

USAID PROJECT - 278-0265

"INDUSTRIAL DEVELOPMENT IN JORDAN"

EVALUATION

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Office of Policy and Program Review
Bureau for Private Enterprise
Washington, D.C. 20523

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I. SYNOPSIS OF THE PROJECT

1. USAID Project 278-0265, "Industrial Development in Jordan," is an institution building project calling for a commitment of \$22.5 million over a three-year period: \$8.5 million from AID funds and \$14 million from the local government and private sector.

2. The Project is based on Coopers & Lybrand diagnostic study conducted as part of IQC Contract PDC-001-I-00-3171-00. The study began in Jordan on March 13, 1985, and was completed on April 11, by a seven-man team at a cost to the USAID of \$160,000.00

II. PROJECT GOAL AND PURPOSE

3. The goal of the project is to accelerate Jordan's GDP growth and to reduce its trade deficit. The purpose of the project is to increase employment and productivity.

III. ISSUES ARISING FROM THE PROJECT

A. Does the Project Document provide a valid base for the commitment of \$22.5 million?

4. The diagnostic part of the project has not been properly documented. Such basic information as the size, the composition and the stratification of the target sector is missing. The findings are often contradictory, e.g. the Report may claim, for instance, in one place that the labor rates are not low, in another that the wage rates are relatively competitive, to suggest finally that it is possible to import less expensive labor from overseas.

5. This dichotomy of opinions prevailing throughout the Report makes difficult any subsequent evaluation. Six days were needed to collect and to analyze basic data requirements that the Report failed to provide.

B. Is the rationale of the Project compatible with its objectives?

6. The Project has conceptual weaknesses and its rationale is based on a theory that a well-developed institutional framework could somehow spark industrial development.

7. This theory fails to explain how an investment of \$22.5 million in institutions could ultimately create productive jobs in industry and to stimulate productivity in the manufacture of goods. Instead, the Project Document argues that an undertaking of such nature cannot be measured in cost and benefit terms.

8. The critical issue of return-on-investment is bypassed by claims trying to illustrate the appropriateness of the proposed project by relating it to other past experiences that may, or may not be relevant, depending on the position of the protagonists. For instance, the Consultants' claim that their successful similar experience in Morocco should build confidence in undertaking the proposed project could be easily challenged. One could also argue whether the success of Malaysia, Korea and Taiwan results from institution building, as suggested by the Project Document, or from copying the Japanese economic model whose architect was the famous Ishibashi. The former Chief of Japan's Ministry of International Trade and Industry (MITI), has proven that the key to export success is not in institutional building or governmental directives but in achievement of the position of low-cost producer of high quality goods through the economics of scale, experience in the home markets and advanced industrial management.

9. It is very doubtful whether this misunderstood model could be duplicated by indiscriminate cloning in any environments, including those in which creativity and initiative are restricted by excessive regulatory measures.

C. Can institutional building promote industrial development in Jordan?

10. The Project Document states with extreme candor that Jordan has an intensely structured and regulated environment. This condition is reflected by the opinions of concerned Jordanian officials who claim that the local industry must be directed and controlled by them.

11. But, on the other hand, it would also appear that the Government of Jordan has been notorious in failing to move from proposals to the realities of execution. The World Bank document: "Jordan Export Strategy and Export Promotion in Manufacturing Industries" lists a number of failures and states openly that many support programs have remained inoperative. The document mentions inter alia that even current and former government leaders candidly criticize the slow progress in this area.

12. To correct this situation, the World Bank proposed in the past a specific remedy: a creation of an independent Export and Foreign Investment Board (EFIB), at an annual cost of about \$1.5 million. The Project Document does not mention what has happened to this proposal nor does it analyze past failures. Above all, the Project Document does not answer what might be, perhaps, the most important question: why this particular project should succeed in an area where other have failed repeatedly?

13. It could very well be that the local institutions are the least efficient instruments of industrialization because, like in every other developing country, they are staffed by people who lack basic comprehension of what the business world is all about, are not equipped to speak authoritatively on business practices, and may even be hostile to the concept of private enterprise.

D. Can an institution building project succeed in Jordan?

14. The example of the customs drawbacks quoted in extenso in the Project Document may shed some light on this problem. An export-oriented industry must have an immediate access to imported, duty-free components whenever such components are not available locally. This is why the more successful industrial incentive packages guarantee duty-free imports of materials required in the manufacture of export-oriented goods.

15. In Jordan, the exporter has to pay custom duties on all imported goods and, later on, has to prove that these goods were exported in another processed form to claim the reimbursement -- the drawback. This system raises havoc with companies' cash flows and discourages exports. Here are two examples recorded by the Project Document:

16. A company was assessed a penalty of 200 percent of the import tariff retroactive for five years when the customs would not accept any scrap usage in the exported items. In another example, due to difficulties in defining drawbacks on product which was to be sold locally as well as exported, one company stopped all exports, another stopped all local sales, and another yet gave up applying for drawbacks.

17. The Project Document attributes this situation to three factors: lack of government's trust in industrialists' integrity, absence of manufacturing expertise in the customs department, and a usage of awarding commissions to custom agents on all penalties they can impose.

18. One way to cure such counterproductive situation would be through costly and futile "institutional skill building" requiring a heavy and costly input of "customs experts". Another way to cure it would be to propose a comprehensive industrial incentive package, including duty-free entry of certain goods.

19. Unfortunately, the issue goes beyond the choice of alternatives. According to the Central Bank of Jordan Monthly Statistical Bulletin, the government's domestic revenues from all sources amounted in 1984 to 437.7 million Dinars. Out of this total, the custom revenues represented a hefty sum of

126.5 million and the revenues from direct income taxes only 49 million Dinars. It is possible that the Ministry of Finance fears that an incentive package could jeopardize a substantial inflow of funds.

E. Are the goals and purposes of the project well-defined and attainable?

20. The goals and purposes are concentrated on four major economic areas without giving any specific quantitative commitments. In such context, any future project audit will be meaningless. These are the areas in which the Project Document promises improvements:

a. Gross Domestic Product

21. Jordan's GDP expressed at constant factor cost grew between 1975 and 1980 by 6.3 percent: from 272.3 million Dinars to 441.6 million Dinars. The manufacturing, the target of the proposed project represented only 13.4 percent of total Gross Domestic Product. (please see Table I). It would require a very exceptional performance to produce any visible impact on Jordan's GDP by targeting only on the industrial sector which in 1980 accounted for 61 million Dinars of total GDP inputs at constant factor cost (about \$198 million).

b. Trade Deficit

22. Jordan's trade deficit figures are indicated in Table II. The imbalance results from the fact that the country imports about four times more merchandise than it exports. In the non-factor services the situation is much more balanced: in this category, the country imports about 20 percent more than it exports. The current trade deficit is estimated at about US \$2.676 billion at constant prices. The World Bank forecasts that this deficit will attain in 1990 about \$2.770 billion. Since the USAID could not possibly propose any austerity measures, any improvement in the trade balance would have to come exclusively from a massive increase in manufacturing exports - a most unlikely scenario under the most optimistic conditions.

c. Employment

23. According to Table III, the World Bank's most recent estimate situates Jordan's population at about 3.2 million. The active age segment of this population is further estimated at about 1.6 million. The USAID/PRE computer printouts indicate that out of this subtotal about 487 thousand Jordanians were taken into statistical account as gainfully employed. These figures do not tell the whole story. Jordan's population and employment statistics are unreliable because they cannot account for intense migratory movements caused by political and

economic factors. These figures may, or may not, include the Israeli-occupied West Bank, non-assimilated Palestinian refugees refusing to be integrated into the mainstream of this young nation, about half-a-million adult Jordanians residing in the OPEC countries as "guest workers", and about 200 thousand or more Egyptians and Pakistanis residing in Jordan and gainfully employed.

24. Furthermore, Jordan's employment data may be further biased by a multitude of other unaccountable factors such as: cultural conditions, shifts in family structure, underground economic opportunities, levels of welfare, government subsidies for obsolete work, etc. Putting all faith in what's available, one could only say that about 29.5 percent of Jordan's adult population is gainfully employed.

d. Productivity

25. According to the best available data, Jordan's manufacturing sector consists of 147 companies employing more than 25 people and about 571 companies employing less than that number, (please see Table IV). A few thousand "backyard producers", the real mainstay of Jordan's economic life are left unaccounted for. (The USAID/PPC computer printout situates the total number of employers at about 84.6 thousands).

26. The government of Jordan with its various autonomous institutions has direct equity position in about 118 manufacturing companies, or 80 percent of total significant industrial establishments, (please see Table V).

27. According to the Project Document, the productivity in the manufacturing sector ranges from an extreme low of 10 percent to a still unsatisfactory 70 percent. The productivity problem in Jordan results from a combination of factors common to other developing countries. To name a few: lack of managerial skills, high level of protectionism of inefficient "fledging" import substitution industries, strong bias against exports, excessive regulatory policies and, above all, the government's attitude that a factory is not so much a place of business as a social institution to keep the unemployment off the streets. Under those circumstances there is no possibility that the productivity will be enhanced by institutional build-up. The productivity is gained on the shop floor, not in parastatal offices.

F. What is the anatomy of Jordan's manufacturing exports?

28. The most reliable data source on the subject are the Input-Output Tables for Jordan, prepared by Dar Al-Handasah Consultants. According to this source, Jordan exported in 1979 \$122.4 million in ten basic commodity groups. These exports presented 13 percent of total production value and had an average Value Added of 18 percent. It would appear from the data that Jordan's exports lean heavily on consumer goods.

Jordan's Manufacturing Exports, 1979
(million Dinars)

<u>Commodity</u>	<u>Export Value</u>	<u>Exports as % of production</u>	<u>Value Added as % of production</u>
Chemicals	23.3	34	35
Food, beverage, tab.	22.9	6	18
Wood Products	21.6	56	26
Machinery & equip.	12.0	26	13
Metal products	11.6	10	27
Textile and clothing	11.0	9	39
Rubber and plastics	9.0	27	26
Mineral products	7.0	12	41
Paper products	3.7	25	45
Leather & footwear	0.3	2	42
	<u>122.4</u>	<u>13a/</u>	<u>18a/</u>

a/ non-cumulative values

G. How dynamic is Jordan's Industrial Sector?

29. According to the statistics of the Department of Companies, Ministry of Industry and Trade, Jordan experiences a veritable boom in registrations of new industrial companies. Between 1979 and 1984, 1322 industrial companies with a total capital of 151 million Dinars were registered by this Department (please see Table VI).

30. These figures do not relate to the number of operating companies and since there is no information on the number of actual start-ups, the registrations could be considered, at best, as investment intentions. The statistics do not mention either whether the capital is nominal or paid up or expressed in constant or current Dinars. Table VII is representative of this uncertainty. This Table indicates that in 39 mixed companies selected by the World Bank for evaluation, only 28 percent of nominal capital was paid up by the partners: 19 percent by the private promoters and 66 percent by the government.

31. From the registration statistics it would also appear that the volume of registrations is somewhat erratic and that private shareholding represents only 9.6 percent of all registrations and 11.9 percent of capital.

H. What is Jordan's investment and export climate?

32. Investments in Jordan come almost exclusively from local and Arab sources and almost all of its exports are directed toward the Arab Common Market and the so-called Capital Surplus Countries.

33. The tragedy of Jordan originates from the fact this relatively moderate and otherwise pro-Western country is located right in the middle of the most unstable and emotional region in the World. In addition, the country's economy is kept afloat by unrequitted support from oil-rich Arab states and from worker's remittances originating from the same geographical area. According to the World Bank, in 1983 alone, Jordan's economy received from these two sources an equivalent of US \$1.721 billion or, roughly, US \$600 per capita. As a quid-pro-quo, Jordan must toe the line of Arab politics. Such facts scare Western venture capitalists who may gamble their money on the feasibility of ventures but never on high political risks. Unless this region settles down, any Jordanian Investment Promotion Offices in the Western World will be nothing but exercises in futility.

34. According to the 1979 World Bank Data, Jordan directed 0.1 percent of its exports to the Free world, 5.0 percent of its exports to the Communist block and the remaining to the Arab States. Jordan's exports to the Arab area do not result from any marketing skills and efforts, but from politically-motivated bilateral agreements and so-called "border-trading". A major re-direction of Jordan's export would call automatically for major political and economic shift.

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ANNEXES

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TABLE I

JORDAN'S GDP GROWTH AT FACTOR COST
(millions of Jordan Dimars)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
at current factor cost	272.3	361.5	406.7	508.1	627.6	762.4
at constant factor cost	272.3	314.4	315.3	353.1	400.4	441.6

average annual growth rate at constant factor cost: 6.3%

COMPONENTS OF GDP AS PERCENTAGE OF GDP

<u>GDP by industrial origin</u>	<u>% of GDP</u>	<u>Cumulative %</u>
Public Administration	21.6	21.6
Trade and Finance	17.6	39.2
Other Branches	14.9	54.1
Manufacturing	13.4	67.5
Transport and Communications	9.8	77.3
Agriculture	9.8	87.1
Construction	7.7	94.8
Mining	4.3	99.1
Electricity, gas and water	1.1	100.2 (sic!)

Sources: Jordan's Economic Data Sheet, the World Bank.

TABLE II

JORDAN'S TRADE DEFICIT, ACTUAL AND PROJECTED
(millions US\$ at constant price)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1990</u>
a/ World Bank data	-1,841	-2,024	NA	-2,498	NA	-2,676	-2,770
Project Document data	NA	-2,432	-2,487	-2,454	-2,030	NA	NA

Source: a/ World Bank Report: Jordan Export Strategy and Export Promotion in Manufacturing Industries.

ORIGINS OF JORDAN'S TRADE DEFICIT
(millions US \$^{a/} at current price)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
EXPORTS	691.5	866.1	1131.9	1572.9	1922.0
Merchandise	249.0	296.6	401.8	574.0	744.1
Non-Factor Services	442.5	569.5	730.1	998.9	1177.9
IMPORTS	1651.0	1978.0	2739.9	3220.1	4256.2
Merchandise	1225.2	1332.4	1740.3	2130.1	2853.5
Non-Factor Services	425.2	645.6	999.6	1090.0	1402.7
RESOURCE BALANCE	-959.5	-1111.9	-1608.0	-1647.2	-2334.2

Source: Jordan's Economic Data Sheet, the World Bank.

TABLE III
POPULATION AND EMPLOYMENT STATISTICS
(1979 data)

	<u>in thousands</u>	<u>as % of total</u>
a/ Total Estimated Population.....	3244.0	100.0
a/ Active age population (15-64 yrs.)	1648.0	50.8
a/ Total Estimated Labor Force.....	768.9	23.7
a/ Registered employed population.....	487.4	15.0

Breakdown of Registered employed population (in thousands):

classified employees.....	377.9
unclassified employees...	24.9
employees	84.6

a/ World Bank Report "Jordan Export Strategy and Export Promotion in Manufacturing Industries."

b/ USAID/PRE Computer Printouts.

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TABLE IV

SIZE DISTRIBUTION OF COMPANIES ACCORDING TO EMPLOYMENT

<u>Employment per establishment</u>	<u>Number of establishment</u>	<u>Percentage of total</u>
less than 25	571	80
from 26 to 49	68	9
from 50 to 99	45	6
100 or more	<u>34</u>	<u>5</u>
Total	718	100

Source: The World Bank Report "Jordan Export Strategy and Export Promotion in Manufacturing Industries".

TABLE V

GOVERNMENT NOMINAL AND PAID UP EQUITY PARTICIPATION
IN 39 MIXED COMPANIES
 (thousand JD)

<u>Percent of</u> <u>Capital owned</u>	<u>in Number of Companies</u>	
	<u>at Nominal Capital</u>	<u>at Paid up Capital</u>
less than 25 percent	22	13
26 to 50 percent	7	5
56 to 89 percent	5	6
89 to 100 percent	0	15
	<u>39</u>	<u>39</u>

EQUITY PARTICIPATION IN 79 MIXED COMPANIES BY SOME
AUTONOMOUS PUBLIC INSTITUTIONS

<u>Institution</u>	<u>In Number of</u> <u>Companies</u>	<u>Amount</u> <u>Inverted</u>	<u>Equity</u> <u>Share</u>
Post Office Savings	50	Unknown	Unknown
Pension Fund	11	x	x
Industrial Development Bank	8	x	x
Jordan University	4	x	x
Social Security Corporation	<u>6</u>	x	x
	79		

Source: The World Bank Report "Jordan Export Strategy and Export Promotion in Manufacturing Industries".

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TABLE VI

REGISTRATIONS OF NEW MANUFACTURING COMPANIES
(in numbers)

<u>Type of Company</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>TOTAL</u>
mixed	239	145	165	146	354	145	1,195
private	<u>21</u>	<u>4</u>	<u>21</u>	<u>19</u>	<u>30</u>	<u>32</u>	<u>127</u>
Total	260	149	186	165	284	177	1,322

(in capital — million dinars)

<u>Type of Company</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>TOTAL</u>
mixed	14	7	56	20	27	4	128
private	<u>3</u>	<u>1</u>	<u>4</u>	<u>3</u>	<u>6</u>	<u>6</u>	<u>23</u>
Total	17	8	60	23	33	10	151

TABLE VII

GOVERNMENT DIRECT EQUITY PARTICIPATION IN 39 MIXED
CORPORATIONS
(in thousand Dinars)

	<u>Private</u>	<u>Government</u>	<u>Total</u>
Nominal Capital	424,584 (82%)	95,103 (18%)	519,687 (100%)
Paid up Capital	<u>81,917 (56%)</u>	<u>63,364 (44%)</u>	<u>145,331 (100%)</u>
Outstanding	342,617	31,739	374,356
Outstanding as % of Nominal Capital	81%	34%	72%
Paid up as % of Nominal Capital	19%	66%	28%

Source: The World Bank Report "Jordan Export Strategy and Export Promotion in Manufacturing Industries".