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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROGRAM ASSISTANCE
APPROVAL DOCUMENT
(PAAD)

JORDAN: Case Transfer (278-K-644A)

September 17, 1987

UNCLASSIFIED

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 278-K644A
2. Country: JORDAN
3. Category: CASH TRANSFER
4. Date: SEPTEMBER 17, 1987
5. To: LEWIS P. READE, DIRECTOR, USAID/JORDAN
6. OYB Change Number: N/A
7. From: JAMES DEMPSEY, DIRECTOR, OFFICE OF PROJECT DEVELOPMENT
   James Dempsey
8. OYB Increase: US$ 7.0 MILLION
   To be taken from: (REOBLIGATION) ECONOMIC SUPPORT FUNDS
9. Approval Requested for Commitment of: $ 14.0 MILLION
10. Appropriation Budget Plan Code: BPC QESA-87-37278-KG,31
11. Type Funding: ☐ Loan ☒ Grant
12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None
13. Estimated Delivery Period: SEPT.30-DEC.31,1987
14. Transaction Eligibility Date: SEPT. 17, 1987

15. Commodities Financed

Normal imports such as capital; consumer; intermediate goods including new materials but excluding police and military equipment, abortion devices and any other items harmful to public health and the environment.

16. Permitted Source		17. Estimated Source	
U.S. only	Geographic Code 000 (90 day limit -	U.S.	$12 million
~~Limited F.W.~~	thereafter Geographic Code 935 -	Industrialized Countries	$2 million
~~Free World~~	Special Free World)	Local	
Cash		Other	

18. Summary Description

This cash transfer is part of a continuing assistance program to Jordan whose political and economic stability are deemed vital to the United States. This U.S. assistance tangibly reflects this support and helps provide necessary resources to assist Jordan in implementing its economic and social development program for the West Bank and Gaza.

It is recommended that you approve a cash transfer grant for the amount not to exceed US$ 14.0 million to be obligated and disbursed in one tranche. It is our understanding that the local currency will be generated by L/C for eligible imports to the private sector and these resources will be placed in a special local account to fund approved projects and activities in the West Bank and Gaza.

19. Clearances (STATE 259818)			Date
REG/DP	PRM:WMcKINNEY		9/17/87
REG/GC	RLA:DROBERTSON		9/17/87
AA/PPC	DD :RJOHNSON		9/17/87
M/FM	CONT:NWIESOORIYA		9/17/87
SER/COM	CMO:FDONOVAN		9/17/87
AA/PRE	PE :PROUSSEAU	RR	9/17/87
DRAFTER:PD	:DMASTERS		9/17/87

20. Action: ☒ APPROVED ☐ DISAPPROVED

Authorized Signature: L Reade
Date: SEPT. 17 1987
Title: DIRECTOR, USAID/JORDAN

AID 1120-1 (5-82)

CLASSIFICATION

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

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B. Recent Jordanian Initiatives

In early 1985, the Jordanians negotiated the joint Jordanian/PLO Accord establishing political coordination with the PLO in the peace process. While this year-long effort did not achieve success, it demonstrates Jordan's commitment to a negotiated peace settlement with Israel. The announcement in mid-1985 of Jordan's Development Plan for the West Bank and Gaza demonstrates again Jordanian determination to support moderation essential to progress in the peace process. The Jordanian Program for "Economic and Social Development in the Occupied Territories" is viewed as parallel to and supportive of Jordan's efforts to invigorate the peace process. It is designed to ameliorate the severe economic and social conditions prevailing in the occupied lands. The stated political objective of the program is to enhance the "steadfastness of the Arab population living under occupation". Since its launching last November the program has been controversial. Despite early political criticisms concerning Jordan's motives, this program represents a substantive developmental effort. It is directed towards encouraging stability, by improving the quality of life of Arabs living under occupation until a negotiated settlement can be reached. The tangible benefits to the Arab population will be over time the ultimate test of the program's success or failure. Our judgment is that the program warrants support and offers prospective gains for U.S. foreign policy interests.

The West Bank/Gaza Plan which is now entering the implementation phase calls for an ambitious level of investment in basic municipal infrastructure and production over a five year period

(1986-1990). Given Jordan's economic situation in recent years, the GOJ clearly is not in a position to fully fund the investments contemplated in the Plan. Therefore, active international support will be needed in funding a wide range of small scale projects in health, education, water, electricity, roads and social development. The U.S. intends to play a supportive role as a leading donor in this worthwhile effort. The successful implementation of the program will also require active local support and close coordination among Jordanian development institutions. The program faces formidable obstacles that will require patience and persistence by both Jordanians and West Bankers/Gazans alike to carry out projects under difficult administrative and political conditions. Given the unusual circumstances, the implementation methods and procedures used under the program will be indirect.

Clearly, the attainment of development objectives outlined in the West Bank/Gaza Plan will depend heavily on both local and international support.

C. <u>U.S. Support and Current Economic Prospects</u>

In FY 1985 Jordan received a US $250.0 million supplemental appropriation to be obligated over a three year period. This supplemental was additional to an approximately twenty million dollar a year development program. The supplemental provided resources to help address balance of payments constraints and improve the country's infrastructural base. Accordingly, a US $160 million Commodity Import Program (CIP) was established and

US $55 million was committed for school and road construction. The remainder was used to promote private sector development and encourage greater market competitiveness. The supplemental is now in its final year and all indications point to successful utilization of U.S. resources provided to Jordan. The trade deficit has been reduced, infrastructure projects are on schedule, and productivity enhancement projects are entering the implementation phase. However, despite some progress the economy remains vulnerable in a number of important areas. Economic growth continues to lag behind expectations and unemployment continues to grow. The situation, while still manageable, threatens to undermine Jordan's stability and thereby reduce its ability to exercise a moderating influence in the region. Demographic pressures within Jordan require relatively high rates of economic growth in order to maintain current living standards. With a high population growth rate of 3.7 percent, the economy needs to grow at a similar rate just to maintain current per capita income. Moreover, the dynamics of a high population growth rate over time has changed the population age structure, such that the growth of the labor force exceeds that of the overall population. It is estimated that the domestic labor force will grow by some six percent a year, implying the need to create approximately 30,000 new jobs annually just to avoid increasing the current number of unemployed. At present, unemployment stands at roughly ten percent of the labor force and, to a degree difficult to forecast, may soon be greatly exacerbated by Jordanian workers returning from the Gulf states. In 1985, there were some 340,000 Jordanians gainfully employed in the oil producing Gulf states. This number is large relative to the size of the domestic labor force, estimated at roughly 510,000. In the past, Jordanians working abroad served as an outlet for surplus labor and, at the same time, represented an important source of national income in the form of worker remittances contributing approximately one billion dollars a year. Since 1982, there has been a regional recession affecting the oil based economies of the Gulf states, as well as the Jordan economy which depends indirectly on oil income. Due to depressed employment prospects in the Gulf, job opportunities to absorb new Jordanian entrance to the labor force are reduced. Hence the domestic labor market is experiencing excess supply relative to demand forcing a general rise in unemployment. The situation is compounded further by Arab out-migration from the West Bank and Gaza averaging some 15,000 annually over the period 1967-1984, due to depressed living conditions and limited economic prospects in the occupied territories. In short, high underlying demographic growth combined with a loss of traditional employment outlets will place substantial pressure on domestic employment now and for foreseeable future.

Nevertheless, the human resource base in Jordan is the principal national resource. The challenge facing the Jordan economy in the years ahead will be to find new markets and areas of comparative advantage. This will require incentives and programs to bring about greater export diversification and a restructuring of the service sector to maintain and augment foreign income earnings. The impressive progress made over the last fifteen years in infrastructure improvements, including the development of the national educational system, points to light manufacturing and "knowledge based" industries as areas of potential economic growth. The current A.I.D. program is structured to encourage private sector development with a view to stimulating greater market competitiveness and productive employment opportunities. The program has engaged the GOJ in policy dialogue to help identify and remove policies which are counter-productive, thereby encouraging private sector led growth.

D. Implications for Development

Despite the more constrained external environment posed by the region-wide recession, the Jordan Development Plan 1986-1990 calls for an average annual growth rate of five percent. Unless there is a successful transition, brought about by timely and appropriate policy change, expectations embodied in the Plan may well lead to disappointment and frustration, particularly, if economic growth rates continue to lag behind population growth. Therefore, the Jordanian development strategy must continue to focus on investment levels consistent with acceptable rates of growth. In successive Development Plans since 1975, there has been an ambitious drive to expand basic social infrastructure and promote new mineral based industrial enterprises. These efforts involving the mobilization of substantial resources resulted in a unprecedented level of public investment. However, with the completion of major infrastructure projects, there is no longer as great a need nor likelihood of funding large public investment programs. While recognizing that proper maintenance of existing infrastructure and modest expansion is desirable and prudent, public investment is no longer the engine of economic growth for the economy as a whole. The current GOJ public investment program will of necessity be more selective, choosing those investments which are complementary to (and inducive of) private investment. The previous policy of substituting public investment for potential private investment is no longer viable. For example, public investment in parastatal enterprises in the productive sectors has created inefficient industries requiring varying degrees of subsidization. Clearly, in a resource scarce environment, this is no longer affordable. Given current GOJ fiscal constraints, this means greater reliance on private investment to create productive employment opportunities and bring about the structural adjustments in the economy needed to support accelerated growth. Obviously, the policy environment will have to be adjusted to create the required incentives and remove artificial obstacles to improved economic efficiency. In short, a combination of timely policy adjustments along with appropriate changes in the "investment mix" between public and private sectors, could bring about the needed transition adjustments to attain acceptable growth.

II. Summary of Economic Considerations

A. Recent Macroeconomic Trends.

The Jordanian economy with its limited arable land, water, and resources is highly dependent upon external factors. This is especially notable in Jordan's high dependency on imports of food, energy and many other items related to consumption and production. In addition, Jordan's development problems are exacerbated by a high birth rate and large immigration following the Arab-Israeli and Lebanese conflicts. Nonetheless, Jordan has sustained high levels of economic growth generated by remittances from Jordanian workers in the Gulf and official Arab donor aid.

However, as a result of the decline in oil earnings in the Gulf States since 1982 the Jordanian economy has performed sluggishly in the mid 1980's. Workers' remittances have leveled off, and Arab donor assistance has declined. Additionally, import demand from Arab countries, usually more than half of Jordan's exports, has declined. The Iran/Iraq war has contributed to this negative impact on Jordan's growth and trade deficit.

As a result of these and other factors, GDP and GNP, in real terms, have grown only 2.1 percent and 0.5 percent respectively since 1983, considerably below GOJ targets and much less than the growth rates during the 1975-82 period of 12.4 percent and 14.7 percent, respectively. Unemployment is also increasing with Jordan's labor force growing by about 4 to 6 percent annually and employment opportunities in the Gulf stagnating. Especially affected by the general economic decline has been the private sector with an almost 50 percent decline in investment since 1982.

The effect on Jordan's merchandise trade has been notable. Imports have fallen almost every year since 1982, and are expected to be about 13 percent lower in 1986 than in 1985. The decline, in part, reflects the falling price of imported oil, but also includes significant declines in all other import categories except food. Especially significant have been the reduced quantities of capital goods imports. Imports of machinery and transport equipment, for example, have fallen 47 percent between 1982 and 1985. Intermediate goods, except oil, have only declined 6 percent over the same period.

Merchandise exports after falling dramatically in 1983 have expanded consistently since then and were 38 percent higher in 1985 compared to 1982. In large part this reflects the increasing production of the phosphate industry which has expanded in the last few years. Export figures for 1986 are expected to show a decline from 1985 because of the poor price performance for phosphates. Also fruit, vegetable, and light manufacturing exports, shipped to neighboring Arab countries, have fallen reflecting the contracting Gulf market and the effects for the Iraq-Iran war on Iraq, a major market for Jordanian exports.

In spite of the narrowing trade deficit of recent years, the falling sources of remittances and Arab aid have not been able to compensate for the still substantial level of imports in excess of exports. One consequence of this is that Jordan has had to borrow from commercial markets; but more importantly for the country's development objectives, Jordan constrained by the declining sources of foreign exchange has had to cut back on imports.

Official foreign exchange reserves (excluding claims on Iraq originating from finance of Jordanian exports to that country) now stand at $639 million, equivalent to two and a half months' imports, substantially down from 1981's peak of $1279 million. As mentioned above, Jordan's debt service burden is increasing, even without taking account of Jordan's military and oil debt which is not included in official statistics. Jordan's debt service ratio is expected to rise from a level of 7% of goods and services exports (including workers' remittances) in the early 1980's to 12% over the next few years. Jordan's traditional regional markets remain depressed as a result of the contractionary effects of world oil price declines, but over the next several years some recovery in these markets is likely as oil prices gradually rise. Chances for increasing Jordanian sales in these markets or in developing new markets will depend heavily on improving the productivity and competitive position of Jordanian agriculture, manufacturing, and services industry. Moreover, without higher world prices for fertilizer, foreign exchange earnings from Jordan's mineral exports are likely to rise only slowly.

In response to the trends described above, a number of macro-price adjustments and policy changes have taken place. For example, the adjustment in Jordan's labor market to the regional recession is placing downward pressure on wages which, in turn, will serve to make Jordanian industry more competitive. As a result of continued labor force growth, curtailment of employment opportunities in the Gulf States, low capacity usage in Jordanian industry and resulting pressure to reduce costs, unemployment is rising with most informed observers estimating the unemployment rate at some 10%. Real wage levels are, as a consequence, being reduced. Also, Jordan has also taken advantage of a depreciating dollar to mask a de facto devaluation of the Jordanian dinar. While the value of the dinar has been rising in dollar terms, reflecting the depreciation of the dollar in comparison to other reserve currencies, the Central Bank has recently kept the dinar some 10% below the dollar equivalent of the official pegged rate of JD 1 = SDR 2.5790. As a consequence, Jordan's competitive position vis a vis European or Japanese suppliers to Jordan's traditional Arab markets has improved considerably. Moreover, the comparative advantage of domestic industry over imports has been increased.

Evidence of a response to these changes in macro prices will not be apparent for some time. Private investment remains depressed, but the Government continues to voice strong support for private sector development. Further improvements in the policy environment for private sector development are still required. Regulation of business, poorly administered investment incentives, possibly discriminatory policy in favor of large vs. small enterprise, fixed interest rates and other financial market regulation, ill-advised government interventions in agricultural marketing, and costly and inefficient government services used by business all impede private sector development and contribute to a more negative business climate than necessary. Increasing protectionism also does little to encourage development of export industry. The continuing decline in real wage levels coupled with the modest exchange rate adjustment are, however, a start in improving the competitive position of Jordanian agriculture, manufacturing, and services industries.

B. Recent Government Expenditure Trends

Following the onset of the economic depression in the Middle East region caused by the gradual slide in world oil prices commencing in 1981, Jordan slowed expenditure growth. Total central government expenditures declined from 57.2% of GDP in 1980 to 48.6% of GDP in 1984. Capital expenditures dropped markedly, falling from 23.1% of GDP in 1980 to 16.3% in 1984. The curtailment in expenditure growth was applied to a broad range of current expenditures as well, with total current expenditures declining from 34.1% of GDP in 1980 to 31.9% in 1983 and rising to 32.4% in 1984. During this period, payments for salaries, wages and allowances, defense and security, travel, rent, utilities and furniture expenditures all decreased as a portion of GDP.

This period of contraction in government expenditures was succeeded by two years of expansionary government budgets. As total government expenditures rose by 11.4% in 1985 and 23.3% in 1986, their share of GDP increased to 51.6% in 1985 and 62.1% in 1986. Capital expenditures swelled by 11.0% in 1985 and a dramatic 56.1% in 1986. The prior contractionary trend in current expenditures was also reversed, with current expenditures rising to 34.4% of GDP in 1985 and 35.9% in 1986. This increase, in part, resulted from the general pay raise granted civil servants in 1985 which raised expenditures for salaries, wages, and allowances by 14.4% in 1985 and 13.2% in 1986. Defense and security current expenditures also rose. During this same time period, total debt service payments for both internal and external public debt climbed noticeably from a low of 3.0% of GDP in 1982 to 12.2% in 1986.

The government has evinced concern at the rapid pace of expenditure growth in the past two years. The budget for 1987 provides for only a 1.6% increase in total expenditures: a 2.4% increase in capital expenditures and a 1.0% rise in current expenditures. On the expenditure side, the government has announced limitations on use of overtime and government financed overseas travel. As a means to curb the volume of capital and furnishings expenditures, government departments are now required to pay customs duties on items imported for their own account.

It should also be noted that subsidies have been largely eliminated, with subsidies equivalent to 0.5% of GDP in 1986 as contrasted to 4.2% in 1981. Indeed, the practice of maintaining prior prices for petroleum products and wheat, sugar, meat and rice while world prices for these commodities have fallen dramatically has converted these past subsides to substantial sources of government revenue.

While actual revenue collections and expenditure levels have frequently varied markedly from budget targets, performance in 1986 was somewhat better in that current expenditures exceeded authorized budget levels by only 2.7% as contrasted to 11.1% in 1985 and 7.2% in 1984. This improvement offers hope that current expenditure levels will remain close to the budget target. For capital expenditures, budgets have usually been optimistic. Typically, capital projects have been deferred as budget support and development financing fell behind projections. This was not the case in 1986 when capital expenditures exceeded budget levels by 18%. Given usual practice, however, it is likely that tighter expenditure control will be exercised this year over capital projects so that expenditure levels remain closer to targets and financing availabilities. In sum, after two years of expansionary budgets, some levelling off and control of expenditure growth is now likely.

C. Recent Government Revenue Trends

The contraction both in the economy and in government expenditures that started in 1981 was accompanied by an improvement in domestic revenue collections. Domestic revenues climbed from 23.0% of GDP in 1980 to 28.1% in 1983, then falling slightly to 27.5% in 1984. On the other hand, budget support in the form of grants from Baghdad Pact signatories and other donors declined dramatically from 21.3% of GDP in 1980 to 13.8% in 1983 and 7.1% in 1984. This drop in grant aid receipts compelled the rise in domestic revenues and contraction in expenditures. With constraint in current expenditure growth and rising domestic revenues, domestic revenue collections covered an increasing portion of current government expenditures, rising from 67.3% in 1980 to 88.2% in 1983 and 85.1% in 1984.

In the two years (1985-1986) of expansionary fiscal policy, domestic revenue collections first fell from 27.5% of GDP in 1984 to 27.0% in 1985 then rose to 32.1% in 1986. This latter rise was made possible by keeping prices of government controlled petroleum and food prices at prior levels while world prices declined. As a result, miscellaneous receipts, which includes the profits made on these transactions, climbed from 2.6% of GDP in 1985 to 8.0% of GDP in 1986. In other areas, lagging growth resulted in a 15% drop in income tax collections, slow growth in customs and excise collections, up only 2.4% in 1986, and a 2% fall in property and other taxes. Between 1979 and 1983, grant budget support remained relatively stable declining by only 6% from JD 210.3 million in 1979 to JD 197.0 million in 1983. It then dropped precipitously to JD 106 million in 1984, recovered to JD 187.8 million in 1985, and fell again to JD 143.7 million in 1986. (Note that total receipts of

Arab grant aid exceed that for budget support; the residual is largely applied to military capital expenditures and debt service which are excluded from the Central Government budget.)

The budget for 1987 projects a 13.3% increase in domestic revenue collections to be raised principally by a recovery in income tax collections, higher customs receipts, larger fee and license collections, and continued growth in the miscellaneous receipts category. Grant budget support is forecast at JD 208 million, of which JD 183 million is forecast from Arab donors, the same amount as projected in prior year budgets. U.S. CIP counterpart generations comprise the remaining JD 25 million. Given past collection performance, the 1987 budget is optimistic on the revenue side. The outlook for the economy in 1987 is for little change; imports are likely to continue to contract, implying that without a considerable change in the tariff structure, customs collections are unlikely to increase substantially. Equally, taxable salaries and profits are unlikely to recover substantially in 1987.

Studies by the World Bank and by a USAID/Jordan sponsored tax team from Syracuse University have concluded that the medium-term prospect for improved domestic revenue collection is poor given the current tax structure. For the period 1981-84, the World Bank study calculated Jordan's overall tax buoyancy at 0.99 which is on the low side. While low buoyancy could be partly explained by the importance of customs duties in total taxes and declining imports, the buoyancy for direct taxes was also very low at 0.83. The World Bank found Jordan's tax effort to be low by international standards and the tax structure to be characterized by a limited income tax base, generous exemptions, and excessive dependence on indirect taxation consisting mainly of narrow-based import and consumption taxes.

D. <u>Recent Trends in Government Deficits and Their Financing</u>. As government expenditure growth was curtailed and domestic revenues increased in the years 1981-1983, the government deficit (defined to include budget support grant aid but exclude development loan and technical assistance financing for which reliably consistent data are lacking) was reduced from 13.0% of GDP in 1980 to 7.4% in 1983. The precipitous drop in grant budget support in 1984 led to an increase in the budget deficit to 13.6% of GDP in 1984. In 1985, the recovery in grant aid more than offset declines in domestic revenue collections and increases in expenditures so that the deficit was reduced to 10.7% of GDP. In 1986, while domestic revenues increased, budget support fell and expenditures rose rapidly; as a result the deficit stood at 19.4% of GDP, a level of deficit spending that could not be maintained for very long without placing pressure on prices and the exchange rate.

Government deficits have been financed through (1) development loans and technical assistance grants to Jordan, (2) recourse to international capital markets, and (3) domestic borrowing from the public, commercial banks, and central bank. Monetary data which depict the financing of the government deficit can diverge substantially from deficit figures derived from fiscal data, in part, because, until 1985, government expenditure and some revenue accounts were kept on an accrual rather than cash basis. Despite these discrepancies, the composition of financing from various sources can be discerned. With the exception of 1982, foreign borrowings have financed over three-quarters of the deficits since 1977. The data for 1986 are, however, misleading. Bridge financing of $150 million from the Arab bank was used to retire outstanding increases in Central Bank advances to the government of JD 55 million at the end of 1986. At the beginning of 1987, as shown in the statistics for January, Central Bank advances to the Government climbed by JD 60 million, implying that the bridge financing was only year-end window dressing and that essentially domestic financing accounted for some 30% of total deficit financing, not 9% as shown in the year-end figures.

With debt servicing absorbing an increasing share of revenues and concessional sources of external loan finance becoming tighter, Jordan's ability to borrow abroad to finance deficits is becoming more limited. Greater recourse to domestic financing through borrowing from the Central Bank can, over the medium term, only lead to inflation and, more likely, pressures on the exchange rate. While the government is giving thought to development of a government bond market, progress in this area is slow. In sum, Jordan's fiscal crisis is deepening, as the costs of past and current foreign financing become due and as foreign borrowing becomes more difficult to secure.

E. <u>The Five Year Plan and Medium-term Fiscal Prospects.</u>

Jordan's Five Year Plan for 1986-1990 calls for a five year investment of JD 3.1 billion (some $9 billion), 48% to be undertaken by the private and mixed sector and 52% by the public sector. In addition, the Plan forecasts a need for an additional JD 0.9 billion to build up foreign exchange reserves and meet external debt service obligations. In total, central government capital expenditures over the plan period are projected at JD 2.1 billion, comprising JD 0.9 billion for investment projects, JD 0.6 billion for external and internal debt payments, and JD 0.5 billion for re-lending to public authorities and other entities.

At the same time, the Plan projects a curtailment in growth in current government expenditures to an average annual rate of 6%, while domestic revenues are to increase by an average of 11% yearly so that domestic revenue completely covers current expenditures. (Note in 1986 this objective was already achieved.) Capital expenditures would then be largely covered by foreign budget support, projected at JD 250 million annually from 1987 on, by JD 0.8 billion in external borrowing, and by JD 0.2 billion in domestic borrowing.

While a surplus in domestic revenues over current expenditures was already achieved in 1986, prospects for continuation of increases in government domestic revenues, and hence for the financing of projected investments, and debt are clouded. An AID-financed tax team from Syracuse University, in preparing a preliminary assessment of Jordan's tax system, developed several scenarios for growth in revenue and expenditure, based on past performance and the then preliminary Five Year Plan expenditure targets. Assuming a revenue buoyancy of 1.08 or that attained in the 1981-1985 period, 4.1% annual inflation and a 3.2% annual GDP growth rate, the tax team found that domestic revenues would cover only 85% of current expenditures. Since that analysis was prepared, the Plan targets were revised downwards in terms of both expenditure and domestic revenue growth. Nonetheless, the lack of buoyancy in Jordan's tax system remains.

Jordan's willingness to raise taxes substantially during the current recession is limited; the best that might be hoped for is a revenue neutral tax reform package, which over the longer-term might create a more buoyant tax system. In short, rises in domestic revenue collections are limited by continuation of low economic growth rates coupled with poor buoyancy in the tax system. Future increases in grant budget support are unlikely. The Baghdad Pact commitments expire in 1988, and while Arab donors are likely to continue budget support to Jordan, new commitments are unlikely to be at higher levels than the original Baghdad Pact. Tighter development assistance budgets in donor countries and competing demands from Africa and other regions on the resources of multilateral financial institutions make the prospects for higher inflows of concessional development loans dim. Higher debt service and poor export performance also raise the costs of foreign commercial borrowing. Emerging large sized-deficits in 1985 and 1986 together with rapidly rising debt service also make expenditure control all the more paramount. On the other hand, the new government commitment to JD 10 million in development expenditures for the West Bank/Gaza is in addition to the ambitious planned capital budget programmed in the Five Year Plan. In sum, Jordan is likely to experience a growing fiscal gap, and a cash transfer designed to underwrite development expenditures and Jordan's development program for the West Bank and Gaza is fully warranted on the basis of fiscal need.

III. Implementation Procedures and Mechanisms

The purpose of the cash transfer of $14.0 million is to assist Jordan in addressing both its balance-of-payments and fiscal constraints. Accordingly, the cash transfer dollar resources will be made available to the private sector for eligible imports while the equivalent in local currency will be used to fund development projects under Jordan's Program for Economic and Social Development in the Occupied Territories. The procedures outlined below are consistent with recent Congressional requirements that both dollars and generated local currency be adequately monitored to ensure appropriate use under the program.

A. Dollar and Local Currency Special Accounts

When the conditions specified in the Grant Agreement, Article II, have been met, the U.S. Treasury will transfer the full dollar amount of the grant to a Grantee account in a U.S. Bank established specifically to receive U.S. dollars from this cash transfer. The Grantee will then create two parallel separate accounts within the Central Bank of Jordan: a special dollar account funded by the cash transfer to receive the dollar deposits only from the cash transfer, and a second special local currency account funded by local currency generations. The accounts will be maintained separately and the dinar account will be in the name of the Ministry of Finance. Funds in this special account will be drawn down in an amount equivalent to executed letter of credits (L/Cs) for US imports. The Central Bank of Jordan will submit L/Cs to AID for its review and approval. The dinar equivalent of the dollar drawdowns will be deposited in the dinar account. Thus, the drawdowns from the dollar account against approved letters of credit will result in equivalent deposits in the dinar account. The exchange rate to be used in converting dollar drawdowns to equivalent deposits in dinars will be the highest exchange rate legally available on the date U.S. dollar grant funds are deposited in the Grantee account with a U.S. bank. The dollars will be made available to the Jordanian private sector through the Central Bank of Jordan to commercial banks, in accordance with Central Bank foreign currency procedures. The dollars will be used for imports which are not currently funded under the U.S. Commodity Import Program. The objective is to establish a system to monitor the cash transfer account in accordance with AID policy and regulations not to establish a Commodity Import Program. Eligible imports are defined as all U.S. source and origin imports destined for Jordan and excludes police and military equipment, abortion devices, and any other items harmful to public health and the environment. If after three months, a balance still remains in the dollar account, AID Geographic code

935 (Special Free World) imports and corresponding letters of credit may be used to convert remaining dollars in the special account.

The commercial banks will present copies of letters of credit detailing dollars used to the Central Bank which will maintain records for reporting purposes. The Central Bank of Jordan will report on the funding status of both accounts to USAID/Jordan.

B. Program Support for the West Bank and Gaza

As described above, dinars received for dollars will be deposited in a separate Central Bank local currency account in the name of the Ministry of Finance. Withdrawals from this dinar account will be used for developmental purposes, as mutually agreed upon by the GOJ and AID. Funds will be used only for the West Bank and Gaza, either for specific projects or as set asides for special program activities, e.g. policy studies, credit mechanisms, as mutually agreed upon between the GOJ and AID. In general, it is anticipated that the bulk of funding will support improvements in municipal infrastructure and services. Under current procedures, the requests for assistance originate with Arab residents in the West Bank and Gaza, either through civic/charitable groups or municipal level government. The project proposals are vetted through local regional development committees and later forwarded to the Ministry of Occupied Territories Affairs (MOTA) for technical and financial review. Acceptable proposals are then ranked in accordance with GOJ development priorities and submitted to a Ministrial level committee for funding approval. The GOJ approved list of projects is subsequently reviewed by AID for USG funding eligibility based on agreed criteria. Next, the GOJ will designate specific projects from the eligible sub-list for USG support. These projects are recommended to a four member committee for project funding from the special dinar account. The committee will be comprised of a representative from the Ministries of Finance, Occupied Territories, Planning and the Agency for International Development. Ministers, or their appointed representatives, will represent the Ministries and AID will be represented by the Mission Director or his designee. This committee will meet regularly (at least quarterly or as needed) to review and approve activities eligible for financing from the account. Drawdowns from this dinar account will be based solely on activities approved by the committee. Quarterly accounting will be provided to the committee members by the Central Bank and the Ministry of Finance to support the drawdowns from this special dinar account.

C. Evaluation and Audit

During the life-of-program, there will be quarterly bilateral reviews to evaluate program progress and discuss topics of mutual concern. The evaluation of specific projects and activities, funded under the program, will be conducted on a selective basis, as needed. The responsibility for overall program audit, as well as the audit of specific projects and activities rests with the Government of Jordan. In addition, A.I.D. reserves audit rights for that portion of the program directly related to USG funded activities. All arrangements for evaluation and audit will be communicated through separate side letters and agreements.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   By normal agency procedures

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   No

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

   No

4.	FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	Yes (a) (b) (c) (d) (e)
5.	FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	Yes
6.	FAA Secs. 612(b), 636(h); FY 1987 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	N/A
7.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
8.	FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	N/A
9.	FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	N/A
10.	FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — Yes

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? — No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? — N/A

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used? — N/A

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria? — N/A

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost-effective way:

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(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

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(B) The agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons i[illegible] atin American (the "Treaty of Tlatelolco"), (2) cooperates fully with the IAEA, and (3) pursues nonproliferation policies consistent with those of the United States?

N/A

g. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

h. FY 1987 Continuing Resolution. If assistance is in the form of a cash transfer to any country which receives in excess of a total of $5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. governnent as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)?

a. Yes
b. Yes