship and reducing US AID's direct input into day-to-day work at the PETRA office; and generally tightening up the book-keeping and management information systems. It was also recognised that the transformation of PETRA from a purely granting mechanism to more of a lending institution provided an opportunity to develop a long-term strategy by which the reflows of money could fund a long-term and autonomous venture capital-type lending institution.

By October 1988, when it was clear that the PETRA project was developing into almost a purely lending mechanism which duplicated the work of existing specialised credit institutions, the PETRA committee was preparing to introduce another major change to the project. Two options were being assessed. The first would transfer the entire PETRA office staff and functions into a new department within the Cities and Villages Development Bank.

The second would transfer responsibility for assessing some applications to the three specialised credit institutions represented on the committee -- the Industrial Development Bank, the Cities and Villages Development Bank and the Agricultural Credit Corporation. While the PETRA committee itself would continue reviewing requests from charitable or voluntary societies or novel projects such as venture capital funds or sectoral associations, it was thought that most applications from industrial, service or agricultural projects could be adequately reviewed by the existing mechanisms of the three specialised credit institutions, which would also make the loans and receive repayments. PETRA would provide each of the three institutions an initial trial sum of $250,000 for lending to applicants, as an experiment that would be assessed by the PETRA committee, and expanded if the initial experiment was deemed successful.

The principal purpose of this partial devolution of lending authority by the PETRA project would be to promote changes in the manner in which these and other Jordanian financial institutions make business loans. If the three banks would use PETRA funds to guarantee portions of loans, which in turn would reduce the collatoral required of clients, the banks in future might reduce general collatoral requirements and lend more on the basis of risk-assessment, which would expand access to credit throughout the economy..

The PETRA experiment -- particularly as the operational core of lending-linked risk assessment shifts from an autonomous staff and committee into the operations and psyches of existing banks -- may mark a practical example of how US AID and Jordanian institutions can work together to blend the ideological and socio-political factors which so clearly define both parties, without one party having to feel that it has given in to the assumptions, operating methods or dictates of the other. US AID recognised that its original idea of lending without collatoral -- simply on the strength, management and cash-flow projections of a business idea -- was unrealistic, because it was moving too far, too fast, from 200% land or shares to no collatoral. Not only were the lending institutions unwilling to recognise this as a responsible way of doing business, but US AID found that applicants, conditioned by traditionally high collatoral requirements, interpreted no collatoral as an invitation not to repay loans.

Consequently, US AID adopted the new approach of trying to relax collatoral requirements by accepting secondary collatoral (promissory notes, guarantees, liens on equipment or inventory) instead of eliminating it altogether. The Jordanian banks, for their part, were also prepared to compromise on their traditional lending methods by adopting new risk assessment techniques that might ease the collatoral burden on borrowers. Given the long-term aims of the project -- creating jobs and increasing exports and foreign exchange earnings by promoting promising small- and medium-scale businesses that have difficulties securing sufficient bank credits -- it is still too early to judge the success of the project. The high demand for credit, and the relatively low rate of defaults on loans suggest that the initial aim and assumptions of the project are both relevant to Jordanian market realities.

V

Private Services Sector Development Project

During their discussions in early 1986, the Jordanian government and US AID agreed that an important element in promoting the role of the private sector in economic expansion was upgrading the quality and utilisation of professional business services. The American consultants Coopers and Lybrand (C&L) were contracted by US AID in the late summer of 1986 to survey the services sector and to identify priority business and professional services which could contribute to macro-economic goals in two ways: 1) by directly helping the manufacturing and services sectors to improve their productivity, competitiveness and export performance, and, 2) by generating new export services on their own.

In February 1987, C&L delivered a study entitled "A Private Sector Services Assessment for the Country of Jordan." It concluded that Jordan had sufficient skilled indigenous manpower to increase the services sector's contribution to economic productivity and growth, if it could overcome several national, sectoral and firm-level constraints. It specifically listed the following services sub-sectors which could be profitably developed: engineering, accounting, management consulting, marketing and advertising, trade and export services, computer services and legal services.

The report suggested that short-term efforts should focus on management consulting, auditing and accounting, marketing research and advertising, industrial management and engineering, and computer services. It said that "these sub-sectors provide the greatest immediate impact on operations, improved competitiveness and creation of export opportunities for manufacturers. Importance lies in providing basic, well-structured professional services, the creation of awareness of need and benefits of services to manufacturers, and basic orientation of the various disciplines."

Specific sectoral targets

By April 1987, C&L produced the Project Identification Document (PID), which included specific output targets in all four sub-sectors. From four bids presented, US AID chose Deloitte Haskins & Sells' technical proposals on how to structure a project that would meet the output targets. After US AID issued the project paper on September 14, 1987, Deloitte Haskins & Sells (DH&S) was awarded the contract to produce the final project design. The project paper, like several other related studies, noted that each sector suffered from specific constraints.

1) The 455 licensed public accountants in Jordan (of whom about 200 practice) comprise individuals and firms of varying degrees of quality, with five major firms dominating the market. Standards are inconsistent, and the value of professional accounting and auditing is not always appreciated by clients. New laws and regulations and the establishment of an auditors' association would improve the professional stature of accountants and auditors.

2) Over 200 computer services companies in Jordan provide both hardware and software services, though standards vary considerably and software consultancy services tend to be restricted to a few areas. Problems include low capitalisation of most firms, insufficient in-house managerial and technical expertise, low awareness of the value of computer services among the public and private sectors, and a possible bias in government contract award procedures in favour of non-Jordanian firms. A new association of computer specialists may provide a focus for sectoral developments.

3) The Jordanian manufacturing sector has not fully recognised the need for expert assistance in the fields of industrial management or engineering services. Despite some cultural resistance to hiring outside consultants, the sustained recession since 1983 has prompted some awareness of the need for better efficiency and productivity through improved product design, plant operations, production efficiency, management skills and other related means.

4) Marketing, market research, advertising and promotion skills and services are very rudimentary in Jordan, due to a generally low professional standards and client perceptions that such services are a cost rather than a productive investment. Jordanian firms tend to sell their products and services, rather than to market products for which they have identified a demand through methodical market research.

The Ministry of Planning was intermittently involved in reviewing project proposals, though the detailed project design was done by C&L, DH&S and US AID. As the mechanics of the project started to crystallize in Autumn 1987, the Ministry of Planning decided to be more closely involved in the design of the project; in October 1987, the ministry asked that the private services sector project be implemented as a host country contract, signed between DH&S as the contractor and the ministry as the client, with US AID as financier.

The ministry's heightened interest was due to several factors. The novel services project (like the PETRA project) sought to provide American financial and technical aid directly to Jordanian private companies, bypassing government intermediaries. Because the ultimate objectives -- improving the quality of, and demand for, business and professional services -- were largely intangible, the project's performance criteria had to be chosen very carefully. There was obvious potential for problems in determining how to identify the beneficiaries, given the expectation of personal and political pressures that would be exerted by some applicants. As both US AID and the ministry did not want the project to favour a specific group of individuals or companies, implementation had to involve working directly with some private companies and working through existing professional and sectoral associations.

Some US AID staff believed the Jordanian government did not want professional services associations to become so strong that they emerge as lobbies. The government saw the project as "an exciting and important prototype" that might be duplicated in other sectors, though it insisted on direct government control of the project in view of the delicacy of channelling American financial aid to the private sector.

For its part, the Jordanian private sector showed quick interest. Some firms and individuals started contacting the ministry in Spring 1988 with offers to act as local counterparts to the DH&S team. A few firms even approached DH&S that summer in the belief that they had already been chosen as local counterparts -- which only emphasised to the ministry and to DH&S the need for great discretion and clarity in making contact with the private sector.

The change to a host country contract saw the ministry more involved in project planning, and ushered in a brief transition period during which the ministry asserted its prerogatives as the client. In August 1988, US AID officials unilaterally called a meeting to explain the project to Jordanians and Americans involved in other AID-funded projects, which annoyed the Ministry of Planning. Ministry officials formally notified US AID that any such meetings should be convened by the ministry, and not by US AID. The incident, though fleeting and insignificant in itself, was symptomatic of the different perceptions of US AID and the Jordanian government during the period of project formulation. In this and other projects, US AID officials were keen to make direct contact with the private sector and to move quickly, while the government preferred a more deliberate pace that saw the ministry or other public or para-statal institutions serve as intermediaries or channels between US AID and Jordanian private firms.

The formal signing of the project, originally scheduled for December 1987, was further delayed in Summer 1988 because the ministry wanted to be sure that the final project design could, if need be, differ slightly from the original scope of work which had been drawn up a year earlier by US AID and DH&S,

on the basis of the initial C&L survey. The contract between the Ministry of Planning and DH&S was signed on July 17, 1988, with DH&S providing assurances that during the three-month period of drawing up a detailed work plan it would address points in the scope of work which the ministry had raised.

A resident project director was appointed in April 1988, and by October 1988 the draft detailed workplan had been formulated, focusing on the four sub-sectors of accounting/auditing, computer services, industrial management and engineering, and marketing/research/advertising. The Ministry of Planning, in the meantime, was putting together the membership and management of the steering committee which would supervise the project during the three years of its life. After the anticipated committee approval of the detailed workplan, the project aimed to start its work in November/ December 1988. The resident project director and four American sub-sector directors would work with Jordanian counterparts and turn over management of the project to them after 18 months.

Generic ideas

The workplan was designed as a model comprising generic ideas that could be applied to other sectors and projects in the future. The purpose of the project is "to improve the quality of the targeted services so that:

1) as inputs in the productive process, they improve the export earnings of Jordanian firms by enhancing the competitiveness of goods and services in regional and international markets;
2) as export earners in their own right, they increase foreign exchange revenues for Jordan;
3) they replace foreign consultants who have provided much of the consulting input in Jordan in the past; and,
4) as a consequence of 1,2 and 3 they generate additional jobs for skilled workers in Jordan."

The specific project goals are to expand the availability of each service and the range of its domestic and foreign users; to improve the quality and professionalism in each service; to establish the acceptability of, and demand for, each service; to root the services firmly in the educational structure; to develop any needed changes in legislation or policy; and to institutionalise the project structure so that it could be extended to other services.

The workplan comprised a thorough and ambitious list of activities that included:

- extensive market research to determine the availability and quality of, and the existing and potential demand for, the four services;
- working to enhance services standards through training and education, access to information and technical services, improved professional standards and associations, and promoting contacts with international counterparts;
- designing and implementing pilot projects;
- increasing awareness of, and demand for, professional business services;
- developing any needed changes in legislation or policy; and,
- evaluating the need to set up any new institutions or structures to meet the overall project goals.

Though the project workplan may reflect the common vulnerability of attempting to accomplish too many things in the relatively short period of three years, it is noteworthy for the principles it has outlined. These focus on working with a range of Jordanian firms rather than only one, in-country rather than foreign training, strengthening existing institutions rather than establishing new ones, using available Jordanian personnel and firms rather than bringing in foreign expertise, and "training of trainers" whenever possible.

Such principles were not always applied in other AID-funded projects, which elicited Jordanian complaints that US AID programmes relied too heavily on foreign expertise and not enough on indigenous specialists. The emphasis of these principles on the first page of the proposed workplan of the private services sector project suggested that, whether consciously or not, some of the lessons of 1986 and 1987 had been learnt by 1988. At the stage of the project's formal launch, the resident project director and workplan seemed sensitive to Jordanian psychological/political sentiment and on-the-ground realities.

VI

Exporters' Council

The Jordanian government and US AID both viewed export promotion as crucial to long-term Jordanian economic revitalisation and expansion, and the need to increase exports was stressed in both in their respective economic strategy documents -- the government's 1986-90 five-year plan and US AID's Country Development Strategy Statement. But both also recognised that the potential to increase exports of goods and services was unmatched by any serious effort on the ground to identify new markets or to help exporters to produce and market goods and services.

Existing government and private sector institutions mandated to work in this field -- such as the Chamber of Industry, the Federation of Jordanian Chambers of Commerce, the Commercial Centres Corporation and the Ministry of Industry and Trade -- were involved in piecemeal efforts that did not get down to the hard market research and intelligence required by individual companies. They also tended to focus on their own narrow fields of interest, without necessarily having an impact on the economy as a whole.

Private businessmen were keen to improve their export performance, but on their own they were unable to establish the required export promotion network and infrastructure. By late 1986, US AID staff had started thinking about an export promotion project that would have two components: technical training to place commercial attaches in key Jordanian embassies, and formation of an exporters' council. Though the commercial attaches idea was dropped, the exporters' council concept was being actively discussed with a small group of Jordanian businessmen by late Summer 1987.

A key meeting with 15 Jordanian businessmen took place at US AID on August 16, 1987, and was followed up by a series of smaller meetings which explored the concept, aims and mechanics of an exporters' council. US AID was already committed in principle to provide funds to launch such an organisation, or to fund a formal export promotion project, though much work was required to define the precise scope and activities of such a venture and whether it should be established as a totally independent body or somehow associated with the public sector. A meeting in December 1987 drafted the aims of the council, after which it was decided to bring in an American consultant with experience in this field to study the situation in Jordan in more detail, and to advise Jordanian exporters on how to establish an export promotion body. In the meantime, interested businessmen completed a questionnaire on their needs, plans and problems, which helped identify areas of common interest.

The contracted consultant, Mr Charles McKay, of Charles McKay & Associates, came to Jordan for a week in January 1988 to meet with local businessmen and to assess the potential for an exporters' council. He submitted a formal report in February 1988, which recommended forming a "Jordanian Trade Council", with the primary purpose of increasing the export trade of its members. He added that "a secondary but equally important purpose is to upgrade the management and international marketing skills of Jordanian companies in order to improve competitiveness of all Jordanian companies in the world marketplace and to serve in an advisory capacity to the Jordanian government, its official and quasi-official trade institutions and members of the private sector who may benefit by some of the facilities of the council and by the wisdom and experience of other Jordanian businessmen who have successfully penetrated markets abroad."

Jordanian entrepreneurs and US AID staff held several more meetings in Amman after the McKay report was submitted, and by May 1988 a core group of ten businessmen hired a lawyer to look into the formalities of establishing the exporters' council. The Ministry of Planning, though again irritated by US AID's habit of going directly to the private sector and holding meetings to discuss new projects, did not interfere with the process because its own five-year plan had identified the need for an exporters' association.

This was emerging as another case of US AID and the Jordanian government agreeing on overall objectives, but not always seeing eye-to-eye on the manner in which those objectives should be achieved. By May 1988, the Amman Chamber of Industry had learned of the effort underway and was unhappy at being bypassed. In June the president of the chamber sent a letter to the Minister of Industry and Trade asking that such an exporters' council be associated with or directly managed by the Chamber of Industry. The request was not accepted, and by mid-August the lawyer had drawn up the founding papers for the exporters' council, which were approved by the Ministry of the Interior.

Avoiding bureaucratic constraints

The businessmen decided to establish a new organisation, unconnected to established institutions, because they were concerned that an association with existing public or private sector bodies might suffer from bureaucratic constraints. The businessmen wanted to form a relatively small but dynamic institution that could gather solid information on markets, products, financing and other relevant matters which Jordanian exporters needed to improve their export performance.

The purpose and objectives were: "..to establish an exporters council composed of Jordanian firms who are interested to promote/increase their exports and expand their potential to penetrate other markets abroad. The objective of the council is to plan and implement activities aimed at promoting exports. The council will collect and disseminate information on marketing opportunities, distribution channels, trade procedures, general market financial status and relevant government regulations in targeted markets as well as required technical specifications and prevailing prices for products of interest to the members. It also will establish offices or agents in markets of mutual benefit. These offices or agents will be linked with a main office in Jordan which will coordinate the council's activities."

The first general assembly meeting of the exporters' council -- called the Jordan Trade Association (JTA) -- was held in Amman on August 18, 1988, under the chairmanship of Mr Samih Darwazeh. Soonafter, the US AID-funded PETRA project granted the JTA JD 77,500 as half the anticipated start-up costs during the first three years. Members paid an initiation fee of JD 400 and an annual fee of JD 500. The JTA aimed to have 25 members during its first year, rising to a maximum of 50 by the fourth year.

As it started work, the JTA expected to engage in activities such as providing accurate and updated information on other markets, products, prices and trade procedures; defining market channels and teaming up Jordanian firms with importers in other countries; providing early notification of export opportunities; administering contracts in recipient countries; negotiating better shipping and insurance rates on the basis of group contracts; approaching foreign companies about entering into trade deals with Jordanian firms; advising members on more effective designs and promotional materials; helping members formulate marketing plans and define product specifications suited for export markets; and any other activity which council members agreed upon.

The JTA anticipated that its activities would result in an organised structure of offices and agents in Jordan and abroad (with London, New York, Cairo, Lagos and Frankfurt as priority markets); diversified and expanded export volume; trained personnel in the field of export promotion; improved promotional materials, product presentation, packaging and quality; better firm-level marketing strategies and production planning systems; reduced costs and improved competitiveness abroad; and the establishment of a data base on information relative to its activities.

VII

Industrial Development Project

In Autumn 1984, the Jordanian government asked US AID for a study on how to promote the industrial sector, particularly medium-scale industries with an export potential. The American consultants Coopers & Lybrand were contracted in early 1985 to survey the industrial sector, which resulted in a US AID project identification document (PID). This PID was turned down by AID-Washington because it focused too heavily on public sector institutions -- at a time when AID's global orientation was moving towards greater private sector participation in economic expansion and development.

The PID had suggested, for example, that the Commercial Centres Corporation could be developed into the export promotion agency of Jordan, or that an industrial development research section could be established at the Ministry of Industry and Trade. It also proposed establishing a new entity comprising private and public sector manufacturers and industrialists, to serve as a conduit to channel consulting services to companies or sectors that required them. US AID then started looking into options outside the public sector -- a process which coincided with the arrival of Lewis Reade as the new US AID director in Amman, with a specific mandate to develop a broad private sector assistance programme.

After the principles of a redesigned project were approved in Washington, Coopers & Lybrand were contracted again to design the project paper, which they did in the summer of 1986. The final project paper approved on September 29, 1986 called for a $9.5 million, six-year project to enhance the ability of the Jordanian private sector to manufacture quality goods and export them to regional and international markets. One of the key points of discussion during the project's formulation was whether to work with existing institutions or to establish new ones. It was finally thought preferable to work with and to strengthen existing institutions, which could directly and indirectly channel technical services to the private sector.

Previous reports by the government of Jordan, US AID, the World Bank and others had identified the manufacturing sector as a potential source of economic expansion and diversification, foreign exchange earnings and new job creation. The Industrial Development Project was designed to address several of the major constraints which faced this sector. According to the project paper, these included:

a) restrictive government policies and ineffective public services, such as licensing requirements, the incentives structure, financial constraints, and government import monopolies and sourcing requirements;
b) poor quality products and low productivity in manufacturing firms, including poor product design and adaptation, production management problems, and relatively low labour productivity; and,
c) a lack of marketing orientation and skills, with most Jordanian firms lacking the ability to conduct market analyses and to develop products that respond to a specific market demand. The project also sought to redress the lack of local awareness of the need for managerial and technical services, the lack of local institutions that can provide such services, and the lack of appropriate financing mechanisms for such services.

The project tackled these constraints through three distinct components: strengthening the capabilities of the Amman Chamber of Industry, establishing a new Manufacturing and Marketing Improvement Section within the Jordan Institute of Management, and establishing a new Industrial Engineering Department at the University of Jordan.

1. Amman Chamber of Industry

The first component of the project seeks to strengthen and expand the role of the Amman Chamber of Industry in public policy formulation and in the provision of services to its members. The chamber would be restructured to improve its performance (with new departments of programmes/services, policy studies, member relations and support, and finance and administration); its key staff would receive technical training; a new policy studies department would develop position papers on policy issues of interest to members; the programmes/services department would provide members with an expanded range of services (seminars and conferences to improve productivity, marketing and management, surveys, case studies, trade shows, annual conferences and ongoing referrals); and the chamber as a whole would develop into a more professional, forceful and credible lobby which would represent private sector manufacturers' interests before the government on issues related to the private sector's role in national economic expansion.

US AID's contributions include an in-house adviser from the consultants Arthur Young, for a period of two years, short-term consultants as needed, training of chamber staff in Jordan and abroad, provision of personal computers and library facilities, and funding full time professional and support staff required to achieve the aims of the chamber's new departments.

This component of the project initially suffered from some differences in perceptions of how American aid could best be used to promote long-term Jordanian development goals. Several of the key Jordanians in the project criticised US AID for relying too much on American personnel and products. Consequently, for example, they said in retrospect that they did not realise that the initial Coopers & Lybrand study in 1985 would form the basis of the subsequent project.

"We were not exactly sure of the aim of the initial study," one Jordanian said, "and we had the feeling that Coopers & Lybrand were perhaps not proficient enough in the field of industrial development, particularly when compared to the more specialised and sensitive approach of bodies such as UNIDO or the World Bank."

This may reflect a lack of communication among Jordanians, for these criticisms were made by officials who may not have participated in the original decision by the Ministry of Planning and the Ministry of Industry and Trade to go ahead with the initial Coopers & Lybrand study in 1985.

Some Jordanians thought that a two-year American resident adviser was unnecessary, and that a six-month stay would be sufficient. They suggested that the project goals could be achieved just as efficiently if the AID money spent on American consultants and advisers were spent instead on indigenous Jordanian firms and experts. US AID responded that it heard such criticisms frequently, but had been unable to identify sufficiently qualified local consultants to handle such assignments -- which is one reason the US AID mission and the Ministry of Planning agreed on enhanced Jordanian consulting capacities as goals of both this project and of the private sector services project.

One Jordanian official in a senior industrial sector position said, "We know our problems, because we are in touch with Jordanian industrialists on a daily basis; we don't need to bring American consultants here to tell us things we already know. But we do need help in resolving our problems through planning efforts, well thought out projects, and financing for studies and specific problem-solving projects."

One of the first projects undertaken by the American consultants who started work in June 1988 was a survey of industrialists to determine their problems and needs. The survey results would help determine plans for the restructuring of the chamber. Officials of the Chamber of Industry saw this as needless duplication of the annual questionnaire which members complete when they renew their permits -- despite the fact that the Chamber of Industry had agreed to the survey when the project was formulated.

Chamber officials voiced several complaints shared by other Jordanian officials: that US AID sent in short-term consultants who produced superficial studies largely reflecting American models and experiences that were not always applicable in Jordan; that American consultants' reports often suffered from the fact that the Jordanians interviewed often were not at decision-making level; that using local consultants and specialists would strengthen US AID projects in Jordan and contribute more to meeting economic development goals; and that too much money was "wasted" on American consultants instead of being spent on strengthening the indigenous base of expertise in Jordan.

The Chamber of Industry felt that it was already undertaking most of the activities outlined in the project, though it appreciated that the US AID-funded assistance would allow the chamber to carry out its activities more frequently and systematically, and with greater proficiency. One of the project changes requested by the chamber was to increase the local man-days component, so that Jordanians could receive more training in order to deal with future problems and challenges.

2. Manufacturing and Marketing Improvement Section

The project's second component was to establish a Manufacturing and Marketing Improvement Section (MMIS) within the Jordan Institute of Management (JIM), to help private sector manufacturers use outside consultants to resolve problems of production, efficiency, quality, cost, product design, marketing and management. The MMIS will help locate local consultants, partially finance and administer the consultations they provide, establish a data base of proven local and foreign consultants in manufacturing, marketing and management, and carry out at least 200 manufacturing/marketing interventions that would help Jordanian firms to improve productivity and quality and thus to expand output and exports.

MMIS staff will act as "middlemen" to bring together Jordanian firms with local and foreign consultants. They expect to do this by creating awareness among Jordanian firms of the need for consulting and technical services, identifying firm-level problems, creating scopes-of-work for consultants, matching manufacturers' needs with consultants' capabilities, awarding contracts for consulting services, monitoring and evaluating the work of consultants, collecting fees from manufacturers for consultations done, coordinating with other relevant Jordanian institutions, and training Jordanian staff to carry on the work done initially by American specialists.

US AID is providing $4.373 million to finance such elements of the project as short- and long-term American technical advisors (including the project manager from A.T. Kearney and two other colleagues), training MMIS local staff in the United States, and funding three Jordanian specialists in industrial engineering, marketing and finance who will eventually take over from the A. T. Kearney staff.

The MMIS office was established in April 1988 and started its work with two key short-term objectives: it sought to create demand in the market for consulting services by carrying out consultations which were subsidised by project funds, and it sought simultaneously to promote the supply side by training Jordanians as consultants. The three A.T. Kearney specialists were to train at least two JIM staff members to start with, with the ultimate target of ten Jordanians who would be trained as consultants by the end of the project.

One of the early problems encountered was difficulty in finding Jordanians who would work as trainee consultants at the offered salary. As JIM employees, the local recruits were offered monthly salaries of around JD 300-320, while they requested closer to JD 600. The short-term solution was to hire two Jordanians at the higher salaries but to pay them from the project budget -- leaving aside, for the moment, what would happen when the project ended and the Jordanians would be paid as JIM employees. This may reflect a weakness of many development projects financed by foreign donors: the pressure to resort to short-term solutions designed to show results during the lifespan of the project, regardless of whether the original long-term objectives would be achieved after the financial and technical support of the foreign donor stopped.

The MMIS started off by agreeing to carry out a consulting job for the ailing Jordan Industrial Investment Corporation, which had been restructured by its creditor banks in the previous two years. It also discussed consulting jobs with several other local firms, with an eye to securing a few jobs quickly and showing results. The project staff thought it imperative to launch the MMIS by getting into the local market and learning how to structure consulting services that appealed to Jordanian business executives. A key handicap to overcome was the local perception that calling in outside consultants was a sign of failure, while those firms that did use consultants often had to hire foreign specialists at very high fees.

The local market also retained a bad image of some foreign and local consultants who had carried out feasibility studies for industrial firms that fared badly in practice. Both of these local perceptions probably highlighted the basic soundness of the project, which was predicated on the need to develop professional indigenous consulting capabilities that would help Jordanian firms avoid some of the corporate pitfalls and failures that were experienced during the high-growth years of 1974-83.

3. Industrial Engineering Department (University of Jordan)

The third component of the project was to establish a new Department of

Industrial Engineering within the Faculty of Engineering and Technology at the University of Jordan. The department aims to:

a) generate the industrial engineering support vital to the development of manufacturing industries in Jordan, and,
b) retrain the available over-supply of engineers from different disciplines for careers that would address major constraints in productivity and manufacturing.

The department was established in January 1987 to offer undergraduate and graduate level courses. US AID assistance includes three American engineering professors to teach at the University of Jordan and to help design the new curriculum; sending up to four Jordanians for PhD training in the United States; sending nine engineering professors to the USA for short study tours related to industrial engineering; funding specialised equipment to establish an industrial engineering lab and to update the library; training two Jordanian lab technicians; and providing scholarships to 60 students.

The University of Jordan had previously provided its mechanical engineering students with a sub-speciality called "production engineering and management", which the Faculty of Engineering and Technology had planned to expand into a "maintenance engineering" department in the mid-1980s. When US AID expressed interest in working in this field, the two sides joined forces to establish the Industrial Engineering Department and to expand its initial aims and capabilities.

This was another instance where Jordanians and Americans had independently identified a deficiency or an opportunity in the local market, and were looking for the appropriate mechanism to deal with it. When US AID sought to fund a project in the same field, it was logical for both parties to work together, resulting in a practical project which has operated smoothly because of the convergence of interest and goals of the Jordanians and Americans.

The chairman of the department recalled that Jordanian specialists had recognised the need to train more Jordanians in the field of industrial engineering, though there was little local familiarity with either the term or the discipline. One of the objectives of the project is to raise local awareness of the need for specialised industrial engineers, including informing first year engineering students of the potential market demand for industrial engineers in Jordan and neighbouring Arab states. Public awareness of the discipline will be promoted through the use of seminars, lectures, brochures and personal visits, all of which will be aided by the visiting American professors provided by the American contractor for the project, Westinghouse Institute for Resource Development. The department hopes to provide some of the services that are offered in the industrialised economies by "productivity centres", including advice on new manufacturing methods, computer applications, new and appropriate technology and automation.

The department started offering three separate degree programmes as of 1987:

1) The BS degree offers three specialisations (manufacturing design, engineering management and maintenance engineering). The first 40 BS students were accepted in September 1987, with a maximum of 50 new students a year anticipated.
2) The three-semester, 30-credit-hour diploma programme started in January 1988 with 12 students. It allows working engineers to retrain in order to take advantage of anticipated new job opportunities in industrial engineering. The programme aims to take in a maximum of 25 students every year.
3) The MS in industrial engineering was launched in January 1988 with an intake of 14 students, with an anticipated maximum annual intake of 15 students.

The initial student response to the new department's offerings has been encouraging, and senior faculty and staff believe that the impact on the industrial sector should materialise quickly, because most of the MA and diploma students are working engineers who study in the afternoon. Under the aegis of the project, one Jordanian has started his PhD studies in the USA at Lehigh University, and three others were expected to be nominated for doctoral courses in 1989. Finding the appropriate candidates was taking longer than expected due to the lack of students with undergraduate degrees in this field. Three of the department's lab and workshop technicians were to go to the United States for training during the 1988/89 academic year.

Despite delays (mainly due to the contractor's delay in providing a project manager, but also to having to deal with three bureaucracies -- the University of Jordan, US AID and the Jordanian government), both the Jordanian and American parties are satisfied with the initial progress. Jordanian faculty are pleased with the flexible manner in which US AID has responded to Jordanian needs and suggestions. However, both parties appreciate the difficulty of determining whether the project's provision of trained students will have a significant impact on the industrial and manufacturing sector.

"We're now building up the supply side, and then we'll have to build up the demand for industrial engineering graduates," noted a US AID staffer directly involved with the project during its initial stage.

The department chairman reflected a similar feeling: "We know the market needs industrial engineers. But we have to educate the industrial and service sectors about the services that industrial engineers can provide to Jordanian firms, so that our firms can produce products, services and processes of the highest quality and at the lowest possible cost."

VIII

Management Development Project

The Management Development Project, launched in September 1984, before the private sector strategy was introduced in Jordan, was a harbinger of the private sector focus that US AID would adopt in the country a year later. In the early 1980s, Jordan's 1981-85 five-year development plan and US AID's CDSS had simultaneously identified insufficient professional managers as a significant constraint to economic development. This was particularly evident in industrial, manufacturing, services and construction firms in the profit-oriented business sector (both private sector and para-statal firms such as the national air carrier or the phosphate and potash companies), which accounted for just over 75% of GDP.

The project paper noted: "...a lack of professionally competent middle and senior level business managers using modern scientific managerial techniques is identified as a principal constraint to the growth of this sector and to the maintenance and improvement of Jordan's position as a regional business centre."

The Jordanian government and US AID first discussed the issue in 1981, but rejected the idea of establishing a new advanced management institute, deciding instead to work with existing institutions. A team of consultants from the American firm Clapp and Mayne visited Jordan in June 1984 to study and recommend the design of a management development project, which was formulated and formally approved on September 18, 1984.

The project seeks to improve Jordanian business management practices by increasing the availability of skilled managers through enhancing the institutional capacity of two existing bodies: the Jordan Institute of Management (JIM), and the Faculty of Economics and Administrative Science (FEAS) of the University of Jordan. It aims to "institutionalise an education/training process and transfer the necessary technology to improve the quality and quantity of trained Jordanian business managers available in general and specialised skill areas," with a potential by-product of expanding the number of students and participants from other Arab countries at the participating Jordanian institutions.

The $5 million US AID grant is being used to provide technical assistance, participant training, training aids and research grants at both institutions, with the goal of increasing the range and quality of courses and programmes.

1. Faculty of Economics and Administrative Science (University of Jordan)

Focusing on finance, marketing, and health and hospital administration, this component of the project aims to enhance the MBA programme which FEAS launched in 1983, and the health services management specialisation launched in 1985. Westinghouse Institute for Resource Development was awarded the contract to provide visiting professors to FEAS, develop curricula, arrange training and provide computer and other materials. About 300 graduates are expected to complete the MBA course, and 13-16 Jordanians should receive formal academic training or upgrading in the USA. To date, three FEAS professors have completed 9-month sabbatical programmes in the USA (accounting and marketing), the microcomputer lab director completed a four-month programme and two PhD candidates in health management are currently in the USA. The Health management curriculum has been developed with American expertise, and the finance curriculum is being upgraded. Thirty personal computer systems are in operation at FEAS, and the project is procuring library materials, audio-visual aids and computer hardware and software.

While curriculum development and computer installation and use have progressed satisfactorily, the project has been unable to attract Jordanians with sufficient academic qualifications to meet American university admissions criteria for PhD programmes in finance and marketing. Three Jordanian candidates did not score sufficiently high on the GRE and Graduate Management Admission Test to join American PhD programmes, and it appears likely that the project will drop the idea of sending Jordanian doctoral students to the USA. Instead, FEAS has sought to hire PhD holders to teach finance and marketing courses, though pay scale differentials of around 30% seem to prompt the most qualified people to opt for private business over university faculty positions.

Advertisements for FEAS faculty in Jordan and the Gulf states did not elicit any applicants. The problem was thought to be partly resolved in 1988 by hiring a young PhD graduate in finance from the United States (he pulled out of the contract at the last moment) and by having a professor from FEAS' accounting department teach a finance course. US AID raised the issue of increasing FEAS faculty pay scales with the university president in 1988, but without success. Instead, the project will focus more on sending existing faculty for short-term courses in the United States. This raises the question of whether the university faculty exhibit sufficient professional and personal motivation to take advantage of such opportunities.

Several members of the faculty have expressed reservations about the general level of faculty motivation. They claim that most FEAS professors lack sufficient incentives to upgrade their skills, conduct and publish original research, acquire new technical proficiencies (such as computer applications), or teach new courses.

"Most faculty members are not interested in learning how to use computers or to integrate them into their courses," charged an FEAS faculty member closely involved with the project. He noted that few professors attended a short-term computer course offered at FEAS by a visiting American specialist, and that those professors who have started learning to use computers have been prodded to do so by the demand generated by their enthusiastic students. The project offered cash research grants and honoraria for published works, but by the summer of 1988 no faculty members had responded to such financial incentives.

There are some concerns among FEAS staff that some of the short-term training courses they attend in the USA may not be as beneficial as originally conceived, largely -- they claim -- due to the lack of incentive for most faculty members to improve their abilities and performance. This, in turn, is seen as part of the weakness of the existing system which neither compels nor enduces professors to publish original research in order to be promoted. Many faculty members use their free time or sabaticals to earn extra income from consulting or other work, instead of conducting scholarly research.

These issues and criticisms reflect a broader constraint which this component of the project seems to raise in terms of US AID's overall programme in Jordan: Are public sector institutions such as the FEAS the most appropriate vehicles for projects that aim to work towards the stated national development goals? The specific, though more sensitive, factors that need to be assessed thoroughly at the point of project formulation are whether the institutions and individuals chosen to implement a project are sufficiently motivated to achieve its objectives, and are capable of absorbing the technical and financial assistance offered by US AID.

Development aid experience in Jordan suggests that short-term technical assistance sometimes leaves behind few long-term results if, a) the Jordanian institutions that benefit from the aid do not have the institutional depth to absorb the assistance, or, b) individuals who benefit from the assistance move to another job or to another country. By the late summer of 1988, both US AID staff and some key FEAS faculty were openly pondering whether assistance to private sector business schools (at diploma or MBA level) would achieve the project's aims more effectively than working through the University of Jordan.

2. Jordan Institute of Management

The Jordan Institute of Management (JIM) was established as an autonomous division of the Industrial Development Bank in 1976 to offer short courses of 1-4 weeks' duration, in order to upgrade the skills of working business managers in such fields as sales and marketing, production management, accounting and financial control, personnel relations and other areas of general management. Though JIM has attracted relatively more students from public sector and para-statal institutions than from the private sector, it was chosen for the Management Development Project because it had proved itself capable of identifying management training needs in the private sector and tailoring short courses to meet those needs. Within a few years of start-up, JIM was handling over 500 students a year by the early 1980s, and over 800 a year in the late 1980s.

The project initially studied the option of establishing a new management training institute at Yarmouk University, but instead decided to support and strengthen JIM's existing programmes. Within the overall context of the Management Development Project, JIM provided short-term training in management skills, while the programme at the University of Jordan's FEAS aimed to enhance longer term training and education opportunities in the form of BA, MBA and diploma programmes.

Westinghouse IRD was awarded a contract in June 1986 to enhance JIM's course offerings and the proficiency of its trainers by conducting approximately 18 two-week seminars over a period of three years. In late 1986, Westinghouse and JIM staff agreed on six new courses to be developed and taught for three years (1987-89), with Westinghouse trainers doing all the teaching the first year, a 50/50 sharing of the teaching load with JIM trainers the second year, and JIM staff carrying the full teaching load as of the last year.

The six courses developed and offered in 1987/88, according to demand for management training in the local market, were in the fields of computer appreciation, management information systems, international marketing strategies, corporate financial planning, data communications and networks, and productivity measurement and improvement.

Curriculum development has gone smoothly -- to judge by full attendance at the new courses -- and the project has raised the quality of management training courses available in Jordan. The nature of the project precludes a quick assessment of its impact on the economy of Jordan, given the time required for the business managers to apply in the marketplace what they learn at JIM. In the initial phase of project implementation, JIM was disappointed with several of the American instructors, either because they were perceived to be insufficiently proficient in the subject they taught, or because they may have been uncomfortable teaching in a foreign environment. JIM staff also felt some of the courses (eg. marketing), case studies and training films were too American-oriented, and had not been adapted for international use -- though they were well received after being modified for a Jordanian business environment.

The project has provided JIM with 24 personal computer systems, audio-visual equipment, films, books, periodicals and teaching aids -- all of which have helped JIM to adopt new and more effective training methodologies that to make use of appropriate technology, particularly PCs. Westinghouse and JIM have also worked out a mutually satisfactory pro-active system by which Westinghouse advises JIM of available software, publications and audio-visual materials, and JIM selects what it feels is appropriate for use in Jordan.

Six of JIM's eight Jordanian trainers have completed 1-to-3-month training courses in the United States in their fields of specialisation (such as accounting, computer applications, management, marketing), and all trained on computer applications relevant to the new courses introduced at JIM as part of the project. JIM's former director also spent two months in the United States on a study/training tour, though his resignation in early 1988 caused a prolonged hiatus in the reassessment of JIM's own management system.

This coincided with another short-term constraint, as the Industrial Development Bank could not provide the finances needed to hire five new JIM trainers. Like many other public sector institutions, JIM already suffers from the problem of chronically struggling to hire and retain qualified personnel who are attracted to higher pay scales and other professional and personal incentives in the private sector. Therefore the JIM component of the project has proved vulnerable to the same constraint and potential deficiencies as the FEAS, ie. can the institutional structure of JIM withstand staff turnover and still absorb the assistance offered through US AID, and in turn pass it on to the students who enroll for JIM courses? If the Industrial Development Bank does not provide sufficient funding to hire new trainers or to hold on to its experienced staff, can JIM still aspire to have the impact on the private business sector in Jordan that was deemed within its capability when the project was launched in 1984?

These issues were appreciated to an extent during project formulation. Consequently, the project includes the development of a strategic plan to overcome some of JIM's inherent constraints, as well as a survey of management training needs in Jordan which would increase JIM's impact on the economy by responding more precisely to the real needs of the business community.

The project has clearly and quickly improved the range and quality of JIM's management training programmes, in the form of new courses, more highly trained trainers, new teaching methodologies, better facilities and teaching aids, and an enhanced ability to identify local training needs. But it remains to be seen if JIM can sustain the higher qualitative level it has reached, and how the JIM component of the project ultimately impacts on the Jordanian economy by improving the capabilities of private and public sector managers.

IX

Loan Guarantee for Small Enterprise Development Project

By the early 1980s, development planners and international funding agencies had recognised that small and medium enterprises (SMEs) were more efficient than large firms at translating capital investments into jobs and exports. The growth potential of SMEs in Jordan was all the more important due to the obvious inability of the government to continue promoting economic growth through expansionary budgets and deficit financing. But Jordanian SMEs suffer from inadequate access to commercial bank credits, due to the reluctance of banks to lend relatively small amounts to clients who may not have sufficient collatoral, and whose businesses may be too small for the banks to properly assess or monitor.

By the mid-1980s, Jordan had some 55,000 small-scale private businesses, of which about 87% were micro enterprises (less than 5 employees) and the rest were small enterprises (from 5-25 employees). Trade and service firms dominated, accounting respectively for 59% and 26 % of all micro and small businesses, with the balance being 8,531 industrial companies. Micro firms employed an estimated 96,000 people and small firms about 206,000, according to the 1984 industrial census results. Reflecting the government's awareness of the need to promote SMEs, the 1986-1990 five-year plan said that an investment policy responsive to indigenous realities "...must increasingly rely on utilisation of domestic factors of production on the Jordanian scene, such as trained manpower, qualified personnel, administrative capabilities, land, local raw materials and intermediate products. An all-out effort should be made to establish small- and medium-size national projects amenable to the proper utilisation of these factors of production."

US AID believed the government's commitment to SMEs was hampered by existing regulations, incentives policies and structural biases which favoured investments in large-scale industry (such as tarrif rates or access to credit, training and export assistance). With both the government and US AID recognising the need for a study of the policy environment for SMEs, including an identification of firm- and sector-level constraints, the American consultants Robert R. Nathan Associates were contracted in early 1987 to draft a project identification document for a small enterprise development project.

The project -- with integrated credit, research and training components and a professional association for small businesses -- was not launched because of differences between US AID and the Jordanian government on its scope and orientation. The government preferred to administer a small businesses credit scheme through the new Regional Development Fund which was being established in Jordan. US AID was concerned that the fund's attachment to the Municipalities and Villages Development Bank might see small enterprise project funds lent to public sector cities and villages, instead of to small firms. The original concept was dropped in September 1987, and a new project was designed in 1988, without the small business association concept.

The Loan Guarantee for Small Enterprise Development Project, launched on August 18, 1988, targets the provision of credit to small firms that are starting up or expanding into new markets. Its long-term goals are to increase employment and income of SMEs, thereby saving and earning foreign exchange. The specific purpose of the project is to increase the ability of Jordanian entrepreneurs to establish or expand new firms, to improve business efficiency, and to produce and sell more goods at home and abroad. The project should also help commercial banks adopt more dynamic lending policies based on cash-flow analyses, which would be a major boost to small and micro firms.

The four-year project will provide $10 million to capitalise and operate a programme to guarantee portions of loans which commercial banks extend to micro and small businesses. Of the total, $1.4 million will finance operational costs, short-term training, other programme support activities, and policy studies related to the formation, financing, operation and growth of small businesses. The balance of $8.6 million will capitalise a Loan Guarantee Fund held in trust by the Industrial Development Bank, and limited to investments in Jordanian government Treasury bills and bonds or certificates of deposit in local banks.

The IDB will open a loan guarantee office to guarantee 50%-75% of loans (principal and interest) which Jordanian commercial banks extend to productive small and micro businesses, such as manufacturing, maintenance and non-trade service firms (the only exception being loans to trading firms in isolated rural areas). The scheme will guarantee 75% of the value of loans under JD 5,000 and of loans to businesses operated and owned by women, and 75% of loans up to JD 10,000 for businesses whose production facilities are outside the Greater Amman Region. Loans in the Amman region of JD 5,000-10,000 will be 50% guaranteed.

Banks can call in the guarantee after a client has not paid any interest or principal on a loan for six months. Only term loans will be guaranteed, not overdrafts. Half of all loans must be under JD 5,000, to make sure the project reaches its target audience of small and micro businesses. A 2% annual fee will be charged on the guarantee. This fee, and investment income from the $8.6 million fund managed by the Industrial Development Bank, are expected to generate sufficient annual income to fund the programme in perpetuity.

Courses for bankers

Participating commercial banks will be required to send their credit officers to Jordan Institute of Management short-term training courses on cash-flow lending, risk assessment and small business financial analysis techniques (courses which were introduced into JIM's curriculum through another US AID-financed project, reflecting the cross-linkages which US AID has tried to build into its individual projects). With the combination of the loan guarantees and their newly acquired proficiency in cash-flow lending, banks are expected gradually to reduce their high collatoral requirements. Credit officers are also expected to continue working with their small business clients after a loan has been made, to help clients maintain cash-flow projections.

A long-term loan guarantee advisor within IDB will help bank staff and clients during the first 2.5 years of the project. In the longer term, more experience with lending to SMEs should prompt the banks to increase such credits, while guarantees would still be available for particularly risky ventures.

The project expected to approve several participating banks and start training courses by March 1990, with the first loan guarantees extended by May 1990. The project expects to guarantee over 1,600 loans during the four years of its life, supporting about $13 million in outstanding loans at any one time.

By the end of the four years, the project hopes to achieve:

1) improved access to credit by small and micro firms;
2) a self-sustaining credit guarantee programme for SMEs;
3) an enhanced ability by commercial banks to assess credit risks to SMEs; and,
4) a better appreciation by all concerned for policy environment issues, as a result of several policy studies to be carried out by the project.

X

Commodity Import Programme

The $160 million Commodity Import Programme, launched in November 1985 as part of the $250 million supplemental aid bill for Jordan, was an expression of both political and economic support for Jordan. It was designed to help maintain the momentum of economic expansion during a period of imminent foreign exchange and balance-of-payments constraints. It was increased to $165.5 million in 1986 after the visit to Jordan of then Vice President George Bush. As Jordan then did not suffer significant foreign exchange shortages, the Commodity Import Programme (CIP) was "as much a gesture of economic support as a programme of pure economic development," according to US AID officials. They also felt that "Jordan was not a classic CIP country" which needed foreign exchange assistance because its own public or private sectors were unable to secure the hard currency required for imports of capital and intermediate goods or raw materials.

The $165.5 million obligated over a three-year period (1986-88) aimed to help public and private sector entities maintain the level of imports required to sustain or increase economic expansion, with the private sector component reflecting the new US AID policy of promoting economic expansion through private enterprise. The programme would also allow scarce foreign exchange to be used for other purposes in Jordan, while building up a pool of dinars which the government could use for developmental purposes.

Directly and indirectly, the CIP programme was seen as leading to a 7-8% increase in imports over the first two years of its implementation. According to the US AID staff who put together the package, imported capital goods and raw materials would increase output, productivity and exports; improve Jordan's debt service ratio and its capacity to borrow; and, due to the psychological boost of such substantial American aid, perhaps also lead to renewed foreign investor interest in Jordan.

The CIP project paper noted in late 1985: "...a major CIP programme would help Jordan to break through its present and prospective balance-of-payments constraint, returning the country to a higher growth path. Such a programme, we believe, will relieve the balance of payments constraint on the economy and stimulate economic activity that helps absorb the virtual flood of new labour force entrants in the next several years."

The project earmarked $79 million to finance imports from the United States by the Jordanian private sector, and $86.5 million to finance imports by the public sector. In a typical private sector transaction, the Jordanian importer opens a letter of credit with a bank in Jordan, paying 10% down, with the balance due within three years for raw materials and five years for capital goods, at an interest rate that varied between 6.25-10.5% (in practice, 90% of credits carried an interest rate of around 6.25%). The Jordanian bank then opens an irrevocable letter of credit with a participating American counterpart bank in favour of the American supplier, and when the goods arrive in Jordan the Jordanian bank starts collecting repayments from the Jordanian importer. On a quarterly basis, the Jordanian banks transfer the repayments from the importers to a special JD account at the Central Bank, which US AID and the Ministry of Planning use for mutually approved developmental purposes.

Slow private sector response

The 18 Jordanian commercial banks which market the scheme to the private sector benefit in three ways: they earn normal LC fees, they benefit from a short-term float between the time the repayment funds are received and when they are deposited with the Central Bank, and they keep half the interest payments on the LCs as an administrative fee.

The private sector was slow to take advantage of the programme when it was first launched, so US AID modified eligibility requirements to allow parastatal firms, such as the national airline and the potash and phosphate companies, to draw on the funds. Their enthusiastic response quickly drew down over $35 million of CIP funds. Coupled with some promotion of the programme and technical changes to make the scheme more attractive to banks, this spurred banks and other private firms to make use of the facility. By the end of 1988, all the private sector funds had been used to finance a broad range of imports, including mining equipment, computers, aircraft parts, agricultural equipment, feeds and grains, telecommunications equipment, trucks, tyres, furniture, industrial machinery, cables, railway cars, pipes and valves, engines and textiles.

US AID officials are aware of the difficulty in pinpointing the nature and extent of the programme's real impact on the economy, particularly as the $165.5 million represented just over 5% of the annual average of some $3 billion in imports during the preceeding three years (1983-85). Would the importers who used the scheme have imported their goods if CIP financing were not available? Would they have had access to regular commercial bank credits in any case? Or did the programme simply delay the foreign exchange crunch that finally came in August/September 1988, while making a timely gesture of American political support for Jordan's concerted efforts to help resolve the Arab-Israeli conflict through negotiations at an international peace conference? While these questions may be answered with time, US AID officials feel that the CIP programme has had some impact already on changing the attitudes of bank managers to lending practices. Specifically, they feel, it is educating bankers about the preference for term loans over perpetual overdrafts, and as such it is seen as something of "a policy dialogue with the private sector."

XI

Privatization

The privatization of public sector entities has been a case of an apparent, but not a concrete, convergence of ideology and business strategy between US AID and the Jordanian government. Since 1986, US AID has recommended changes and funded consultants and studies on privatizing government-owned entities -- an area in which the Jordanian government had expressed clear interest, based on a business philosophy that seemed compatible with the American penchant for privatization of public entities.

Yet, by mid-1988 the Jordanian government had not made the high-level political decision to go ahead with privatization of entities which had been discussed with US AID as possible candidates, notably the national air carrier Royal Jordanian, the Telecommunications Corporation, the Public Transport Corporation (operator of the public buses in the Greater Amman region), the Water Authority, the Electricity Authority and the Amman Development Corporation.

Between June 1986 and June 1988, US AID had funded several studies on the privatization prospects for the national airline (Royal Jordanian), the Public Transport Corporation, the Telecommunications Corporation and Amman Development Corporation. At one point, it offered to provide the $100,000 needed to hire a financial services company to prepare a prospectus on privatizing Royal Jordanian, which the government said it did not need (perhaps because it was simultaneously talking with Gulf-based Arab bankers about handling the privatization effort). For the Public Transport Corporation (PTC), US AID sent in a team of specialists who prepared four different studies between November 1986 and April 1987, followed by another transport consultant who arrived in early 1988 to help the PTC prepare a privatization implementation plan.

Yet, by Autumn 1988 no significant progress had been made in this field. The only substantive advance seems to have been the government's decision in July 1987 to transform the PTC into a private corporation, with the shares held totally by the government, as a first step towards full privatization.

This was another example of Americans and Jordanians sharing a general attitude towards economic policies, but disagreeing on the pace and extent of implementing new policies or changes in existing procedures. The government was learning and probing, and becoming familiar with an entirely new field. It wanted American help in assessing privatization prospects and mastering the relevant technical details, but felt that US AID was pushing it to privatize quickly. US AID officials, on the other hand, were frustrated and slightly perplexed with the government's on/off attitude to privatization.

American officials thought that the top-level Jordanian political commitment to privatization was not clear. As one American specialist involved in the effort said in 1987: "The government is going slowly on this, and does not seem sure of what to do with privatization. They talk about wanting to privatize, but there seems to be a lack of top-level ministerial appreciation of what this involves, and there has never been a top-level meeting of all senior people involved in the PTC project to give the go-ahead for its implementation."

One of the problems may have been different understandings of what privatization means. Jordanians were juggling several different interpretations of the term, including full private ownership, mixed public/private ownership, or total autonomy under full government ownership. Jordanians talked of "commercializing" some public entities by allowing them to operate totally as private companies, with their own boards of directors, management and financial controls, but with the shares owned by the government, at least during the first stages of gradual transfer of some or all shares to the private sector.

By the end of the 1980s, privatization was still being discussed in Amman as an interesting and possibly pertinent policy option for the Jordanian government, though little practical progress had been made in the field since the concept was first broached half a decade earlier. In the meantime, the economic environment had deteriorated, and commercial prospects were often less enticing for private investors than they had been earlier in the decade -- suggesting that for Jordan, privatization was a concept of the 1990s, rather than the 1980s.