AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROGRAM ASSISTANCE
APPROVAL DOCUMENT
(PAAD)

JORDAN: Cash Transfer
(278-K-644B)

July 20, 1988

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number
278-K644B

2. Country
JORDAN

3. Category
CASH TRANSFER

4. Date
JULY 20 , 1988

5. To
RICHARD JOHNSON
ACTING DIRECTOR, USAID/JORDAN

6. OYB Change Number
N/A

7. From
JAMES DEMPSEY
DIRECTOR, OFFICE OF PROJECT DEVELOPMENT

8. OYB Increase

To be taken from:

9. Approval Requested for Commitment of
$ 7.0 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
JULY.3-DEC.31,1988

14. Transaction Eligibility Date
JULY 20, 1988

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	GeographicCode 000 (90 day limit -	U.S.	$5 million
Limited F.W.	thereafter Geographic Code 935 -	Industrialized Countries	$2million
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 recomended that you approve a cash transfer grant for the amount not to exceed US$7.0 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		Date
REG/DP	PRM:WMcKINNEY	7/19/88
REG/GC	RLA:DROBERTSON	
AA/PPC	DD:RJOHNSON	7-20-88
M/FM	CONT:NWIJESOORIYA	7/20/88
SER/COM		
AA/PRE		
	PD :DMASTERS	7/18/88

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: [signature]

Date: JULY 20, 1988

Title: ACTING 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)

A M E N D M E N T   N O .   1

JORDAN: Cash Transfer
278-K644B

July 15, 1988

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I. Overview

The Jordan West Bank/Gaza (WB/G) Development Program, which has been under implementation now for over one year, calls for an ambitious level of investment of approximately $1.2 billion, in basic municipal infrastructure and production over a five year period, 1986-1990. Given Jordan's current economic situation in recent years, the Government of Jordan (GOJ) clearly is not in a position to fund fully the investments contemplated under the program. The GOJ budgeted only $30.0 for calender year 1988 for the entire program and anticipates an additional $30.0 million for calender 1989. Therefore, active international support is required to fund what has become a multifaceted and comprehensive development undertaking for the West Bank and Gaza (WB/G). Major program components include municipal and social infrastructure and credit guarantee programs for housing and private enterprise development. The U.S. continues to support this effort as the leading international donor. The program has made significant progress over the past year despite difficult administrative and political conditions.

The GOJ remains committed to enhancing the quality-of-life in the Occupied Territories while, at the same time, encouraging economic development which includes a strong private sector. Given the substantial overlap in Jordan WB/G program objectives and United States regional interests, the USG contributed $4.5 million in late FY86 to the program. This contribution was made under a Commodity Import Program agreement which was amended specifically for the West Bank and Gaza. The initial contribution was followed by a $14.0 million contribution in late FY87 under a Cash Transfer grant agreement. Both contributions support specific projects and cover capital expenditures only. The additional $7.0 million provided under this PAAD amendment to the initial $14.0 million cash transfer agreement is targeted to cover capital expenditures for municipal social and infrastruture projects.

The strategy for USG support for the Jordan WB/G Program was framed in terms of the Jordan Development Plan and complementarities with the existing USG supported PVO Direct Program for the West Bank and Gaza. The broad objectives of the GOJ plan were consistent with USG concerns for the welfare of the Arab population living under occupation for twenty years. Moreover, the recent shift in Direct Program strategy towards income generating activities suggested that the Jordan WB/G Program with emphasis on public infrastruture was complementary and both programs would tend to reinforce one another. The September 1987 regional posts meeting provided an opportunity to work out the parameters for a workable strategy embracing both programs. The strategy seeks to (1) facilitate market entry, market access, management and production in the agricultural and manufacturing sectors; (2) create a more favorable policy environment; (3) develop Arab institutions both public and private and (4) improve social services particularly in the areas of health, education and housing.

The dual strategy objectives of improving the quality of life and promoting economic and institutional development in the Occupied Territories remain valid today despite continuing civil unrest and a difficult operating environment. Institutional procedures and organizational capacity have been consolidated over the last twelve months. Recent events have not significantly curtailed the activities of the Regional Development Committees (RDCs) nor inhibited selection of new projects. The Jordan WB/G Program continues to function and significant progress has been achieved. The commitment of the Jordanians to implement their program appears undiminished despite the obvious difficulties.

II. Program Support for the West Bank and Gaza (WB/G)

As stated above, the Jordan WB/G program has evolved into a comprehensive, multifaceted undertaking which includes the following major components: (1) municipal social and infrastructure projects, (2) larger, regional-impacting "flagship" projects and (3) credit guaranty programs, working through local financial institutions, for housing, industry and agriculture. Municipal projects, which constitute the "backbone" of the program, are well underway with the credit guaranty program and flagship projects targeted to come on-line in late 1988.

The objective for the "flagship" projects will be to stimulate complementary private investment in areas where growth potential exists or where "under-investment" poses a major constraint to further social and economic development. In short, these projects will be highly visible efforts with important linkages to the productive sectors. The purpose of the Credit guarantee programs is to stimulate private initiative and encourage domestic capital formation through improved financial intermediation. The Cairo-Amman Bank (CAB), the only Arab financial institution operating in the West Bank, is the focus of efforts designed to mobilize local savings and encourage productive investments in the West Bank. Housing needs will be addressed under a $15.0 million AID Housing Guarantee (HG) Program for the West Bank through the CAB. To address agricultural and industrial development GOJ bonds will be purchased, from the proceeds of the initial $14.0 million cash transfer, for $3.0 million to provide collateral support for medium to long term lending using CAB resources.

With regard to the feasibility of project activities financed by local currencies, assistance for municipal social and infrastructure projects is limited to those which are fast disbursing, stand-alone projects which have a definite beginning and end; i.e., not part of a larger project or a stage of such project. In addition, salaries, operating expenses, maintenance and other on-going expenses are not eligible for funding. Applying this criteria results in support for projects which are most viable and contribute toward upgrading the quality of life in West Bank and Gaza communities.

The municipal projects component of the WB/G program has been the most active component of the program. As of May 30, 1988 funding allocations for first list, municipal projects totalled approximately JD 4.4 million ($12.3 million) of which JD 2.9 million ($8.1 million) were committed in the form of tenders awarded to individual contractors. Of this amount expenditures totalled approximately JD 2.0 million ($5.6 million). Procedures for the identification, approval, monitoring and reimbursement of individual projects are now well established and functioning smoothly. The additional $ 7.0 million add-on under this amendment will continue our support for municipal social and infrastructure projects. Specifically the entire amount is to be programmed against projects on the second project list, part B. USAID's initial $ 4.5 million contribution to the Jordan WB/G Development Program supported first list projects as stated above and $ 5.5 million from the initial $ 14.0 million cash transfer supported second list projects, part A.

The second list contains the same types of projects in water, health, social services, education and roads as the first project list and will be implemented in the same manner as the first list with USAID supporting approximately one third of projects from each list. The only change is in the procedure for drawdowns from the special account to pay for individual projects. Under the original cash transfer agreement, projects were recommended to a four member committee for project funding from the special dinar account. The committee was comprised of a representative from the Ministries of Finance, Occupied Territories, Planning and USAID. Under the new arrangement, GOJ funds will be utilized up-front to pay for individual projects. The GOJ will then compile a list of eligible projects for reimbursement from the special dinar account. This list will be submitted by the Ministry of Planning to USAID for approval of drawdowns from the special account.

The impact on program implementation of the Palestinian uprising will depend on the evolution of events. A worse case scenario in which massive resignations of CIVAD employees followed by imposition of marshal law cannot be ruled out. This would eliminate Jordanian administrative presence and severely limit their implementation capacity. On the other hand, the continuation of the present level of disturbance would not affect the Jordan program significantly but would continue to slow the pace of implementation. A return to the status quo ante appears unlikely at this time in the absence of an interim arrangement leading to long term peace settlement. While Jordan is an important player in the peace process, clearly there are many variables beyond the control of the Government of Jordan.

III. Implementation and Monitoring Arrangements

As provided for in the original $ 14.0 million cash transfer agreement, the purpose of the additional $ 7.0 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 WB/G development program. The procedures outlined below remain consistent with initial Congressional requirments 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 deposit the dollars into the existing special dollar account within the Central Bank of Jordan.

As already provided, funds in this special account will be drawn down in an amount equivalent to executed letters of credit (L/C's) for U.S. imports. The Central Bank of Jordan will continue to submit L/Cs to AID for its review and approval. The dinar equivalent of the dollar drawdowns will then be deposited in the dinar account. The dollars will continue to 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. 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 enviroment. 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 continue reporting on the funding status of both accounts to USAID/Jordan.

B. Program Management

Timely and effective policy dialogue as well as monitoring the implementation of the Jordan WB/Gaza development program has required close regional post coordination and reporting.

Monitoring arrangements have been made with Congen/Jerusalem and Embassy Tel Aviv to carry out "spot checks" to verify project status and overall program progress. The modus operandi defined in the Management Plan approved by STATE/AID has worked well, both in raising pertinent issues and coordinating the USG response. We intend to continue our bi-monthly reporting on individual project status, as reported to us by the Jordanian government. We will track the GOJ overall program with emphasis on those projects funded by the USG. Periodically, we will do program pipeline analysis and evaluate program implementation progress. The policy issues of free trade and financial market development will be an on-going dialogue effort. As significant events occur or when new positions are defined by key government officials, there will be targets of opportunity, e.g., EEC negotiations with Israel on WB/G product labelling and export marketing to Europe. Regional working level meetings to discuss potential problems and ways to better coordinate efforts are being held every six months between Embassy Amman and Tel Aviv and Congen Jerusalem. The next meeting is tentatively scheduled for September, 1988.

The current environment of civil unrest in the Occupied Territories poses additional challenges for USG personnel attempting to monitor program progress. During the March Regional meeting in Amman, there was a concensus among working level staff representing regional posts that the current conditions while more difficult did not pose insurmountable difficulties. The excercise of management oversight in the face of civil unrest is still possible despite some travel restrictions and limitations on local contacts.

The March regional meeting also discussed the operational plan for addressing economic constraints affecting the WB/G. The need to focus on those constraints which are both "do-able" and promised a high "payoff" in economic terms was stressed. The numerous constraints listed (STATE 58453), if left un-prioritized according to the above criteria, posed the risk of dilution-of-effort and make even more problematical effective regional coordination. It was agreed that a carefully selected group of constraints should be the focus of our efforts over the next 18 months. As a result the working level staff felt that agricultural policies and the creation of Arab marketing institutions should be supported at this time.

IV. Economic Analysis

Recent balance of payments and fiscal developments in Jordan continue to validate the rationale and need for a cash transfer to underwrite Jordan's development expenditures and support Jordan's development program for the West Bank and Gaza.

A. Balance of Payments

In 1987, Jordan's external position deteriorated substantially. Workers' remittances, the mainstay of Jordan's balance of payments, and offical unrequited transfers, predominantly Arab aid, were at their lowest levels since 1978. Central Bank reserves also diminished, while the burden of foreign debt increased. Details of these developments are outlined below.

Trade Balance. Following four successive years of decline, imports swelled by 11 percent in 1987 to reach $2,694 million. Increased volumes and prices paid for oil imports were a major cause of this increase. According to a Central Bank source, a contributing factor was also an increase in imports of items ultimately destined for shipment to Iraq. Improved export performance was insufficient to offset the rise in imports; thus the trade balance rose for the first time in four years, reaching $1,762 million. After stagnating for two years in a row, domestic exports rose by 14% in dollar terms to $734 million. Bolstered by the sale of civil aircraft from the national airline, re-exports more than double to total $198 million.

Services Balance. In 1987, Jordan's current account surplus in services was $824 million, its lowest level since 1979. The poor performance in services was chiefly the result of a $247 million fall in workers' remittances from $1185 million in 1986 to $938 million in 1987. Other contributing factors were a fall in investment income, reflecting Jordan's lowered foreign exchange reserves and consequent loss of interest income from this source, larger payments for transportation, and higher interest payments on foreign debt. On the bright side, receipts from travel and tourism gained 8% reaching $580 million (A historic high); earnings from sea and air transportation recovered to prior year averages of some $350 million after a sharp drop to $260 million in 1986; and remittances by expatriate workers in Jordan declined by a quarter to $184 million.

Goods And Services Balance. The deficit in goods and services provides, in Jordan's case, the best measure of Jordan's external financial gap. It is this deficit which must be financed by a combination of unrequited official transfers, external borrowing, and drawdowns on foreign assets. In 1987, this deficit widened by $212 million to $938 million. Despite this deterioration, the gap registered in 1987 was, with the exception of last year, lower than anytime in the past ten years. The deterioration in the last year, reflecting a widening of the trade gap and downturn in remittances, demonstrates the volatility of the factors affecting Jordan's balance of payments.

Transfers And Current Account Deficit. Unrequited transfers, predominantly Arab grant assistance, fell by nearly $100 million in 1987 to $588 million, their lowest level since 1978. As a result of the widening trade deficit, reduced services surplus, and lower transfers, the current account deficit expanded seven fold from a modest $46 million in 1986 to $349 million in 1987. In effect, the current account deficit, equivalent to 6.3% of GNP, has returned to levels registered in the early 1980's. The low current account deficit in 1986 must largely be viewed as an aberration, chiefly the result of Jordan's lower fuel bill that year as a result of cheap world oil.

Capital Account And Overall Balance. Jordan's capital account surplus increased by $78 million in 1987. Taking into account a positive errors and ommissions item of $17 million, the overall balance of payments deficit reversed from a positive $52 million in 1986 to a negative $108 million in 1987, signalling a like deterioration in the Jordan's foreign asset position. In short, Jordan had to drawdown on foreign exchange reserves in 1987 to cover the widening current deficit.

B. Foreign Exchange Reserves and Foreign Debt

Gross foreign exchange reserves of the Central Bank showed little change ($400.6 million compared to $406.5 million the year before). Net official foreign exchange reserves fell $236.2 million to $174.5 million largely as a result of a $216.69 million increase in deposit liabilitities stemming from a year-end "overnight" loan from the Arab Bank LTD. designed to "Window Dress" the gross figure. In addition, a sell-off of 62 thousand ounces of gold in May 1987 caused a further drop of $28-29 million in the foreign asset position of the Central Bank.

The need to finance current account deficits in the range of $250-350 million annually in the past five years has not only caused a rapid drawdown on Jordan's foreign exchange reserves but also resulted in a dramatic rise in foreign debt. In 1980, Jordan's public external debt totalled $1241 million, equivalent to 32% of GNP. By year-end 1987, foreign debt totalled $3833 million equivalent to two-thirds of GNP. A significantly larger portion of this much greater debt is now on harder, commercial terms. Borrowings from foreign banks and other commercial sources now comprise 37% of total foreign debt as against only 17% in 1982. Debt service on this debt is escalating rapidly, and at $564 million in 1987 is more than double the level of $242 million three years ago. Moreover, debt service payments on existing debt will rise dramatically in the next few years, reaching $788 million in 1989. While Jordan's debt service ratio, calculated as the ratio of debt service to goods exports, workers' remittances, plus other major services, remains within tolerable limits - 19.4% in 1987, it has risen rapidly from the 7-8% rates prevalent between 1981 and 1984. Moreover, other signals of Jordan's debt burden are worrisome: the high proportion of debt to GNP and the expected rapid rise in debt service payments on existing debt.

C. Fiscal Developments

Jordan's fiscal gap remains very substantial, and support for the West Bank and Gaza Development Program represent a new and additional fiscal burden.

Government expenditures, following sharp rises of 12% in 1985 and 22% in 1986 expanded in 1987 by a more modest 3%. The 1988 budget forecasts 6.6% growth in government expenditures, a considerable boost to aggregate demand given Jordan's zero inflation. While subsidies and transfers continue to be reduced from JD 50.8 million in 1984 to JD 8.4 million in 1987, other items in current expenditures have all increased. Major contributors to the JD 116 million rise in current expenditures from JD 488.1 million in 1981 to JD 604.5 million in 1987 were increases of JD 37 million for personnel, JD 56 million for defense and security, and JD 35 million for interest payments. Capital expenditures and net lending in the past three years rose by JD 166 million, substantially more than current expenditure. A major factor in the higher capital expenditures was a near doubling in payments of principal on debt from JD 46 million in 1984 to JD 90 million in 1987.

On the revenue side, income tax, customs, and excise collections continued to stagnate, if not decline between 1984 and 1987, largely reflecting the lower levels of economic activity and reduced imports. Total domestic revenues, however, increased by JD 135 million between 1984 and 1987 largely due to increased collections from fees and the windfall gained by maintaining domestic prices for petroleum and government imported basic foodstuffs at 1985 prices despite very substantial reductions in world prices for these items since then.

Over the period foreign grant budget assistance has been extremely volatile, rising from JD 106 million in 1984 to JD 188 million in 1985, then dropping to JD 144 million in 1986 and JD 134 million in 1987.

The combined result of higher expenditures and falling budget support from Arab states has been a sharp rise in the government deficit that needs to be financed by concessional lending from foreign donors, and with other foreign and domestic borrowing. In 1986 and 1987, the deficit (after including foreign grant aid) totalled JD 310 million, equivalent to some 16% of GNP as against deficits averaging some 8-9% of GNP between 1981 and 1985.

D. Conclusion

With these widening deficits and the liklihood that domestic revenue collections will remain low as will Arab grant aid, Jordan's ability to finance needed development expenditures and support the West Bank and Gaza development program is increasingly constrained. The deterioration in Jordan's balance of payments in 1987, coupled with the decline in foreign exchange reserves and the mounting cost of foreign debt amount to a widening foreign exchange gap. The cash transfer to support Jordan's development budget and the development program on the West Bank and Gaza is thus also fully justified on balance of payments grounds.