PD-AAV-647

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: JORDAN

3. PROJECT NUMBER: 278-HG-001

4. BUREAU/OFFICE: NEAR EAST — 03

5. PROJECT TITLE (maximum 40 characters): Low-Cost Housing Finance

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 30 YY 90

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4): GUARANTY AUTHORITY

A. Initial FY 85 B. Quarter C. Final FY 85

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 86 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) USAID- TSFS	(100)	( )	( )	(250*)	( )	( )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. Housing Guaranty		5,000	5,000		25,000	25,000
Other U.S. 2.						
Host Country Beneficiary Downpayment		1,300	1,300		3,300	8,300
Other Donor(s)						
TOTALS	100	5,300	6,400	250*	33,300	33,550

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) HG	723		853	-	-		25,000		25,000
(2) USAID	790	800				250*		250*	
(3) *To be funded under separate project.									
(4)									
TOTALS						250*	25,000	250	25,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE: 723

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

Increase the participation of private developers in the low-income housing market.

Increase the availability of long-term mortgages for purchase of units affordable by low-income families.

14. SCHEDULED EVALUATIONS: Interim MM 09 YY 83 MM YY Final MM 00 YY 01

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☐ 941 ☒ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ___ page PP Amendment.)

FILE
COUNTRY Jordan PROJ. TITLE Low Cost Housing
PROJ. # 278-HG-001 BIB CODE 26

17. APPROVED BY: Signature: Gerald F. Gower — Title: — Date Signed: MM 07 DD 19 YY 85

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

JORDAN LOW COST HOUSING PROJECT

PROJECT PAPER

278-HG-001

SEPTEMBER 19, 1985

J

I. SUMMARY AND RECOMMENDATIONS

A. RECOMMENDATION

That subject to the terms and conditions of the Project Authorization (Annex B), an authorization of $25 million Jordan Housing Guaranty (HG) Program (Project 278-HG-001) be approved as herein described.

B. BACKGROUND

In the past, AID's activities in the urban field in Jordan have included a housing construction and mortgage project for the Jordan Valley Development Program, investments in water and sewerage in major urban areas and technical assistance for urban transport. The Regional Housing and Urban Development Office (RHUDO) has also provided technical assistance in the analysis of housing finance. In this connection a study of the possibility of developing a secondary mortgage market was completed in November 1983.

More recently, the Government of Jordan (GOJ) has, recognized the need to develop a comprehensive national shelter strategy and to monitor the implementation of government housing policies so as to provide for the needs arising from rapid urbanization on a sustained and less costly basis. To this end, the GOJ has requested AID assistance with the design of such a strategy and with development of a unit within the Ministry of Planning to carry out the related functions.

Selection of a contractor to provide the TA is underway, as is an Urban Development Assessment (UDA) which has the objective of analyzing the economic conditions effecting urban change in Jordan, with special emphasis on the prospects for employement generation. The GOJ has also evidenced interest in utilizing the Housing Guaranty resource as a potential for funding its shelter programs, leading to preparation in November, 1984, of a report on the "Potential for a Housing Guaranty Program in Jordan". Drawing on the conclusions of this report, the AID Mission and the RHUDO decided to move ahead with consideration of an HG Program, and the Jordan Housing Bank (JHB) requested an HG loan to expand its programs and support greater private sector involvement in the production of low-cost shelter.

A Project Identification Document (PID) prepared in March, 1985, recommended design of a $25 million HG and was approved in May 1985 (see PID approval cable, Annex D).

C. THE PROBLEM TO BE ADDRESSED

One of the main urban development challenges facing Jordan is how to meet the increasing demand for adequate shelter that arises from urban growth rates of 5% per annum. Despite a sizable housing investment, equivalent to 6.5% of GNP, it is now clear that lower income groups have not benefitted significantly. The formal housing delivery system faces several constraints in providing affordable housing to this segment of the population, including:

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- the absence of a comprehensive government shelter strategy;
- high land and housing construction costs which reflect, in part, excessively high construction and land use standards; and,
- inadequate encouragement of private sector participation in the production of affordable housing for lower income families.

The above constraints, when combined with the cultural characteristic that Jordanian families - even poor ones - prefer to wait to buy a house until they can afford a large house, have led to the production of predominately high-cost units. As a result, low income families tend to rent overcrowded housing with inadequate facilities at high rates relative to income, and vacancies occur because of overbuilding of higher priced units.

Some developers have considered lower cost housing projects for lower income groups but have been faced with high land costs, and standards, and the fact that the GOJ has until recently relied primarily on publicly subsidised programs to serve lower income groups.

But perhaps the major reason private developers have not built for the low-income market is their perception that low-income households will not purchase "affordable" units, that is a unit which is smaller and built at the lowest permissible standards than what they eventually hope to own.

The country does have an excellent housing finance structure. The Jordan Housing Bank is the major source of formal housing finance, but it has traditionally loaned money for housing only to families who already owned the land on which the housing was to be built in an attempt to ensure that JHB credit is not used to finance speculation in land.

JHB's "individual" loan program, intended to serve lower income households, currently provides access to mortgage credit up to a maximum of JD 7,000 ($17,500) for those families willing to spend 30% of their income on housing payments, provided they own a building site. This program, however, is not targetted specifically to low-income families. In addition, the number of loans made through this program has been declining, while the number of loans JHB has been making to upper income households through other programs has been increasing.

This project seeks to address these constraints.

D. SUMMARY PROJECT DESCRIPTION

The proposed project will provide up to $25 million in Housing Guaranty funds to be made available to the Jordan Housing Bank to provide for long term mortgages for houses affordable by families below the median urban income level. The Central Bank or the JHB, acting on behalf of the Central Bank, will be the borrower of the HG funds with repayment guaranteed by the GOJ. Under this latter arrangement, the JHB and the Central Bank will be jointly and severally liable for payment under the loan.

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The overall goal of the project is increased availability of low-cost housing in Jordan for families with incomes below the median, which is consistent with the GOJ's Development Plan Objectives. The project purposes are to (a) increase the participation of private developers in the low income housing market; and (b) increase the availability of long-term mortgage credit for housing that is affordable to lower income families.

One half of the HG funds will be used to finance mortgages for housing built by private developers and affordable to the target population. The remainder will be used to finance mortgage loans for housing under JHB's Individual Loan Program. Both components will have specific income and appraised value limitations.

The primary input to the project will be the $25 million of HG resources from AID. This will be supplemented by $250,000 in grant funds to provide for technical assistance to the JHB in structuring its program with the private developers.

In addition the JHB will provide construction financing from its own resources and private developers will put up some of necessary working capital during the construction phase. Beneficiaries will in most instances put up at least 25% in down payments. These contributions will result in total inputs of $33.3 million.

The directly quantifiable outputs of the project will be the financing of almost 1,500 low-cost housing units financed with long-term mortgages. On the institutional side, the private sector's capacity and willingness to deliver low-cost shelter units will have been established and the feasibility of meeting the housing needs for lower income families on an unsubsidized basis will have been demonstrated.

The proposed project is targetted to urban families with incomes below the 50th percentile of the urban income distribution. The best estimates at this time place the median urban family income at JD 250 ($625) per month.

F. ISSUES AND CONSTRAINTS

The Project Identification Document Approval Cable (see Annex D) identified several issues to be dealt with during the project design stage and covered in the Project Paper. These issues are as follows:

1. Funding Level

The NEAC noted that the proposed funding level of $25 million is an increase from original estimates of $10 million for this project. Given the "experimental" nature of the project, the NEAC suggested that the USAID should consider incrementally funding the project with tranches of $15 million and $10 million, respectively, and to perform a mid-term evaluation after the first $15 million had been disbursed. It was also noted that the Urban

Development Assessment currently underway and the National Shelter Strategy to be developed with AID-assistance may identify other project possibilities to pick up any slack in the proposed project.

The project is designed to demonstrate a viable method for encouraging private developers to build low-cost units and sell them to eligible low-income beneficiaries. The design team's review of the feasibility of this approach clearly indicates a willingness and interest on the part of larger developers such as REFCO to lower standards and to test the low-income market. In fact, REFCO has submitted a proposal to utilize as much as $25 million to build units that are within a price range that is clearly affordable to low income groups. It, moreover recognizes the experimental nature of reaching the low-income market, and its proposal has provisions for starting out with an initial pilot project to test the market. (See Section VII A). This proposal clearly demonstrates REFCO's anticipation that units can be built and marketed according to program guidelines.

The project design recognizes the experimental nature of the project, and proposes, following the NEAC suggestion, that the program be funded in two tranches. Approval for borrowing the last tranche of $10 million would occur after a mid-term evaluation of the project's success in reaching the objectives of encouraging private developers to build and sell units to low-income groups at prices they can afford.

Furthermore, the JHB, prior to seeking an investor, will be required to provide a Program Implementation Plan which will estimate the number of HG eligible mortgages that they expect to make. These estimates will be broken down by (a) mortgages to individuals made through the individual mortgage program, and (b) mortgages that will be initiated through developer-initiated low-cost unit projects for which JHB will provide the construction financing from its own funds. These estimated projections will be monitored throughout program implementation to measure progress in meeting the established goal of half of the HG-eligible mortgages going for units produced by developers that meet program price guidelines.

If the initial response is favorable in terms of developers applying for construction finance from JHB to produce low-cost units, and HG-financed mortgages are generated accordingly, then there should be a cumulative effect that will result in meeting program objectives. If, however, there appear to be problems in promoting the program by the JHB to the developers or marketing the units by the developers to the low-income beneficiaries, and these problems cannot be adjusted for, then AID will reserve the right to reprogram the last $10 million for use in other related activites. The Housing Program Agreement will include provisions to this effect (See Section V E).

2. Sale of Housing Units to Target Beneficiaries

The PID envisioned initial disbursements in the project tied to construction loans for affordable units to be sold to target beneficiaries. Such construction financing was to be eventually converted to the eligible long-term mortgages that must eventually support the $25 million in HG funds. The concern was that funds would be disbursed for construction loans against units that might eventually be sold at a cost not affordable to the target group or be sold to families with incomes above the median.

It was decided during the project design phase and agreed to by the Jordan Housing Bank that, except for a $5 million advance to get the project off the ground, subsequent disbursements would be made in amounts equivalent to 90% of the eligible long-term mortgages made by the JHB. The JHB will be required to certify the eligibility of these mortgages, and to maintain adequate records for monitoring the project. The final disbursement will require the JHB to account for any remaining balance of the advance by furnishing certification of eligible long-term mortgages sufficient to do that.

As stated, the project will require certification by the JHB that eligible mortgages have been made to support each disbursement except for the first advance and to eventually liquidate that advance. By definition, eligible mortgages will have been made only to those with incomes at or below JD 250, the median income level. This is the first level of control relative to project compliance with HG requirements for target beneficiaries. Monitoring procedures set up by the RHUDO will also ensure that those mortgages financed under the HG project have been made to eligible beneficiaries.

3. Environmental Concerns

All environmental concerns raised in the PID Approval Cable have been addressed in Section VII B and written confirmation will be required as appropriate in the Implementation Agreement.

4. Debt/Risk Analysis

Section IX C and Annex O contain an updated debt/risk analysis and the USAID Mission's conclusion that Jordan has the capacity to assume the additional foreign debt burden that will result from the proposed HG loan.

5. Evaluation Plan

Section V F contains the Evaluation Plan with provision for a mid-term and a final project evaluation which meets the requirement of the PID Approval Cable.

6. Implementing Agency

The JHB will be the implementing agency for the project, and the Central Bank will be the borrower or the JHB will borrow funds acting directly on behalf of the Central Bank. Section III C 1 details the borrowing arrangements.

7. Other Donor Activities

The proposed project is complementary to the World Bank-funded projects which are carried out by the Urban Development Department (UDD) of the Amman Municipality. Beneficiaries of the World Bank's sites and services and upgrading projects will be eligible for long-term mortgages provided through the JHB with HG resources.

The World Bank has played an important role in getting the government to set up a Shelter Unit in the Ministry of Planning. The unit will also benefit from an AID Technical Assistance Grant. AID and the World Bank consult regularly on development of the shelter sector. (Section III B 4 provides more details on the World Bank's role in the Jordan shelter sector.)

8. Construction Standards

Section VII A provides an outline of the construction standards that must be employed if affordable housing for the target group is to be built. If developers and individuals do not produce houses at this level the mortgages will not be financed from HG funds.

9. Technical Assistance

Technical assistance will be provided to the JHB in actively working with private developers to promote the program. Additionally, technical assistance will be provided to developers in project design and marketing, as appropriate. Bottlenecks in the shelter delivery system related to low-cost housing will be identified during project implementation, and technical assistance funds will be used to analyze these constraints. (Details are contained in Section III C 5.)

II. THE SHELTER SECTOR IN JORDAN

Jordan is a country of less than 3,000,000 people that has become home to some 700,000 refugees since 1948. Even though many of the refugees continue to live in UNWRA camps, hundreds of thousands have left the camps to take up residence in other parts of the nation. These refugees share a cultural heritage that places great emphasis on housing.

There were approximately 370,000 households in Jordan at the end of 1984 with a total population of 2.7 million persons. The population also includes approximately 110,000 foreigners living and working in Jordan but most of these are young men without families who live in communal living arrangements and consequently are not counted as households. The rate of growth of the population is approximately 3.6% per year, with urban areas growing at about 5% annually, including migration from rural areas. Some 70% of Jordan's total population lives within 30 kilometers of Amman, the country's capital and economic center. According to the 1979 Census, some 60% of Jordan's households were urban, many of whom were in the greater Amman area. Rural-to-urban migration has continued over the years since the census, so most of the need for new housing is concentrated in the urban areas, primarily greater Amman.

According to Jordan's 1981-1985 Five Year Plan for Economic and Social Development, "Jordan still suffers from a shortage in suitable housing, especially for limited, low and very low income groups." The plan cites studies that indicate annual housing needs to be 16,000 units, though that number can vary depending on various assumptions for new household formation, replacement of existing stock, and the rapidity and extent to which overcrowding is reduced. The national average for the number of persons per room was 2.6 in 1979 (up from 2.5 in 1972), but this index of crowding exceeds four in lower income neighborhoods. According to the World Bank, an estimated 41% of the urban population share housing at the rate of four or more persons per room. While only an estimated 7% of the urban residents live in high-density squatter settlements, which is low for a developing country, these settlements have grown in recent years. Typically, these neighborhoods are characterized by a lack of essential services and basic infrastructure, giving rise to unsafe and unsanitary conditions.

The Amman area has a surprisingly high vacancy rate, variously reported to be as high as 13 per cent, but the vacancies are not among the lower income housing units. The vacancies are occurring primarily among units costing from JD 30,000 to JD 50,000. Though many of these vacancies can be blamed on Jordan's rent control laws and the extensive rights that tenants tend to have, there is no doubt that this part of the housing market, which is where much of the activity of developers has been directed in recent years, is overbuilt.

As a result, some developers have considered lower cost housing projects, but land costs are high, minimum site sizes are large, and construction costs reflect high building standards. Thus, it is difficult to reach the lower income part of the market where the greatest shortage of housing exists.

These constraints have contributed to the private sector's inability to address the needs of lower income groups by making it difficult to assemble large tracts of land for building and selling large numbers of units. Moreover, until recently the GOJ has traditionally relied on government-subsidized programs to reach low-income groups providing the Jordan Housing Corporation (JHC) with access to public lands and funds at very low rates.

But perhaps the major reason that private developers have not been more active in building for lower income families is not high standards imposed by the building codes but their perception that these families will not buy an "affordable" unit; that is, a unit which is smaller and at the lowest permissible standards than what they eventually hope to own. The proposed project seeks to demonstrate that there are alternatives to long waits and an excessive commitment of income. The social factors which will bear on the success of developers reaching the lower income market are discussed in detail in Section VIII, Social Soundness Analysis.

A. THE INSTITUTIONAL FRAMEWORK FOR HOUSING IN JORDAN

1. The Government Sector

a. The Development Plan

The 1981-85 Five Year Plan for Economic and Social Development allocates 8.8% of public sector investment for public housing, in addition to which substantial investments will be made in related urban services such as water, sewage and electricity. The general budget was scheduled to provide less than 6% of the total investment in housing during the plan period. A total of 86,041 housing units are projected to be completed in Jordan, or just over 17,200 units annually, with the private sector expected to play a major role.

The list of goals set forth in the Plan are as follows:

- To require the Jordan Housing Corporation to construct 17,500 housing units intended for government employee housing as well as housing for middle, low and very low income groups.

- To ensure the participation of specialized credit corporations, primarily the Jordan Housing Bank, in the financing of 60,000 housing units to be constructed by the private sector and housing cooperative societies, with special emphasis on housing for the low and low income groups.

- To encourage private sector investment in residential buildings and mobilize savings for this purpose.

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- To lower the cost of construction and of lands allocated for housing.

- To encourage the establishment and development of a building materials industry, particularly those segments of industry which utilize local raw materials.

It is evident from the Plan's quantitative objectives and its goals that increasing emphasis is being given to encouragement of private sector participation in resolving the nation's shelter problems.

The Plan also calls for a series of organizational measures that are needed to achieve its goals. These include taxing vacant serviced land and large units; increasing the mobilization of savings through the creation of savings and loans associations; applying financial incentives to housing projects constructed by the private sector for low-income groups; reducing costs by increased density; use of local materials and upgrading efficiency in planning implementation and supervision of construction; and developing a secondary mortgage market. In addition, there are a series of measures aimed specifically at the Jordan Housing Bank which include raising the ceiling of its credit to the JHC, requiring it to give priority in its lending to the low and middle income groups, and requiring it to support the establishment of a local building materials industry. These measures indicate the extent to which the GOJ views the JHB as an instrument of housing policy despite the fact that the JHB is largely a privately owned bank expected to pursue a profit maximizing position which need not necesarily be consistent with the "required" measures.

b. Government Policies

There is no office in the GOJ where housing policies and programs are developed and the endeavors of the various government agencies involved in housing are coordinated. There is as yet no comprehensive national shelter policy. In fact, data on how well the 1981-85 Plan targets have been met are lacking.

The government has recognized this problem and, at the urging of the World Bank and with assistance to be provided by AID, has created a new Shelter Unit in the Ministry of Planning. This Unit will, among other things, be charged with developing a National Shelter Strategy (NSS) by the end of calendar 1986 as well as with developing programs for inclusion in the new Five Year Plan. Ministry of Plan officials have indicated that they attach high priority to this unit.

The United Nations Center for Housing and Human Settlements has provided an expert to head the Shelter Unit temporarily. AID will finance two resident advisors and a series of short-term experts to assist in the establishment of the Unit and to carry out the necessary studies. Finally, the Royal Commission on Public Administration, established in 1984 to review the organization and staffing of public sector institutions, is considering the creation of a Ministry of Public Works and Housing which could eventually be the home of the Shelter Unit.

The objectives of this policy redirection will include assessment of the shelter needs of lower income families, identification of constraints in the delivery system and the resources and policies required to overcome such constraints, development of a viable institutional framework to set shelter policy and monitor its implementation, redirection of the mix of investment resources toward lower income target groups, and assessment of the opportunities for minimizing subsidies. The NSS study will, among other things, assess land policies and indicate measures to reduce the cost of land. It will also look at such things as the effect of various taxes on prices. Among these is the 10% transfer tax which tends to raise the cost of housing to individuals and discourages households from purchasing more than one unit in their lifetime.

It is clear that some of the policy issues to be reviewed by the NSS will be important in the implementation of this project; e.g., standards, the effect of current standards and zoning regulations on low-cost development, and the 10% transfer tax and its impact on consumer behavior. During implementation, there will be an attempt to evaluate the impact of these issues on project progress and how much of a constraint they turn out to be from the perspective of the JHB and the private developers.

2. GOVERNMENT HOUSING INSTITUTIONS AND PROGRAMS

a. General Background

As stated above, there is as yet no one coordinating agency in the GOJ which oversees government housing programs. The Development Plan sets the goals and policies, and various agencies carry them out.

The Ministry of Municipalities and Rural Affairs and the Environment (MMRAE) oversees urban administration in Jordan, through some 125 municipal governments and over 200 village councils which report directly to the Ministry. The Municipality of Amman, however, enjoys a more independent political status: the city's Lord Mayor has ministerial rank, and its budget is approved by the Prime Minister rather than the MMRAE. Additionally, the Municipality is responsible for planning within its jurisdiction. Some of the government agencies which carry out housing programs also handle the financing of the housing.

The major government institutions involved in housing are described in Annex H, and briefly summarized below.

b. The Jordan Housing Bank

The JHB was established in 1974 under government auspices to support and encourage housing and construction activities in Jordan.

Approximately 90% of the paid-up capital has been contributed by the private sector with the balance coming from the government. Although the JHB is largely privately-owned, the government retains considerable control, and the JHB serves as a major instrument of government housing policy. Under the 1981-85 Development Plan, JHB was expected to provide close to 20% of the financing needed to implement the GOJ's shelter production goals.

In addition to standard mortgage financing, JHB provides loans to the Jordan Housing Corporation as well as financing for the shelter activities of various other public institutions including the Urban Development Department (UDD). Section VI contains a detailed analysis of JHB.

c. The Urban Development Department

In 1980, the Municipality of Amman established the semi-autonomous UDD, expressly for the purpose of implementing the World Bank's first Urban Development Project (UDP-1), a $21 million project to assist low income families improve their housing and living conditions. Project finances flowed directly from the Ministry of Planning and the JHB outside of regular municipal channels. As UDP-1 nears completion, UDD is in the final stages of negotiating UDP-2 which will be financed with a second World Bank loan for $25.5 million in conjunction with government grants and JHB loans. Both projects provide for low-cost housing through a combination of serviced sites, upgrading schemes, and construction of minimum-standard units. Costs are recovered from project revenues, not budget appropriations.

d. The Jordan Housing Corporation

Established in 1965, the Jordan Housing Corporation (JHC) primarily acts as a housing developer for civil servants. JHC reports to the MMRAE, with the Minister serving as its Chairman. JHC's functions include purchasing land; designing, contracting and arranging the financing for housing construction for government employees and limited income groups; extending loans to housing cooperatives for housing construction; and making recommendations to the GOJ on shelter policy. Families with incomes reaching the 80th percentile in the income distribution are eligible for JHC's assistance, and beneficiaries are selected on a point system favoring government employees which, for all practical purposes, has excluded non-civil servants from having access to JHC's units.

While JHC is supposed to recover most of its costs over the long-run, in fact about half the costs of its housing units are subsidized. Typically, JHC builds on government land, which JHC often passes on to the homebuyer at no cost or without imputing its market value. On-site infrastructure and construction costs are also not fully recovered. In addition to direct contributions from the government, JHC benefits from loans at 4.5% which it receives from the JHB and on-lends at 5% a rate which is well below market rates. JHC has had the usual difficulty of completing projects on time and within budget.

Despite these problems, JHC has been an important force in Jordan's housing delivery system. Over the 15-year period between 1969 and 1983, JHC completed 9,438 units and had under construction another 4,871 houses, or a total of 14,309 units. Over 60% of its units have been built in Amman's urban area, usually in large projects. JHC's method of reporting the income level of beneficiaries is to classify the size of units by undefined income categories (e.g., a "poor" unit is defined as having less than 70 m^2), thus making it difficult to determine the real income distribution of its beneficiaries; however, it appears that less than half of its units have been purchased by below median income families.

e. Others

Other organizations which build or finance housing include: the Jordan Cooperative Organization which benefits from loans from the JHB and builds housing for cooperative members, most of whom are professionals; the Jordan Valley Authority which has built a limited amount of housing intended for residents of the Jordan Valley, nearly half of which are estimated to have been sold to other groups; and the Cities and Village Development Bank which supports housing indirectly by loans to municipalities for infrastructure and related services.

3. THE FINANCIAL SECTOR

a. An Overview

Jordan has a technically sophisticated financial system, regulated by its Central Bank along lines that are fairly typical of those found in most modern economies. The four major groups in the Jordanian financial system are all regulated in some fashion by the Central Bank. They consist of licensed banks (a term which includes commercial banks, investment banks and finance companies), specialized credit institutions, the Amman financial market, and a catch-all category that includes the building societies and various public funds such as the Post Office Savings Fund, the Pension Fund, and the Social Security Corporation.

For the most part, the licensed banks engage in all the normal practices associated with commercial banks and do not provide any finance for housing.

The specialized credit institutions are financial intermediaries with large elements of GOJ control or influence. The JHB is the cornerstone of this second major group in the financial sector. Apart from the JHB, the other specialized credit institutions include the Cities and Villages Development Bank, the Industrial Development Bank, the JHC which provides loans to purchasers of its units, the Agricultural Credit Corporation which finances some rural housing, and the Jordan Cooperative Organization which also may make housing loans. Total assets of these specialized credit Institutions in December, 1984, amounted to JD 591 million. Total loans were JD 375 million of which the JHB accounted for JD 246 million.

The third component of the financial system is the Amman Financial Market (AFM). Bond trading activity is limited because interest rates are fixed, virtually all bonds are government guaranteed, all are tax-exempt, and the Central Bank stands ready to redeem them at par at any time. The likelihood that such instruments as mortgage-backed bonds will be developed in Jordan would appear some way off at this time although it is under consideration. It would represent an expensive way for the JHB to obtain funds at present.

The fourth part of the Jordanian financial system is a series of savings and other institutions. Included among these are 33 insurance companies which operate in Jordan, offering a range of insurance services and investing, for the most part in stocks and real estate. Some of these "other" financial institutions, like the Postal Savings Fund, are older. Others, like the building societies (see below), are relatively new and have good prospects for growth in the future. Both the Pension Fund and the Social Security Corporation will grow inexorably by their nature, and should become important potential sources of long-term investment funds including housing.

The Central Bank clearly seems favorably disposed toward housing finance and indicates no real concern over the fact that a very large part of the savings of Jordanians are being channeled into housing rather than, say, industrial development. The attitude seems to be that directives and regulations may require increased lending to such sectors, but no attempts have been made to overtly discourage investment in housing.

b. Building Societies

A recent development in the housing finance sector is the emergence of private building societies. Somewhat akin to U.S. savings and loan associations, these companies are permitted to accept deposits and make mortgage loans. The building societies are organized under the Companies Act, but as deposit-taking institutions, they are supervised by the Central Bank which has encouraged their formation as a means to expand the country's savings mobilization efforts for investment in shelter. So far, building societies which have been organized as part of the operations of corporate developers.

Until about five years ago, banking regulations did not permit developers to act in a finance capacity, but larger private developers supported regulatory changes which they viewed as providing new opportunities for growth. The building societies must have JD 2 million ($5 million) in paid-up capital before applying to the Central Bank for a license, and in turn the Central Bank reviews their total operations for management and financial soundness. In general, the Central Bank considers it prudent for a developer to operate on its own capital for at least a year before allowing it to accept deposits. To date, two such societies have been licensed -- the Real Estate Finance Company Ltd. (REFCO) and Darco -- and another two firms have applied.

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The building societies will apparently operate very much like the savings and loan institutions in the U.S. that have a land development arm. The potential exists for them to account for an increasing share of the total desposits of the monetary system and to expand the availability of housing finance.

4. Private Sector Construction

a. Private Developers

There are two distinct types of full-time private developers. There are small, privately owned and managed developers who number around 30 in the Amman area, and there are about 10 larger corporate developers, although only one of them is doing work on a large scale. Speculative builders, who may in fact number in the hundreds in the Amman area alone, might also be considered as small private developers but they are generally not licensed as such and do not practice on a full-time basis.

Formal private developers must be officially registered and licensed in order to operate. In general, they have enough resources to buy land in advance of their projects, have access to formal credit if needed, maintain offices with technical and managerial staff to control and monitor projects, and agressively market their housing units both inside Jordan and to Jordanian workers in neighboring Gulf countries.

Differences between small private developers and corporate developers relate primarily to their legal status and organization; the procedures under which they operate; the size of their staffs and projects, and the fact that some of the corporate developers have authority to accept deposits and provide credit to their customers. (For a discussion of corporate and small developers see Annex H).

Of the several corporate developers active in housing construction, two have already expressed strong interest in building for lower income families. With an over supply of more expensive housing, there is a growing awareness that the building of more modest housing is the only market they can turn to if they still want to operate. But because this is a new market for them and because the practice in Jordan has been for families to hold out for a more expensive house, developers will be cautious. Inducing action in this regard is an aim of the proposed project.

b. Individual Housing Construction

Individual private sector development has supplied the majority of low income housing units in the Amman area. These units are built for the immediate benefit of the individual owners and his family, and only secondarily for investment purposes as rental units. (For a description of the process of individual development, see Annex H.)

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c. Informal Housing Construction

Informal housing construction in Amman includes two types of development. The first type concerns the creation of squatter housing areas in which initial dwelling units are built of very rudimentary and temporary materials such as corrugated tin. The second type involves owner-built expansion or improvement of existing units either through the direct hire of specialized labor or by contracting small scale builders and accounts for the majority of informal housing construction in Amman. Squatter settlements presently house about 7% of the urban population and are growing at a rate of less than 200 units per year.

III. PROJECT DESCRIPTION

A. GOAL AND PURPOSES

The goal of this project is increased availability of low-cost housing in Jordan for families with incomes below the median. The project's purposes are two-fold:

- To increase the participation of private developers in the low income housing market.
- To increase the availability of long-term mortgage credit for housing that is affordable to lower income families.

B. AID PROGRAM STRATEGY

1. Project's Consistency with Government Plans

The proposed project is in line with the GOJ housing goals of meeting the lower income urban population's requirements in a cost effective way and of having the private sector play a much larger role. It will address those needs by stimulating existing market forces to serve a wider segment of the population. It will increase the supply of units affordable to lower income groups by having the JHB work with private developers who build for this segment of the market. In conjunction with this, the effective demand for such units will be enhanced through improved access to mortgage credit for lower income purchasers.

2. Relationship to CDSS and other AID Urban Activities

The proposed project represents a continuation of USAID's developmental efforts in Jordan. In the past, USAID's activities in the urban and shelter fields have included a housing construction and mortgage project which was part of the Jordan Valley Development Program, investments in water and sewerage in major urban areas, and technical assistance in urban transport. RHUDO/Tunis' involvement has been to provide technical assistance in the area of housing finance.

At present, USAID/Jordan's activities in the shelter sector consist of financing, with RHUDO technical support, the National Shelter Strategy study which is expected to be completed in 1988. In addition, USAID/Jordan in collaboration with RHUDO/Tunis is supporting an Urban Development Assessment (UDA) which will focus on identifying areas for investment in the urban sector. Although the above studies are in a preliminary phase, USAID/Jordan feels that the need to expand the formal urban housing market to include lower income families is acute and warrants treatment at this time.

Both RHUDO and USAID view the JHB's interest in utilizing the HG resource as an excellent opportunity to address the issues of expanding credit and maximizing the participation of private developers. An HG loan to the JHB will create a working relationship and an appropriate context for AID to discuss long-term policy concerns. In the Jordan CDSS submitted in January 1983, the present project was shown in thr FY 85 resource allocation table, based on joint discussions between USAID and Ministry of Planning.

3. Implementation of Strategy

a. Short Term Activities (FY 1985)

In the short term the RHUDO will focus on a) assistance to the USAID Mission in the design and contracting of the Mission-funded technical assistance to the GOJ in the formulation of a national housing strategy, b) execution of the Mission/RHUDO funded Urban Development Assessment, and c) design and implementation of the HG loan.

b. Medium-Term Activities (FY 1986-87)

The national housing strategy assistance will be a two-year project with two resident advisors attached to a unit being formed within the Ministry of Planning, and it will provide funding for short-term consultants and training involving US and Jordanian universities. RHUDO will place a priority during the 1986-87 period on supporting these advisors.

When the Urban Development Assessment is completed, RHUDO will sponsor reviews with the Mission and the Government of Jordan and assist the Mission in formulating its urban strategy for the CDSS. RHUDO will assist the Mission during the 1986-87 period with the design of any projects and/or follow-on studies to the UDA.

The proposed FY 1985 authorization of the HG loan will involve financing over the 1985-89 period.

Proposed technical assistance in conjunction with the HG loan will provide funding for short-term technical assistance to assist the JHB in working with private developers to assemble projects for financing. RHUDO will also provide assistance to the JHB in support of its role as a member of GOJ housing policy councils, focusing on resource mobilization and the use of capital markets to encourage higher levels of production of low-cost housing.

c. Long-term activities (FY 1988 and on)

Proposed medium-term activities should produce a strategic framework, a consensus with the Government of Jordan, and designs for possible new urban programs beginning in FY 1988 as well as realistic strategies for the Government of Jordan for the longer term.

New projects would likely focus on: approaches to the problems of land assembly and development by the private sector for low income families; further improvement for credit flows for housing to low income families; and helping Jordan direct public and private urban investment decisions to maximize economic and employment growth.

Annex I is a specific formulation of the RHUDO Shelter Strategy for Jordan.

4. Coordination with Other Donors

The World Bank is the only other donor that has been active in the urban and shelter sectors in Jordan. It has carried out extensive economic and sector analyses as well as provided project financing related to urban development in Jordan. Based on its urban sector review, the Bank's strategy includes assistance towards improving planning and development planning in Amman and strengthening the capacity of local governments to plan, implement and manage functions for which they are reponsible. To support this strategy the Bank has provided loans to support water and sewerage projects, shelter projects and municipal projects. Its lending for shelter has consisted of $21 million in 1980 for the first Urban Development Project (UDP-1) for upgrading and sites and service activities. In implementing the project, the World Bank has worked primarily with a public sector agency, the UDD and used the JHB only as pass-through for the funds. More recently, the Bank has approved funding of $25.5 million for a second Urban Development Project (UDP-2) which builds on the first project and does not differ significantly in its focus; namely, urban upgrading and sites and services in Amman.

Coordination and collaboration with the World Bank on shelter policy has been primarily through discussions on the National Shelter Strategy, which the Bank had originally proposed, and extensive exchange of information on project development. The Bank has expressed interest in and support for the approach being undertaken by AID in the current HG project and is also considering moving away from a specific project approach to a more programmatic basis for future loans. It had considered adding a component for encouraging more private sector involvement in UDP-2. Additionally, some of the sites serviced under UDP-1 and UDP-2 are intended for sale to developers on commercial terms. Thus, the Bank sees the HG project financing of mortgages for developer initiated projects as potentially beneficial and complementary to its land-marketing program.

C. DETAILED PROJECT DESCRIPTION

1. The Borrower

The Central Bank or the Jordan Housing Bank on behalf of the Central Bank will be the borrower - the JHB is fully authorized to carry out all foreign currency transactions, and, as such, could select a U.S. lender and negotiate the loan with a US lender. The Loan will be guaranteed by the GOJ. The Central Bank will exchange Jordanian Dinars for the dollars under an arrangement that assures that the JHB will maintain acceptable levels of profitability. Under such an arrangement, where the JHB is the borrower, the Central Bank and the JHB will be jointly and severally liable for repayment of the US loan, and the Central

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Bank will take the exchange risk.

A decision by the GOJ to have the JHB negotiate the HG loan directly, on behalf of the Central Bank, would be consistent with the approach taken in the recently authorized IBRD program. More details of the specific impact on the JHB of the HG loan can be found in Section IV, the Financial Plan.

2. The Project

The proposed project will provide $25 million in Housing Guaranty funds to the Jordan Housing Bank to finance long-term mortgage loans and $250,000 in Development Grant Funds to finance technical assistance to the JHB.

HG funds will be used to provide loans to target beneficiaries financing units under the Individual Loan Program of the Jordan Housing Bank. Approximately half of the HG project's funds will be lent to target beneficiaries under this program for the purchase of units in projects constructed by private sector developers and promoted by the JHB. The remainder will be used to provide loans to individuals purchasing or constructing their homes. These may also cover the financing of units being constructed or upgraded under the World Bank-financed Urban Development Program with the Amman Municipality.

The target beneficiaries under the program will be those families earning at or below the median urban family income in Jordan currently estimated to be JD 250 ($625) per month. (A more complete description of the target group is contained in Sections III C 6 and VIII below.)

The technical assistance component of the project is described in Section III C 5 below.

3. Project Rationale

There is a significant number of lower income families in Jordan who could afford to buy a housing unit at JHB's financing terms if an appropriate unit were available at an affordable price. These families are now residing in small, overcrowded rental units with inadequate facilities or, in some cases, are living with relatives. During project design it was determined that it is possible to produce an appropriate unit that is affordable to families below the median income level, the target group for this project. Cost estimates and types of units are discussed in Section VII, Technical Analysis.

The main reasons, which interrelate to some degree, that such housing has not been available for purchase (or construction) and financing by lower income families include:

Concentration by private developers on production of more expensive units for higher income families. At present this market has become overbuilt. Many units in the JD 25-30,000 range remain unsold. Furthermore, a number of developers have returned from working in the Gulf area, adding to the competition and pressing the search for new markets.

A JHB requirement that families seeking to finance construction of a unit own the land. Although the appraised value of the land can be counted toward the "downpayment", the high cost of land often requires a much bigger outlay than many lower income families can afford.

The perception, borne out in practice, that families in Jordan, at all income levels and no matter what current accomodations they occupy, will continue to rent until they can afford to buy what they consider an appropriate house for the long-term future.

The proposed project will impact on these problem areas in several ways. First, and most important, it seeks to induce private developers to build housing units easily affordable by the target group. This will be accomplished through active promotion by JHB of the financing, both for construction and long-term mortgages, and by JHB assistance in putting together projects suitable for eligible housing.

Second, the project will expand the parameters of JHB's individual loan program by raising the maximum mortgage that can be financed under that program from JD 7,000 to JD 7,616, and by increasing the resources available.

Third, to the extent that individual loans are used to finance mortgages for households seeking to purchase a lot and construct units under the World Bank's UDP-2 project, the land costs will be incorporated in the loan, thus making land and housing more affordable to lower income groups.

Fourth, the project will promote several approaches to reducing the costs of shelter units to levels affordable to lower income families.

The project will attempt to demonstrate that young married couples will accept the idea of buying a smaller initial shelter unit (apartment) with the intent to sell it later and "move up" to a larger home when their income permits. A second concept which will be promoted is the idea of a "starter" home; i.e., one that can be expanded as a family is able. Finally, design and construction standard changes will be encouraged that will lead to lower costs.

4. Project Components

a. The Individual Loan Program

The current mortgage program of the JHB consists of two distinct programs: 1) the individual mortgage program, with up to JD 7,000 ($17,500) available at 8.5%, 15 years to repay and 30% of an individual's income devoted to repayments to help individuals build or have constructed single family homes for owner occupancy; and 2) what JHB terms its "commercial" mortgage program, with loans of over JD 7,000 available on the same harder terms JHB offers any commercial real estate venture (9% with certain fees repayable in eight years).

JHB will utilize HG funds through the first of these programs to eligible beneficiaries; i.e., families at or below an income of JD 250 per month to finance owner-occupied units with JHB appraised values that are within the project guidelines of an affordable sales price or construction cost and with a mortgage affordable to the target group. Currently, the terms of the Individual Loan Program call for an interest rate of 8.50% with a loan period of up to 15 years, a minimum downpayment of 25% and application of no more than 30% of proven income toward the mortgage payments. Combining a median income of JD 250 ($625) and the above terms, the maximum affordable mortgage would be JD 7,616 ($19,040). Consequently, JHB has agreed to raise its limits for individual mortgages at 8 1/2%, 15 years to JD 7,616.

The value of a housing unit with a mortgage of JD 7,616, and assuming a 25% downpayment, is JD 10,155 ($25,388). This will be the maximum appraised value of a unit eligible for mortgage financing under this project. Recognizing that families in Jordan commonly save for many years to purchase a house or prefer to borrow from friends or relatives rather than become indebted to a finance institution, eligible beneficiaries will be permitted to make larger downpayments, but the maximum required downpayment will be 25% of a unit's appraised value.

Eligible mortgages financed under the program will thus have these characteristics:

- the borrower will have an income not exceeding JD 250 ($625) per month;
- the loan will not exceed JD 7,616 ($19,040); and,
- the cost of the unit (or appraised value) may not exceed JD 10,155 ($25,388).

Some of the mortgage loans will be used for families who own a plot of land, and want to build a unit that will appraise within the project guidelines and meet all other eligibility requirements. JHB will also provide mortgage finance for eligible families buying new housing units that fall within the project guidelines, whether the family already owns a plot of land or not. Such housing units can be single family homes or units in multi-structure buildings.

Applicants will be screened according to JHB's regular procedures to ensure that their incomes are within project guidelines. It is anticipated that those families buying sites or upgrading them under the auspices of the World Bank-assisted UDP-2 will also be able to avail themselves of the mortgage loans. Their incomes will be within the HG project guidelines as will be the projected housing unit costs.

b. The Private Developer Component

Mortgages under this component will meet the same criteria as for the Individual Loan Program. However, because a special effort is being made to induce private developers to produce more low-cost housing, the project will have a separate identifiable component for this effort. Design of this component of the project draws on the current activities of one large, aggressive and imaginative developer, the Real Estate Finance Company, Ltd., (REFCO). REFCO, whose activities are described in more detail in Section VI B under Institutional Analysis, is in the process of developing and selling units embodying the concepts described above which will sell in the JD 10,000 range and below.

REFCO officials feel strongly that there is a market for these lower cost units but since it is a new venture they will proceed at a pace that allows them to evaluate the market as they go. As such, REFCO's efforts take on a key demonstration role vis-a-vis other developers if the project is to succeed.

REFCO has a line of credit available from the JHB secured by collateral (see further discussion below) which it uses to finance all of its projects. Other developers could receive such a line of credit but the normal procedure is for JHB to provide a specific construction loan with a mortgage against the project.

Developers, of course, will have the responsibility for purchasing or obtaining options on sites and for preparing project plans. To obtain construction financing these plans will be presented to JHB with an application. The intent is that JHB will actively promote the HG project with developers by advertising and seeking out developers. They will assist developers in putting together projects which will meet the eligibility requirement for HG financing or will contain some percentage of units which will meet the requirements. As part of the package, the take-out financing for the long-term mortgages will be offered to qualified buyers which will be the eventual requirement for the HG loan.

Developers will also be responsible for marketing the units. They can be pre-sold or offered for sale upon completion. Based on the previous experience of the developers, many of the units will be pre-sold, and the deposits that the buyers make will help the developer to finance his part of the construction costs of the project.

The incentive to JHB will be to draw down the HG loan as fast as possible. The incentive to the developer will be that it opens up an entire new market which has heretofore not been served.

5. Technical Assistance

The HG project's implementation will be supported by a $250,000 technical assistance grant. This assistance will be provided by short- and medium-term consultants with appropriate expertise, and it is expected that the assistance will be concentrated in the first two or three years of the project's implementation period.

Technical assistance will be provided to both the JHB and the private developers. Advisors will work with the JHB to organize a specific and sustained effort to work with the developers, including setting up a small unit within the JHB which will focus primarily on this project. This will include the development of a promotional campaign aimed at both the developers and the potential buyers of units since the JHB will be providing the latter group with long-term mortgage financing. Additionally, the JHB will be assisted in actively working with the developers to help them structure their projects.

Concurrently, developers will be assisted in such areas as project design and marketing. As previously noted in this PP, developers have traditionally built for higher income clients, and they have expressed the need for assistance in designing units to achieve lower costs. Similarly, their past marketing efforts have been directed at higher income buyers, and it may prove necessary to provide marketing assistance to reach the HG target group.

The technical assistance described above will provide a "bridge" between developers and the JHB, with the objective of ensuring the project's timely implementation. In the course of implementation, other issues requiring more study and analysis are expected to be identified, such as bottlenecks in the shelter delivery system (e.g., land acquisition, building codes, construction standards, and capital markets factors, etc.). Technical assistance resources will be devoted to these areas of study. As the country's most prominent housing finance institution, the JHB plays an influential role with respect to national shelter policies and priorities, and these studies will assist the JHB in this capacity. It is likely that these studies will also provide an input to the formulation of a new National Shelter Strategy (see Section II A 1 b).

It is currently anticipated that approximately twenty person-months of technical assistance will be provided. A detailed plan and specific estimate of skills will be developed as part of the JHB's Implementation Plan.

6. Beneficiaries

As defined earlier, the target group of beneficiaries will be below the urban median family income level of JD 250 ($625) per month. It is expected that the housing units built by the private developers will more likely cluster between the 40th and up to the 50th percentiles since this is a new market for them and they will tend toward the high side. Nevertheless, some individual borrowers will be at a much lower level but here again the project will be financing responses from private individuals. In addition, the inclusion of houses built on serviced plots provided by the Urban Development Department's UDP-2 project will reach families at much lower income levels.

D. PROJECT INPUTS

1. Housing Guaranty Funds

Up to $25 million in Housing Guaranty funds will be made available to provide the long-term mortgage financing required by the project. These funds will be made available from the US capital market through a loan from a US investor to the Central Bank or Jordan Housing Bank. The loan will be at the commercial interest rates prevailing at the time the money is borrowed given the full faith and credit guaranty by the US government for repayment. The JHB or Central Bank will have the option of borrowing at fixed or variable interest rates.

2. Grant Funds

Development grant funds of $250,000 will be made available from USAID/ ..n's Technical Support Funds Service (TSFS) project to finance the technical assistance component of the project described above.

3. Local Inputs

In the short term, construction financing will be needed by developers who are undertaking projects eligible for HG financed mortgages loans. To the extent that construction financing for these projects will come from the JHB, the JHB may be able to utilize an advance of $5 million to be provided under the HG loan drawdown provisions. Our estimates indicate that approximately, $9.6 million will be needed for construction loans. Therefore, to the extent that JHB construction loans under this project exceed $5 million, the funds will have to come from JHB's own resources. Developers will also provide some of their construction finance internally, at least 25 percent of the cost of projects undertaken by the developers or an estimated $4.15 million will be provided by developers.

Since long-term mortgage financing for the project will be provided by the JHB under its regular terms which require a 25% downpayment, the beneficiaries under the project will have to provide at least $8.3 million toward downpayments. Beneficiaries of the UDP-2 project may only be required to make downpayments as low as 10%, but experience suggests that even these beneficiaries will make higher downpayments and allowances have been made not to penalize them for making these larger downpayments. In effect, the local input could actually exceed $8.3 million.

E. PROJECT OUTPUTS

1. Direct Provision of Housing

Assuming that most of the eligible mortgages will fall between that level affordable by the 40th income percentile (JD 6,093 or $15,232) and the median income (JD 7,616 or $19,041) would give an average mortgage financed under the proposed project of JD 6,854 ($17,135). This means that approximately 1,459 housing units will be financed under the project, approximately half built by private developers. To the extent that a greater number of mortgages is made to families with incomes below the 40th percentile, the number of units would increase.

2. Institutional Outputs

The institutional outputs of the proposed project will be two-fold. First, the JHB will have expanded its approach to financing housing to include a greater emphasis on lower cost housing and to dealing with a lower income clientele. To do this it will have developed its capacity to actively work with developers and individual borrowers in preparing projects and housing plans for financing. That is, rather than responding to loan applications which are then appraised against standard JHB criteria, JHB will actively solicit and assist clients, both developers and individuals, for housing meeting the project's objectives. This will be a new approach for JHB, and at the conclusion of the project, it should be well established.

The second institutional benefit involves private developers as a group. At the time of project design only one private developer has actively been developing plans to build and market low income housing and this will be initially on a pilot basis. As the project proceeds and is completed, its demonstration effects will establish that a significant market exists for low-cost housing; i.e., housing at lower standards than heretofore considered acceptable with a number of private developers will be operating in this market. A significant attitudinal change will have occurred, and there will be a greater responsiveness among developers for addressing the needs of lower income families.

3. Sustainability and Replicability

Once it has been established that private developers can profitably address the lower income market, and that JHB will provide the financing and actively work with both developers and individuals in this regard, the concepts established by the project should continue to expand and more developers should participate. The significantly greater need for housing at the lower income levels should ensure this occurs.

Major factors outside of the project which will affect sustainability are interest rates and the cost of housing, both of which cannot escalate substantially if the supply of low-cost housing induced under this project is to continue.

However, since this project so clearly meets the government's objectives of increasing the role of the private sector in the provision of housing and since by the time this project is completed the newly established shelter unit in the Ministry of Planning will have completed a comprehensive national housing policy with AID assistance, it is assumed that this policy will include elements that will address such factors as interest rates and housing costs.

IV. FINANCIAL PLAN AND IMPACT OF LOAN ON JHB

There are two elements of the financial plan: (1) a breakdown of financial sources allocated to project components; and (2) a financial allocation of project resources over the time frame of the project. These are described in detail below.

A. FINANCIAL SOURCES - PROJECT COMPONENTS

The financial plan shown in Table 1 below assumes an equal division between housing built by private developers and the individual loan program. The final amount for each component may vary somewhat from an exactly even division.

Table 1
Financing Plan
(Thousands of $US)
Uses of Funds

Sources of Funds	Priv. Dev. Hous.		Indiv. Loans		Tech. Asst.		Total	
	$	JDs	$	JDs	$	JDs	$	JDs
HG Loan	12,500	5,000	12,500	5,000	-	-	25,000	10,000
Ben. Down Pymts.	4,167	1,667	4,167	1,667	-	-	8,333	3,333
DG Funds	-	-	-	-	250	100	250	100
Total	16,667	6,667	16,667	6,667	250	100	33,583	13,433

It should be noted that the financial sources in Table 1 relate to the final financing. During the construction phase, JHB will be making construction loans to the developers, only part of which may come from the HG advance of $5 million, but a substantial part will have to come from JHB resources. Since JHB extends its construction loans for only up to 75% of the estimated project cost, developers will have to put up the remaining costs from their own resources. Some developers may, in fact, invest a larger portion of their resources in the project.

What this means is that the developers are at risk in the first instance for the success of sub-projects which they develop which is as it should be in a project supporting private sector initiatives. In the second instance the JHB is at risk by providing construction loans. Except for the $5 million advance to get the project started, HG funds will not flow until housing units have been sold and mortgage loans extended.

The above risk factors underscore the importance of the demonstration effects of the loan and the catalytic effects of the HG.

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B. TIME PHASING OF PROJECT COMPONENTS

The total drawdown of the $25 million authorized is expected to take place over a five year period although the individual loan program of the JHB could probably support drawdowns more quickly than five years. Funding will be provided incrementally in two tranches - A first tranche of $15 million will be provided initially. Approval for borrowing the remaining $10 million will occur after a mid-term evaluation of project progress towards meeting its objectives of encouraging private developer construction and sale of units affordable to eligible beneficiaries. It is difficult at this stage to estimate a schedule for the private developer program and it is recognized that it will start more slowly. However, by the time that the first tranche of $15 million has been drawn down, it is projected that $5 million should have been placed for mortgages under the project's private developer component and the balance of $10 will be represented by the individual loan program. By the end of project implementation, when the full $25 million is drawn down, drawdowns for the two components should be about equal.

An estimated schedule of expenditures for the project over a five year period takes this into account. With regard to the technical assistance, the greatest need will be in the first two years. Some allowance is made for follow-up in year three.

TIME PHASING BY YEARS
(Millions of U.S. Dollars)

	1	2	3	4	5	TOTAL
PRIV. DEV. PROG.	.500	1.000	2.000	3.500	5.500	12.500
INDIV. LOAN PROG.	3.500	3.500	2.500	2.000	1.000	12.500
TECH ASSISTANCE	.100	.100	.050	-	-	.250
TOTAL	4.100	4.600	4.550	5.500	6.500	25.250
CUMULATIVE TOTAL	4.100	8.700	13.250	18.750	25.250	25.250

C. FINANCIAL IMPACT ON THE JHB

By the time that the HG loan is entirely disbursed, HG-funded mortgages will represent only 1.2% of JHB's total assets, and its HG indebtedness will represent only 1.9% of its total liabilities. (See Annex F.) Also, the HG project is not expected to increase JHB's operating expenses. Technical assistance grant funds will cover some expenses directly associated with project implementation, such as promoting the program with developers. The JHB's success in the last few years in improving its operating efficiencies (see Section VI A 3) indicates that the HG program can be carried out at current and projected overhead expense rates. In turn, the HG program will have even less effect on JHB's net spread (that is, the gross spread reduced by operating expenses).

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The projections in Annex F represent a "worse case" scenario of the effect of dollar borrowing on JHB operations. However, the JHB will be getting dinars at the rate at which the Central Bank normally passes dinars to it in exchange for making dollars available to the Central Bank.

The projections also do not allow for three other factors of potential importance:

1. The projections assume that HG loans earn 8.5% interest while JHB's other assets continue to earn about 7.9% interest, based on past performance. However, HG funds will increase JHB's available resources for investment, and repayments of HG-funded mortgages could be reinvested in higher-yielding loans. This project is expected to expand the construction of low-cost housing, and the reflows from HG mortgages could be reinvested in shorter-term construction loans earning 10.5%. In turn, JHB's overall return on assets would be pushed upward, and this increase would be directly attributable to making HG funds available to the JHB in the first place.

2. The Central Bank is supportive of the proposed HG project; moreover, it will have use of the dollars. In turn, the Central Bank has agreed to pass dinars to the JHB at interest rates which will give an overall cost of funds that will enable the JHB to maintain an adequate interest rate spread. This practice is already a part of the working arrangements of the two institutions.

3. We have assumed under a worst case scenario that the JHB will borrow HG funds at a fixed interest rate. However, it may choose a variable rate which would be lower than the 11.5% interest calculated in Annex F. While the variable rate could mean higher interest payments in the out-years, depending on market conditions, it would lower JHB's cost of funds for the HG loan during the initial years of project implementation when HG funds will have the greatest impact on its overall operations.

The extent to which repayments from HG-funded mortgages will be reinvested in construction financing or other higher yielding investments will be determined by market conditions at the appropriate time. For these reasons, these factors have not been included in Annex F's projections. Based on reasonable assumptions, however, it is clear that the HG project is financially feasible, that the marginal cost to the JHB of carrying out the HG program is nominal, and that the program will not detrimentally effect the JHB's financial viability.

V. PROJECT IMPLEMENTATION

A. BORROWING PROCEDURES

Based on approval of the project, AID will provide a Letter of Advice to the Government of Jordan setting forth the basic terms of the project. Four agreements will be involved: an Implementation Agreement between AID and the Jordan Housing Bank, the implementing agency, which will cover the entire $25 million project and its conditions; Loan Agreements for $15 million and $10 million between the Central Bank or JHB and US lenders; Guaranty Agreements between AID and the US lenders guarantying repayment of principal and interest to the US lenders in the event of default; and Guaranty Agreements between AID and the Government of Jordan guarantying repayment of the loans to AID.

The JHB will not be able to select and sign an agreement with a US lender for the first $15 million, however, until the Implementation Agreement between AID and the JHB and the Government of Jordan Guaranty Agreement have been negotiated and signed and a program Implementation Plan has been prepared by the JHB and approved by AID.

After selection of a US lender, subject to approval by AID, the JHB can complete negotiations for the loan.

B. DISBURSEMENTS

Actual disbursements will be determined based on cash flow requirements, and each disbursement must be approved by the AID Office of Housing. Eventually all disbursements will have to be supported by eligible mortgages.

AID is prepared, however, to authorize an initial disbursement of $5 million as an advance deposit against eligible mortgages. Subsequent disbursements will be made based upon JHB's certification that eligible mortgages have been made. These disbursements will be equal to 90% of the value of the eligible mortgages made. At the time the final disbursement is made, sufficient mortgages will need to have been made to cover that disbursement plus the outstanding balance of the $5 million advance.

C. PROJECT PLANNING AND APPROVAL

Since this project will maximize the response of private developers and individuals to pre-established criteria (i.e., maximum unit cost, mortgage amount and family income) it is not possible at the present time to develop a construction and financing plan as could be done in a project or sub-projects composed of a specific number of units of various types which would require approval at certain steps and with a specified completion date.

AID will approve drawdowns based on certification of eligible mortgages by the JHB; i.e., those mortgages which meet the program criteria.

To establish a planned schedule against which project progress can be monitored, however, AID will require as part of an Implementation Plan to be prepared by the JHB and approved by AID, a schedule of the number of mortgages to be made and their amounts over the five year project period for both the private developers and individual mortgage components of the project. The JHB will be encouraged to base its cash flow projections for the first component on actual proposals from developers which it has received and expects to fund.

Because the project is demonstration in nature d relies on private sector response, this project schedule will be reviewed :d updated semi-annually so that steps can be taken if the project .s lagging. It was agreed with the JHB in discussions in March 1985 that any mortgages made to eligible beneficiaries from that date in the purchase of units which qualify under this project would be considered eligible for purposes of disbursements of the HG loan.

Since the JHB is actively seeking to make such mortgages, the number and value of the mortgages made under the individual program will move faster. It is anticipated that the developer component will get underway more slowly because this is a new market for developers and JHB will have to actively promote it. For this reason, JHB projections of cash flows requirements and schedules for the mortgage generated under the private developer component will have to be based on eligible proposals received. JHB has already received one such proposal and can base its initial projections on a full review of its feasibility as well as of other proposals it may receive or help to develop.

In addition to the project schedule and cash flow projections mentioned above, the Implementation Plan will include the steps that JHB will take to promote the program, to establish the capacity to work with private developers to develop projects that will meet the eligibility criteria, including technical assistance in this regard, and to deal with the other aspects set forth in the Implementation Agreement and the conditions identified in Section V E below.

D. MANAGEMENT

From the AID standpoint, project implementation will be supported and monitored by the RHUDO/Tunis in collaboration with the Projects Office, USAID/Jordan. Given the considerable experience and proven competence of the Jordan Housing Bank, large-scale support requirements are not envisaged at this time, though such assistance may become evident during project implementation. However, the technical assistance provided under a supporting TSFS grant will be an area for close collaboration with AID staff. The technical assistance will likely be carried out under an institutional contract arrangement. The scope of work for the contract and competitive selection will be supported by AID staff and require approximately 60 person-days of administrative support.

From the Jordanian side, JHB will be the implementing agent. As the Institutional Analysis section of the paper shows (see Section VI), JHB is well qualified to administer the project. With the provision of the technical assistance to help it work with the private developers in assembling projects which will contain eligible housing units it should be able to carry out this phase of the project successfully.

With regard to processing of loan applications, appraisal of properties, making mortgage loans and servicing the loans, JHB has ample experience and problems are not expected.

E. CONDITIONS

The following are the conditions which are intended at this time to be included in the Implementation Agreement. It is possible that these conditions may be modified somewhat during negotiations.

1. A detailed Implementation Plan acceptable to AID must be submitted prior to JHB selection of a lender and the signing of a loan agreement.

2. A comprehensive mid-term evaluation will be conducted, the timing to be mutually agreeable to AID and the JHB. If a reasonable pace of implementation is not being maintained AID will reserve the right to modify the project to include funding for related programs arising out of work on the Urban Development Assessment and the preparation of the National Housing Strategy.

3. Eligible mortgage under the project will be those mortgages made after March 1, 1985, where the borrower's income does not exceed JD 250 ($625) per month, the mortgage amount does not exceed JD 7,616 ($19,040) and the cost of the unit does not exceed JD 10,155 ($25,388). Provision will be made in the Implementation Agreement to adjust these figures annually to take into account any changes.

4. Fifty percent of the funds ultimately utilized under the project must be for units in projects built by private developers, notwithstanding the fact that disbursements pursuant to the individual mortgage component are likely to occur faster at the time of project start-up.

5. Disbursements of the HG loan will be based on a $5 million advance and thereafter on the basis of certification that eligible mortgages have been made. Disbursements subsequent to the advance will be for only 90% of the value of the mortgages. At the time of the last disbursement, certification must be submitted indicating that eligible mortgages amounting to the entire loan including the advance have been made.

F. PROJECT MONITORING AND EVALUATION

The fact that this project will be attempting to encourage the private sector developers to build for the lower income market will require careful evaluation. Three types of evaluation are contemplated: semi-annual progress reports, and a mid-term and final evaluation.

The semi-annual reports will compare project execution with project objectives, including tracking the number of units being built and sold, and identifying any problems related to the JHB promotion of the program, and the development and marketing of units to target beneficiares by private developers. They will assess the factors contributing to the attainment or lack thereof, of sufficient response from developers, meeting target sales prices and the purchase of units by lower income beneficiaries. Finally, these reports will make recommendations regarding corrective actions and changes required to put the project back on track in meeting its objectives.

The mid-term evaluation will focus on measuring the JHB's ability to promote the program to private developers. The following indicators will measure progress towards this end, and identify constraints in meeting this objective:

- The amount of JHB funds made available for construction financing to private developers for low-cost housing units that meet program guidelines.

- Adequacy of procedures used by JHB to ensure that construction financing made available ends up being used for a sufficient number of units that meet program guidelines.

- The adequacy of JHB program promotion efforts.

- Profitability of private developer projects.

- The number of units JHB expects developers will construct for low-income beneficiaries.

- The geographic distribution of mortgages generated under both components.

- The number of eligible mortgages generated by private developer construction.

- The range of sales prices of units produced.

- The income range of beneficiaries purchasing developer produced units.

It is anticipated that the mid-term evaluation will take place during the last quarter of 1988. Detailed terms of reference will be drawn up for this evaluation by RHUDO and USAID with input from the JHB and shelter unit of the Ministry of Planning. At the current time it is anticipated that the evaluation will require services of 3 consultants over a period of two months, and will cost approximately $75,000 to be provided in part through TSFS V and regional budget resources.

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A final evaluation is contemplated which will consider the attainment of the project objectives with respect to outputs and purposes. The following are the type of indicators that such an evaluation will assess:

- Number of developers who have participated in the project and the number of projects;
- Number of units actually built and sold which qualify for financing under the project and what percentage such units represent of the total of each project by a developer according to program guidelines;
- Amount of JHB funds utilized for contractor finance;
- Types of low cost units constructed;
- Range of sales price of units constructed under the program;
- Profitability of private developer construction of low-cost units;
- Number and type of mortgage made to lower income beneficiaries;
- Geographic distribution of eligible mortgages under 2 project components;
- Average mortgage amount for lower income beneficiaries;
- Payback experience for mortgage loans by low-income beneficiaires;
- Number of households from the UDP-2 program provided with mortgages; and,
- Income ranges of project beneficiaries.

In discussions by the PP design team with the acting head of the newly-formed Shelter Unit in the Ministry of Planning, he indicated that there was no detailed data on housing since the 1979 census. However, it is expected that the AID-funded technical assistance to this Shelter Unit to assist in developing a National Shelter Strategy will be in place in several months. It is intended that JHB will work with this unit in developing data to form the basis for the evaluations to be carried out under this project.

Detailed information required to monitor the program on a continuing basis will be contained in the Project Implementation Plan. This document will include schedules for implementation and disbursement, indicators related to number of units to be promoted and mortgages JHB expects to make under both components, procedures to be used for promoting program and tracking promotion to developers, incomes of beneficiaries, and mortgage values of loans. Updating of the Project Implementation Plan will be required prior to RHUDO's approval of each disbursement. This will provide an opportunity to monitor the program and keep it on its intended course. Additionally, JHB will provide RHUDO with semi-annual progress reports so that monitoring will occur on a systematic basis.

G. NEGOTIATING STATUS

As of the date of the Project Paper, JHB has accepted the criteria governing the eligibility of mortgages, has agreed to raise the maximum amount of its long-term mortgages to JD 7,616 to conform to the median income level affordability and has agreed that 50% of the project must be applied to units built by private developers.

The details of the arrangements for borrowing by JHB and the Central Bank will still have to be negotiated.

JHB has accepted the basis of disbursements; i.e., a $5 million advance with subsequent disbursements based on certification of eligible mortgages. Only the general concepts of the technical assistance have been accepted; the precise details still have to be negotiated.

H. IMPLEMENTATION SCHEDULE

Project implementation is expected to take about 5 years from signing of the Housing Program Agreement. Below is an illustrative Schedule of Project Implementation:

Month	Activity	Responsible Agency
1	Authorization of the Program	AID
2	JHB prepares Project Implementation Plan with AID assistance	JHB/AID
3	Signing of Housing Program Agreement	
4	Submission/Approval of Project Implementation Plan	JHB/AID
5	Advertisement for Lender	JHB
7	Loan Agreement Signed	JHB/US/Lender
7	JHB promotion of Program to developers for private developers initiated construction	JHB/ Developers
8	JHB begins to provide construction finance to private developers and mortgages to individuals	JHB
9	Private developers initiate construction of units	Private Developers
20	Sale of first batch of units by developers completed	Private developers

Month	Activity	Responsible Agency
20	JHB first mortgages to beneficiaries for units constructed by developers	JHB
36	Mid-term evaluation	AID/JHB/Min of Planning
38	Decision on Program continuation or reprogramming of funds	RHUDO/USAID
55	Construction and sale of units completed	Private developers
60	Advance liquidated by supporting mortgages	JHB

VI. INSTITUTIONAL ANALYSIS

A. THE JORDAN HOUSING BANK

1. Establishment and Objectives

Prior to JHB's creation in 1974 the country lacked a formal credit institution for housing finance. The Central Bank both promoted and assisted in JHB's establishment to fill this void.

JHB's overall mandate is to support and promote housing and construction activities in Jordan, within the general framework of national shelter needs and development goals. By its authorizing legislation, JHB is permitted to engage in a full range of banking activities to meet these objectives, including accepting deposits and making loans; attracting foreign investments for construction; acquiring or expropriating land for housing and related construction purposes; establishing or acquiring companies related to the building materials industry; making equity investments in companies involved in general construction and development activities; acting as a real estate trustee; and offering banking services to a wide range of private and public institutions involved in various aspects of housing production and marketing.

The JHB enjoys certain tax advantages and guarantees which has assisted it in its growth, but which also convey additional obligations beyond maximizing profits. JHB has played an important role in both developing and implementing the GOJ's shelter policies, including addressing low-cost housing needs and fostering private sector participation and competition in the housing sector. The provision of low-cost shelter is not a specific objective of the Housing Bank Law, but the GOJ's increasing concern for meeting lower income housing needs - as well as JHB's own recognition of the problem - has prompted the bank to adopt as one of its primary objectives the expansion of shelter credit for lower income groups.

Through such efforts as its individual loan program and its support of the World Bank's projects, the JHB has served lower income families. Moreover, by providing construction loans and take-out mortgage financing for privately-developed housing projects, JHB has supported the increasing involvement of the formal private sector in housing production. JHB's extension of credit to REFCO, the largest of the recently-licensed building societies, which is secured by mortgages financed with REFCO's own deposits, represents not only the establishment of a nascent secondary mortgage facility and a further sophistication of the shelter finance system, but also reflects JHB's support of such private companies. All of these efforts are in keeping with the GOJ's overall development strategy of promoting free enterprise and private initiative, with the specific shelter goal of expanding the housing stock. The HG project will lend support to and expand these activities.

2. Ownership and Financial Structure

The JHB is an autonomous stock corporation under Jordanian law, at the same time that it falls under the supervisory jurisdiction of the Central Bank. Its authorized capital totals JD 18 million ($45 million) of which JD 12 million ($30 million) is paid-up.

GOJ and Central Bank ownership amounts to JD 1 million of all ordinary shares in equal proportions. Certain special shares, which currently total JD 6 million, must be sold to individuals, organizations and/or governments outside of Jordan (e.g., the Real Estate Investment Group of Kuwait and the External Investment Organization of Iran, among others). Another JD 5 million in preference shares have been sold in the local market (to such firms as the Arab African Bank, the Jordan Cigarette and Tobacco Company, and the Jordan Insurance Company, among others).

Thus, majority ownership in the JHB rests outside of the GOJ, at over 90% of shareholdings, but the GOJ continues to exert considerable influence and control over the JHB. However, the Housing Bank Law clearly intends that JHB's ownership remain with the private sector, except under highly unusual circumstances. The GOJ is empowered to appoint only four of the possible fourteen members of the Board of Directors, including the General Manager who serves as the Board Chairman. Currently, it has appointed four of the eleven sitting members.

3. Organization and Staffing

The Board of Directors has overall responsibility for establishing bank policies, determining the bank's organizational structure and operational procedures, approving borrowings from other sources and entering into related agreements, and carrying out the normal responsibilities of a managing board. The Housing Bank Law authorizes a 14-member Board consists of the General Manager and Chairman, whose appointment is made by the GOJ's Council of Ministers and ratified by Royal Decree, one representative each from the Ministry of Finance, Central Bank and Jordan Housing Corporation, and five representatives each of the preference and special shareholders. The General Manager and Chairman is also a member of the Central Bank's Board of Directors.

Organizationally, the JHB is divided into nine separate departments responsible for operational areas such as loans, deposits, central accounting, investments, computerization, etc. (see Annex J for JHB's organizational chart).

At year-end 1984, JHB had 71 branches throughout the country, making it the largest bank in Jordan in terms of branch offices. Nineteen new branches have opened in the last five years, but the total number of bank employees has remained fairly constant at about 1,000. This slow growth in staff size attests to the management's efforts to increase efficiency, improve staff training and automate its operations.

To maintain quality staff and accomodate its own expansion and diversification, JHB has given priority to staff training. Through its own Training Centre, JHB offers courses in all aspects of bank management and operations. In addition, employees attend courses at specialized training institutes in Jordan as well as in programs abroad.

4. Financial Performance and Resource Mobilization

In its first ten years of operation, JHB has experienced remarkable growth. Table 2 highlights the growth of key performance indicators for the last five years, and Annex K provides a detailed perspective on JHB's finances since 1978 with projections through 1989.

Table 2

JHB's Key Performance Indicators,

1980 - 1984

(Millions of JD)

	1980	1981	1982	1983	1984
Deposits	122.6	159.8	168.5	211.8	246.2
Cash & Liquid Assets	38.3	61.1	42.5	39.3	37.2
Loans & Credits	102.9	123.8	155.7	197.8	246.4
Equity Investments	3.6	5.4	10.0	13.0	15.6
Real Estate Investments	5.8	8.3	10.0	13.0	15.6
Capital and Reserves	17.7	19.6	21.7	22.7	23.9
Net Profit	2.7	3.1	3.3	2.2	2.5
Total Assets	153.8	202.9	228.6	292.8	342.8

Source: JHB 1984 Annual Report

Between 1978 and 1984, JHB's total assets have nearly quadrupled, and since 1980 the rate of growth has averaged 22.5% annually. Early in 1986, JHB's total assets are expected to reach one billion U.S. dollars.

Growth in the bank's volume of deposits has been equally strong, registering over a four-fold increase between 1978 and 1984 to reach JD 246.2 million ($615.5 million) at the end of the last fiscal year. JHB has outpaced the growth of savings and other deposits at all other banking institutions (see Table 3); at year-end 1984, JHB's savings deposits comprised 68% of all savings deposits at all other banks combined. Through the end of this decade, the volume of JHB's deposits is expected to continue to expand, though at a somewhat slower rate.

Table 3

Deposits at the JHB Compared to Deposits at the Banking System (Millions of JD)

Year	Total Deposits				Savings Deposits			
	JHB		Banking System		JHB		Banking System	
	Balance	Rate of Growth	Balance	Rate of Growth	Balance	Rate of Growth	Balance	Rate of Growth
1980	122.6	42%	685.9	35%	39.7	36%	89.4	12%
1981	159.8	30%	817.8	19%	55.7	40%	105.4	18%
1982	168.5	5%	1001	22%	64.4	16%	124	18%
1983	211.8	26%	1186	18%	82.2	28%	133.7	8%
1984	246.2	16%	1356.9	14%	94.9	15%	140.2	5%

JHB has been an aggressive competitor in mobilizing savings through an ambitious outreach and branching program, and its deposits largely come from individual savers who account for its approximately 300,000 accounts. Since JHB offers interest rates comparable to commercial banks, convenience, location and better services have played important roles in JHB's growth. Additionally, JHB has benefitted from certain tax and other privileges granted under the Housing Bank Law. Interest paid on deposits is tax-exempt, and other housing institutions - including the Jordan Housing Corporation, housing cooperatives and housing funds of public organizations - are required to deposit their funds with the JHB. The Postal Savings Fund and Social Security Corporation are required to keep at least a portion of their revenues at the JHB, and the government has the authority to require other organizations to deposit their funds with the JHB. Finally, all of the bank's third party obligations, including deposits, are unconditionally guaranteed by the GOJ.

In the last seven years, JHB's net income has averaged approximately JD 2.5 million ($6.25 million), with higher net earnings projected for the late 1980s. A decrease in JHB's profits between 1982 and 1983 represented the first such decrease since the bank's start-up. This drop in net income coincided with a one percent decrease in JHB's overall return on assets, brought about by a narrowing of the spread between deposit and loan rates permitted by the Central Bank. In addition, JHB opened thirteen new branch offices in 1983, and a sizable real estate investment had yet to start generating income.

Growth in JHB's loans and credit facilities has averaged over 30% annually in the last few years, reaching a total value of outstanding credits of JD 246.4 million ($616 million) at year-end 1984. Included in this amount are advances made to the Jordan Housing Corporation of approximately JD 44 million. JHB serves as a conduit for Central Bank funds which it borrows at 4% and on-lends to JHC at 4.5%; in turn, JHC on-lends to beneficiaries of its

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housing projects at a nominal interest rate of 5%. JHB has also rediscounted with the Central Bank some JD 44 million in syndicated loans made to other banks.

5. Types of Housing Loans

JHB makes loans for a variety of purposes: construction or purchase of a new unit, expansion or completion of an existing unit, and home maintenance. To date, most housing credit has been extended for construction or completion, but increasingly JHB is financing the purchase of completed units (see Annex L, Table 2). JHB's by-laws preclude its financing the purchase of land to ensure that the bank's credit is not used to finance land speculation.

JHB has two principal housing loan programs, the "individual" and "commercial" loan programs. These programs are distinguished by different terms and conditions, with the individual loans offered on a more favorable basis, but they are not necessarily distinguished by the purposes for which loan funds may be applied. The principal factor determining under which program a loan is made is the amount of the loan, with individual loans currently made up to JD 7,000 ($17,500) and commercial loans made for greater amounts. A borrower in need of financing for less than JD 7,000 to construct a rental unit qualifies for an individual loan, despite the commercial purpose for which loan funds will be applied. Likewise, a family in need of more than JD 7,000 to purchase an owner-occupied unit must borrow under the commercial program. Housing developers qualify for commercial loans, or in some cases for lines of credit. These various credit programs are described in more detail below.

a. Individual loans

Individual loans are offered for amounts up to JD 7,000 at 8.5% interest per annum and amortized over a maximum 15 years. No commission or other fees are charged, except for a JD 25 loan application fee. By comparison, the interest rate is a half point below the nominal rate on most commercial loans which have a maximum repayment period of 8 years. The actual period over which a loan will be amortized is determined by a borrower's income, since JHB requires that 30% of income at the time of loan approval be contributed to loan repayment. Loan payments are not increased as incomes rise; thus, monthly payments represent a smaller percentage of household income over time. The maximum amortization period is limited to 15 years in order not to contravene the old Ottoman law that interest paid on a loan should not exceed the amount of principal.

Individual loans may be used for such purposes as purchasing, expanding or constructing a unit. For all individual loans, JHB will lend up to only 75% of appraised value; and for construction loans, borrowers must already own a building site. In the case of a unit's purchase, borrowers must make a minimum 25% downpayment. To secure financing for home expansion or completion, borrowers must have sufficient equity in their property to account

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for at least 25% of appraised value, once the new loan is taken into account. For construction financing, the appraised value of land can apply toward the downpayment requirement, but if the land's value is less than 25% of anticipated final appraised value, the borrower must contribute the difference in cash.

The individual loan program represents JHB's efforts to serve lower income households, as well as to provide families with the opportunity to enter the housing market. Individuals are allowed to borrow under this program only once in a lifetime. The program's lower interest rate and longer amortization period than those offered under the commercial program are intended to make these loans more affordable to lower income groups. JHB has not employed a maximum income criteria to ensure that these loans reach lower income families (though such a standard will be used under the Housing Guaranty program); rather, by putting a cap on this program at JD 7,000 it has relied on market forces to target this program to lower income beneficiaries on the assumption that higher income families will exceed this maximum based on their desire to purchase higher-costs units.

b. Commercial loans

As this program's name would imply, commercial loans are primarily intended for investment property, but in practice these loans can be used for the same purposes as the individual loan program. Clearly-recognized or strictly commercial activities, such as the development of tourist facilities or shops, must be financed on commercial terms. Families seeking financing in excess of JD 7,000 borrow under this program, for such activities as home construction, purchase, expansion or improvement. Commercial loans carry a nominal rate of interest of either 8.75% or 9.0%, depending on whether the amortization period is less than or more than 5 years, respectively, with a maximum allowable amortization period of 8 years. JHB requires borrowers to dedicate 30% of income to loan repayment which determines the actual amortization period.

In addition to interest, JHB charges commercial borrowers a commission fee equivalent to 1.5% of the loan amount at the time of borrowing, and each year thereafter an additional 1.5% fee is levied based on the amount of principal still outstanding. Commission fees may be paid in cash, or rolled back into the principal and financed by the JHB. These fees raise the annual effective rate of interest to approximately 10.25% or 10.50% (depending on the nominal interest rate as determined by the repayment period), or about two points above the interest rate on individual loans.

Many of the other requirements of the individual loan program are applicable to commercial loans. Depending on the purpose for which loan funds will be applied, borrowers must already own a building site (for new construction), and JHB will lend up to only 75% of appraised value. There is no maximum loan amount, but JHB has a policy that the amount borrowed plus a borrower's own investment should be sufficient to complete a proposed project. Also, unlike the individual loan program, borrowers may receive more than one commercial loan.

c. Loans to developers

JHB handles housing construction loans similar to banks in the U.S. Developers, including small contractors and corporate developers, may apply for commercial loans for construction, or in some cases they receive lines of credit. The distinction between these two types of financing is minimal. The advantage of a commercial loan over a line of credit is that the latter must be renewed annually, up to a maximum of three years, whereas commercial loans provide for a longer repayment period; thus, most developers opt for commercial loans - even though disbursement and other terms are the same. Drawdowns occur as construction progresses, and the commission fee is calculated based on the amount of each drawdown and the period for which it remains outstanding. Loans are secured by the housing project, and JHB's loan is repaid as units are sold. In the case of pre-sales, typically the developer has use of any cash deposit made by the purchaser, but JHB can require that sales contracts be endorsed in its favor. The amount JHB will finance is largely based on a project's requirements, again up to only 75% of total appraised value, though at times JHB employs a maximum loan amount per square meter of proposed construction.

JHB has established a special lending arrangement with REFCO, the largest of Jordan's corporate developers. As a licensed building society, REFCO has the capacity to accept deposits, which it uses to finance in part its construction activities as well as long-term mortgages. In turn, JHB has approved a line with REFCO, equivalent to 75% of the value of the mortgages in its portfolio which is secured by the same. While this arrangement does not represent an actual secondary mortgage facility, both REFCO and JHB have expressed interest in establishing such a facility, and this represents in the first step in that direction.

6. Loan Processing, Servicing and Disbursement

As the preceding discussion of loan requirements makes apparent, JHB has adopted reasonably conservative lending policies, resulting in a track record of virtually no defaults and very few arrearages. In addition to financing only 75% of appraised value, JHB secures its loans with real property, as required by law. In most cases, JHB secures a first lien on property, but will consider taking a second mortgage provided the borrower's equity does not fall below 25% of appraised value. JHB has never foreclosed on a loan, and its overdue rate hovers around .1% of all loans.

JHB's process for reviewing loan applications is comparable to that of most professionally managed mortgage institutions. Applicants must submit a copy of his/her identification card or passport, and pertinent information on personal finances, including a statement of income. If an applicant's verifiable income, based on an employer's certification or other documentation, is insufficient to qualify for the requested loan amount, JHB will accept guarantors or co-signers for the mortgage. As applicable, borrowers must submit a certificate of land title, building plans, site survey and a building permit. Once all necessary documentation is received by JHB's office, a loan officer visits the housing unit or construction site, and an appraisal is made. In general, JHB requires up to two weeks to process a loan request after receipt of all supporting documents.

Developers or corporate borrowers are reviewed for their financial creditworthiness, as well as the feasibility of the proposed project. JHB reviews the cash flow projections for each project, and the marketability of units based on location, standards, etc., is analyzed. The developer's business is assessed based on past performance, outstanding indebtedness and liquidity. Developers are required to submit architectural drawings, site surveys, construction schedules, building permits and any other applicable licenses. Again, JHB requires about two weeks to process these loan requests once all supporting documentation has been submitted.

Initially, developers must evidence that 25 percent of a project's total appraised value has been put into a project before drawdowns on a construction loan will be approved. During a project's construction period, JHB disburses loan funds based on construction progress. In addition to reviewing a developer's expenditure statements, loan officers regularly visit the project site, and based on these reviews drawdowns are authorized. Up to 20 percent of JHB's approved loan amount is withheld pending project completion and final inspection.

In addition to its regular lending, JHB serves as a conduit for funds from the Central Bank to finance the projects of the Jordan Housing Corporation. The JHC requests funds from the Central Bank based on anticipated financing needs. The bank does not review JHC's request or projects, since project review is handled by JHC's own architects, engineers and planners. JHB on-lends these funds at .5% higher than it borrows from the Central Bank to cover its costs of loan processing and servicing. Since these loans are fully guaranteed by the GOJ, the bank is not at-risk and does not feel compelled to make a more rigorous review of these transactions.

JHB services its own loans which are typically repaid on a monthly basis. In the event that an account becomes seriously overdue, JHB is prepared to reschedule the loan to assist a borrower, but such situations are rare, and as reported above, the JHB has not taken losses on its portfolio.

7. Housing Loans and Beneficiaries

Annex L, Table 1 provides a detailed statistical review and analysis of JHB's housing loans since start-up. The following summarizes these trends.

In its early years of operation, JHB experienced considerable growth in its housing loan portfolio, as would be expected given the dearth of financing opportunities for homebuyers prior to the bank's inception. Since 1980, JHB's lending activity has leveled off somewhat, with the number of new loans approved averaging about 2,700 annually over the last five years (see Table M). The value of new loans has continued to increase steadily, but the rate of growth has been falling. Loans approved in 1984 amounted to JD 43.8 million ($109.5 million), compared to JD 27.6 million in 1980. However, between 1980-1981 and 1983-1984, the rates of growth in total loan value were 23.9% and 2.1%, respectively. By comparison, the number of approved loans has fallen over most of the last five years, with the notable exception of a 35.5% increase in the number of approvals between 1983 and 1984.

Changes have also occurred in the purposes for which loan funds are used (see Annex L, Table 2). Between 1974 and 1980, 66% of all loans were used for construction, and another 26% were used for completing existing units. By 1984, these percentages had changed to 55% and 29%, respectively. Of even more relevance is the increase in JHB's loans for home purchase, which represented only 6% of all loans through 1980 but grew to 14% during 1984.

The average loan value fell sharply in 1984, from JD 18,326 in 1983 to JD 13,804 the following year, or a 24.4% decrease (see Table M-1). At the same time, average financing per unit continued to climb, from JD 4,543 in 1982 to JD 8,045, or a 77% increase in just two years (see Annex M, Table 3). These figures suggest that while the number of borrowers has fallen, more loans are made for multi-unit projects, though not necessarily large projects. Annex M, Table 4 sheds some further light on these trends. Between 1974 and 1979, 47% of JHB's loans went to individuals, with only 26% of its loans approved for developers. These lending patterns have gradually changed in recent years, and in 1983, individuals were the borrowers for only 21% of JHB's approved disbursements, but developers accounted for 37%.

Annex L, Tables 5 through 7 enable some analysis to be made of JHB's beneficiaries based on income. While these tables indicate that JHB has assisted large numbers of lower income families, the trend has been to move toward upper income lending - a trend which the Housing Guaranty program is expected to reverse. Annex L, Table 5 shows the breakdown of JHB's loans between 1981 and 1983 by borrower's income, distributed below or above JD 200 monthly. The number and value of loans for both lower and upper income families has fallen. reflecting a general slowdown in the pace of JHB's lending activity, but the rate of slowdown has been much sharper for lower income households. Annex L, Tables 6 and 7 reflect similar trends when loans are classified by amounts of less than or more than JD 7,000. Through 1979, 92% of the number of JHB's loans were for amounts less than JD 7,000, but this percentage fell in each of the subsequent years to reach 68% of the number of loans approved in 1983. However, on a cumulative basis between 1974 and 1983, 87% of the number of all loans approved were for these smaller amounts.

In terms of total loan value - and not number of transactions - a different picture emerges. Through 1979, loans of JD 7,000 or less constituted nearly half of JHB's total lending, but in 1983, they accounted for only 18% of approvals. Overall, through 1983, these smaller loans represent 36% of the value of JHB's housing loan portfolio. A number of factors can account for this fairly sharp drop in loans below JD 7,000, including inflation which pushes construction costs higher. Also, it can be expected that while the number of smaller loans may exceed the number of larger loans, their proportionate representation by value will be less. What these tables clearly indicate is that JHB has extended credit which is affordable to families at lower income levels, accounting for over 21,100 loans in the last 10 years.

8. Assessment of Institutional Capabilities

Under the Housing Guaranty program, the JHB as the principal implementing agency will be required to work closely with private developers to ensure that units affordable to lower income families are constructed, and that other HG requirements are met. Additionally, JHB itself will be expanding its own level of lending for low-cost housing under its individual loan program. Both areas of activity will require JHB to review project proposals, appraise unit values, ascertain beneficiary incomes, and maintain adequate records to comply with monitoring, reporting and evaluation needs. All of these requirements are within JHB's current capabilities.

JHB has a demonstrated and successful track record of working with private developers, including assessing project feasibility, costs and marketability. Its level of involvement with private developers - including small contractors, large-scale developers and the recently-licensed building societies - has increased over the years to the point that over one-third of its loans are now made to housing developers. These loans are approved only after a thorough review of construction plans, including an appraisal of final sales price. Similarly, JHB has a track record of assisting lower income families, having made over 21,100 mortgages through its individual loan program which is intended to serve limited income households. JHB recognizes that the timely implementation of the Housing Guaranty program will require some level of special effort on its part, and accordingly it will establish an internal task force or coordinating committee to work with developers in designing and marketing low-cost units.

JHB has experienced remarkable growth since its start-up, with assets approaching one billion U.S. dollars in just ten years. Its ability to mobilize resources has been demonstrated by the growth rate of its deposits which has outstripped the growth rate at all other banks. All other indicators of its financial performance equally attest to its soundness, fiscal viability and institutional capabilities. JHB's growth and economic well-being can be attributed largely to its professional management and staff expertise, which the JHB is in the process of constantly upgrading through numerous training programs for employees at all levels. Nearly 80% of the bank's data processing is currently computerized, enabling the JHB to maintain adequate records and analyze its own operations for decisionmaking purposes. Finally, the JHB has the largest number of branches of any bank in the country, including 21 branches in the Amman urban area, which reflects not only the priority given to ensuring that all parts of the country are adequately serviced, but is also indicative of JHB's ability to reach lower income clientele.

In summary, the HG loan will provide the impetus for the JHB to make an increased effort to expand its operations with lower income families by actively working with private developers in this regard. Given the size of the HG activity relative to JHB's overall operations, the HG program is well within JHB's administrative capacity.

B. PRIVATE DEVELOPERS

The initial success of the proposed project will depend to a significant degree on the Real Estate Finance Company Ltd. (REFCO) since it is currently the only developer of substantial volume that is actively developing plans to reach the market that includes the target group. Its general activities as a developer are described below while a more detailed examination of one of its projects proposals is contained in Section VII A 4.

REFCO is actually several chartered corporations which are for all practical purposes run as a single company. These allow REFCO to function as a developer, a building society, an insurance company and a seller of furniture packages. REFCO has offices in Saudia Arabia and Kuwait to assist in selling homes to Jordanians living there.

It has eighteen branches in Jordan for its building society activities. Total deposits are almost $17.5 million (see Annex H for a more complete description of building societies) but its success in developing and marketing housing units has required financing in excess of that available from deposits. Therefore, it relies on a line of credit at the JHB to finance much of its development activity as well as long-term mortgage finance. This line of credit is secured by mortgages that REFCO has made on homes it has financed. REFCO buyers can seek financing from JHB under its individual loan program, described earlier, or seek credit directly from REFCO. REFCO's mortgage terms are 10% downpayment, 11% interest with fifteen years to repay. REFCO will consider up to 1/3 of a family's income toward mortgage payments.

Within the last few years, REFCO has built more than 1,000 housing units. Even in light of the present building slowdown, REFCO believes it can produce that many units on a yearly basis, by adjusting its market focus downward to lower income housing. It is now in the process of doing so and has already built and marketed a number of units for under JD 10,000. Eventually, REFCO is considering the potential of expanding its market to units of even lower costs which would be affordable to families with monthly incomes as low as JD 150.

The largest single project that REFCO has undertaken is one including 88 apartment units in 8 building blocks. Because REFCO has had difficulty in selling so many units in one place, it now prefers to build smaller projects. The average project size is presently about 28 units.

REFCO seeks to acquire land within municipal boundaries which is zoned, planned and provided with utilities. Several members of its staff are engaged full-time in this activity. At the present time, REFCO has a land reserve of 18 hectares made up of several sites, with projects actually underway on 18 sites.

REFCO has a trained technical staff of 20 professionals including engineers, architects and quantity surveyors. Each project has an on-site engineer responsible for construction supervision. While REFCO generally relies on outside architects for the design of its projects, it is involved in studying ways to optimize floor plans and to reduce construction standards and costs. Given REFCO's leadership position among corporate developers, its efforts in cost reduction will have an important effect on the market.

Another developer which may be an active participant in the program is DARCO for Housing and Investment Company. DARCO began operations during the last quarter of 1983 and was licensed in mid-1984 to collect savings. Since that time, however, it has collected very little in the way of deposits and has continued to use its own money to finance three on-going projects which include 24, 21 and 28 apartment units. DARCO also believes that there is a potential market for less expensive apartment units and is presently planning a project of this type for 70 units.

DARCO provides mortgage finance on terms simiar to REFCO. When units are pre-sold, deposits are placed in interest-bearing savings accounts. DARCO employs a staff of five engineers, four marketing and sales persons, and an administrative staff of about ten. It feels that a construction output of 5 to 8 projects with 20 to 30 units each would be a satisfactory yearly output for the near future.

VII. TECHNICAL ANALYSIS

A. TECHNICAL SOLUTIONS AND COST ESTIMATES

1. Review of Standards and Costs

The range of housing options which can be developed to meet Jordan's low-cost housing demand is seriously constrained by several important factors. These include very high land costs, large minimum plot sizes, relatively high construction standards and costs, and substantial fees and taxes applied to housing transactions.

Residential land is zoned into A, B, C and D zones with respective minimum plot sizes of 1000, 750, 500 and 300 square meters. There is also a virtually unused classification for "popular housing areas" in which the minimum plot size is 150 square meters. In Amman, 63% of all residential land has been zoned either A or B, while only 13% has been zoned as D. Because of these zoning regulations and the high cost of land, low income residential development has essentially been limited to sites within D zones. (See Annex M for zoning standards).

The average cost of serviced land within the Amman area is around JD 36/m^2 (\$90/m^2). When this cost is applied to the large minimum plot sizes enforced by the present zoning code, the minimum "threshold" cost to acquire a parcel of land with the lowest zoning category becomes JD 10,800 (\$27,000). It is obvious from this example, that unless low income families can purchase a plot under some form of joint ownership, they are effectively excluded from obtaining land on which to build a housing unit. The only legal alternative is to purchase an apartment. In this case, land costs are typically shared between several families and are estimated to be 16% of the sales price of a multi-story unit.

Given the prevalence of the extended family and the fact that low income families purchase or build a house to last a lifetime, most Jordanians prefer a housing unit with a minimum of three habitable rooms. Considering the minimum interior surface of each habitable room to be 10 to 12 m^2, and adding minimum surfaces for the kitchen, bathroom and circulation spaces, the total area of a very modest housing unit would range between 60 and 70m^2.

According to surveys conducted by the UDD on owner-built housing in D-zoned areas, the cost of building a single ground floor housing unit of 70 m^2 was estimated at JD 5,500 (\$13,700). Such a typical unit would include 45 m^2 of gross habitable area built at a cost of JD 75/m^2 (\$187/m^2) and 13.5 m^2 of kitchen and bathroom area built at JD 90/m^2 (\$225/m^2.). Also included would be an additional 10% area for circulation and a staircase costed out a JD 600 (\$1500) per floor. A unit with three multi-functional habitable rooms would allow sufficient flexibility in their use as well as a generally desired distribution of separate sleeping areas for parents and children of opposite sex. The prevalence of this "three room norm," even as the sum total of a mature family's housing requirements, is confirmed by the results of actual field surveys.

The smallest plot size required to support a 70 m^2 housing unit would be around 150 m^2. The total cost of land for this plot would range from JD 3,000 ($7500) to JD 4,500 ($11,250), while the additional cost of infrastructure might add another JD 350 ($875). The total cost of this typical unit would therefore be between JD 9,000 - JD 10,500 ($26,272) not including taxes, fees or interest on loans. The cost of construction alone would be JD 78/m^2 ($185/$m^2$) of the built area of the unit, while the total cost of land, infrastructure and construction would be JD 150/m^2 ($475/$m^2$). Nonetheless, most individuals constructing their home within the above costs would be able to borrow to finance the construction providing they meet the income criteria and keep costs below JD 10,155.

In addition to these costs for serviced land and construction, taxes also have an important impact on housing construction and costs. The real estate transfer tax is payable to the government on each transaction involving the transfer of land or other property. Under this tax, 4% of the value of the transaction is payable by the vendor and 6% by the purchaser. This tax effectively imposes costs of an additional 10% on every transaction. In situations where the developer purchases land and then resells it, the tax is chargeable twice.

Finally, as of 1985, annual taxes are payable to the government expressed as a proportion of the assessed rental value of the property. This value is estimated to be 5% of its actual cost. Taxes under these provisions include a building tax (10%), an education tax (2%), a sewer tax (12%) and a social services tax (10%). If the cost of a property were, for example, JD 10,000, then the resulting annual tax would be equal to a total of JD 125 and would be collected by the Ministry of Finance. The building tax is passed net of collecting costs on to the relevant municipality as part of its "ordinary revenues".

2. Additional Costs Faced by Developers

In addition to the costs of land and construction, a developer faces other "hidden" costs which must be recovered from the sale of his units. These costs include such things as overhead, interest on construction, costs of selling and marketing the units, and the duties and fees which must be paid.

As a measure to improve its understanding of project costs and to develop greater confidence in the setting of sales prices for its housing units, REFCO has developed a rather detailed system for itemizing project costs. A review of different types and sizes of projects reveal a fairly consistent percentage breakdown of costs.

Percentage indications of these costs compared to sales price and total unit cost are shown as follows:

% of sales price		% of total project cost
16%	land	19%
50%	construction	60%
11%	overhead	14%
6%	duties and fees	7%
17%	profit	(20%)

The results of this brief analysis indicate that the cost of serviced land is about 19% of the total cost of a multi-story housing unit, while the cost of actual construction is only 60% of total cost and 50% of the eventual sales price. The fact that the sales price is roughly twice the cost of construction clearly indicates the importance of land and overhead cost to a developer. Any attempt to significantly reduce housing unit costs should therefore focus on all aspects of a project.

Applying the above percentages to housing units included in the REFCO proposal which follows, a two-bedroom apartment with the lowest class of finishings and located on moderately priced land would have a sales price of JD 7,535 ($18,837). Cost of construction would be estimated at JD 3,767 ($9,418) which is equivalent to JD 69/m^2 for REFCO's present projects. The difference reflects the reduction in standards proposed by REFCO and somewhat cheaper land costs.

3. Initiatives to Reduce Standards

The UDP-1 project sponsored by the World Bank has been successful in upgrading squatter areas and in providing serviced sites based on reduced standards and costs. As a government sponsored project, however, UDP-1 has benefitted from having access to cheaper land and more flexibility in responding to existing planning and construction standards. These same advantages do not exist for private developers who must fully respect existing regulations, buy land at market prices, maintain the marketability of their units, and still manage to make a profit. Nevertheless, the UDP-1 project remains a very good example of how certain standards and cost might be reduced without endangering the success of the project.

The UDP-1 project provides very rudimentary core housing units on plots generally smaller than the prescribed minimum. A typical two room core housing unit, for example, includes 35 m^2 of built up area on an enclosed plot of 150 m^2. Walls are made of 10 cm thick hollow concrete blocks plastered and painted on the room side only. Concrete columns support a 10 cm thick waterproofed roof slab. Floors are simply a smooth finished 5 cm thick concrete slab on grade. The plumbing installation includes a turkish toilet and flush tank, a roof water storage tank and one small wash basin. While all interior walls are painted, no tile work or other interior finishings are provided. The unit has one aluminum window per room and three steel doors.

Total base cost for the superstructure of this unit was about JD 1,700 ($4,250) while foundations, on plot site works and courtyard walls added another JD 1,300 ($3,250). Thus total base construction cost for a 35 m^2 core unit on an enclosed plot of 150 m^2 is somewhat high due to the construction of the courtyard wall. The total cost of the unit including land, infrastructure and construction is about JD 5,000 ($12,500). Costs for UDP 2 are higher and comparable to unit costs estimated by private developers for construction of JD68/m^2.

In spite of the fact that these units have rather low standards for the Amman area, they have become rather popular primarily because they can be expanded by the owner to include a maximum of six rooms. Quite a few families are in the process of completely finishing their units even before they have moved in.

Among private developers, REFCO is taking the lead in attempting to reduce standards and costs for its units. For example, REFCO is willing to reduce space standards to one room and even studio apartments in the belief that younger families will realize the advantage of building up equity in a smaller housing unit even though they may plan to live in it only for short time. REFCO has already successfully sold a number of small one-bedroom units without difficulty.

At the present time REFCO continues to study ways in which standards can be reduced and the potential marketability of less expensive units increased. Two principal approaches under investigation include the idea of a "starter apartment," in which a small unit is proposed to younger families who have less immediate need for space. These families can then use the equity built up in this apartment as a springboard to larger accommodation in the future. Although it is technically easy to reduce standards and costs for these types of units, their marketing requires a change in attitude on the part of Jordanian families. Consequently the depth of the market is still too difficult to determine.

The second approach under study is also reflected in the REFCO proposal to the JHB for building low-cost units. It consists of leaving the completion of some finishings to the discretion of the individual buyer. Options would be presented to the buyer at the time of pre-sale and clearly spelled out in the sales contract to avoid misunderstand- ing. As a variation of this "owner completed" approach, REFCO is also considering the possibility of offering an expandable unit. This could, for example be a unit on the top floor or a fairly ample balcony. As is done throughout Amman, this balcony could later be enclosed with lightweight materials, the finishings completed and used as an additional room.

It will take some time for REFCO to develop and test the marketability of any of these approaches. In the meantime, REFCO can reduce the cost of land attributed to each apartment simply by building in the lowest zoned category of land available. Each descending category of land allows a greater plot coverage and consequently a greater size or number of units provided sites are judiciously chosen. The maximum height of 3 1/2 stories is constant for all categories of land. In going from Zone A land to Zone D land, land costs per unit could be reduced by almost 30%.

4. The REFCO Proposal: An Example

REFCO's experience and knowledge of the Jordanian housing market indicates that there is a wide scope for the provision of low income housing on a commercial basis. It has already had experience in developing units for less than JD 10,000 well within the guidelines for the HG project. Within its present projects, the smaller, less expensive units have had the greatest demand. For this reason, REFCO believes that there is a much larger market it could address provided necessary financing was available. To be able to seek this financing, REFCO has written the outline of a three and a half year program which would produce approximately 1,500 lower cost units, or approximately twice as many units as are being contemplated under the HG project. Total cost of the REFCO proposed project would be around JD 10,257,000 ($25,642,500).

The proposal is written to show the projected sales prices and number of units for different combinations of land cost, dwelling size and building specifications. Land costs are anticipated to range from 15 to 40 JD/m^2 with three categories established at 40 JD/m^2, 25 JD/m^2 and 15 JD/m^2 for outlying areas.

The targeted sales prices for this project range between JD 4,340 for a studio apartment with the lowest level of finishings on the least expensive land, to JD 9,537 for a 70 m^2 3 bedroom apartment, also with the lowest level of finishings but on moderately expensive land. The proposal also includes the provision of 45 m^2 core houses on plots of 150 m^2 which may be built in collaboration with the UDP-2 project. All of these would be affordable to the HG projects' target population.

The types of units to be built include a 35 m^2 studio apartment, a 45 m^2 1-bedroom apartment, a 55 m^2 2-bedroom apartment, a 70 m^2 3-bedroom apartment and a 45 m^2 core house. Three levels of building materials and finishings have also been determined.

REFCO believes it can implement this project over a period of 3 1/2 years. A pilot project of 146 units would initially be built during the first year in order to test the market and obtain necessary feedback before proceeding with a larger number of units. The anticipated total cost of these pilot units would be approximately JD 1,071,000 ($2,677,500). It is also expected that these units will be completely built and sold within a two-year period. Construction of the first of two full batches of units will begin in the last quarter of the first year, and all units within the first batch would be built and sold by the end of 2 1/2 years from project start-up. The final batch would begin construction in the middle of the second year and would be completely sold by the end of the 3 1/2 year timeframe allotted to the REFCO proposed project. The cost of each full batch is estimated at JD 4,593,000 ($11,482,500). The REFCO proposal clearly indicated that REFCO believes it can produce a considerable number of units within a reasonable time frame. Thus the time frame allocated for the HG program of 5 years for half as many units appears to be a conservative but perhaps more realistic estimate given the experimental nature of the approach.

B. ENVIRONMENTAL THRESHOLD DECISION

The grant-funded technical assistance marketing and research activities are categorically exempted from detailed environmental procedures under Section 216.2, Regulation 16. Moreover, lending to intermediary credit institutions does not normally require an Environmental Analysis or Environmental Impact Analysis. Nevertheless, the results of a brief environmental examination in response to issues raised in the PID approval cable, are summarized below.

1. Conformity to Local Zoning Regulations

JHB's normal lending procedures require developers to provide proof of building permits issued by the appropriate municipalities. These permits are issued on the basis of conformity of construction plans with zoning requirements. Zoning authorities have been reluctant to permit construction - even by public agencies, such as the Urban Development Department - which does not conform to zoning regulations and standards. In fact, the World Bank's UDP-1 was delayed by zoning authorities due to non-compliance with regulations.

2. Legal Title to Land

Legal title to construction sites should not be a problem with regard to private developers or individuals borrowing from the JHB, since JHB requires proof of land ownership prior to loan approval. By law, JHB's loans must be secured by real property, and land is part of the collateral for JHB's loans.

3. Arrangements for construction and attachment of the required water and sewerage hook-ups.

Connections to necessary water and sewerage hook-ups or septic tanks must be indicated in plans presented to the municipality before it issues a building permit. Since proof of having obtained a building permit is required by the JHB before it processes loans, the JHB will have confirmation of plans to construct and connect to hook-ups. It is unlikely that developers participating in the program will not conform to their plans in this instance, since this will detract from the marketability of the units. It is anticipated that the projects will be scattered on plots located in already-urbanized zones rather than require the development of large tracts of land in which coordination with the utilities for infrastructure provision could present a problem. Finally, proof that occupancy permits have been issued is required before developers can hand over units to buyers. These permits will ensure that the construction has proceeded according to plan, including connections to appropriate water and sewerage facilities indicated on those plans.

4. Compliance with the Antiquities Law

Presently, compliance with the Antiquities Law requires that a developer immediately notify the Department of Antiquities of any discovery of antiquities on construction sites. There is no requirement by the Department of Antiquities for a statement testifying that no antiquities have been found on a construction site. The most important antiquities have been identified in a survey carried out by this department in 1972. These sites are protected from construction and should not pose a problem. Interviews with corporate developers such as REFCO indicate general compliance with the law.

Based on a previous initial environmental examination undertaken for the PID, the Mission has already recommended a negative determination on the need for a more extensive environmental assessment.

VIII. SOCIAL SOUNDNESS ANALYSIS

A. INCOME DISTRIBUTION

The most recent data on the distribution of income in Jordan is not even income data, but rather comes from a Family Expenditures Survey conducted in 1980 for the purpose of determining the weights that should be assigned to the various components of the Consumer Price Index. After extensive analysis (see Annex N), however, it was determined that the best estimate that could be made, based upon all the evidence, both from household surveys and from the National Accounts, was a median income for Jordanian households of JD 250 per month. This figure conforms closely to the UDD's recent estimates of median income and is used as the current estimate of median income in this document.

Factors that should be kept in mind in interpreting this number include:

- the average household in Jordan contains 6.7 persons;
- the average household in Jordan contains 1.2 families;
- three out of every seven Jordanians who work are working outside of Jordan, and most of these are sending remittances back to their families in Jordan;
- the labor force participation rate among Jordanian women has risen to nearly 20% and is still rising;
- Jordanian families are known to have a high propensity to save, and yet consumption amounts to about 84% of GDP, with this paradox being explained by the fact that GNP is half again as large as GDP, owing to the importance of remittances; and,
- the approximately 370,000 Jordanian households provide more than 400,000 workers to the domestic economy and more than 300,000 to neighboring countries, so that the average household has about 2 earners.

All these factors support the thesis that, while salaries and wages in Jordan are fairly low, median household incomes more closely reflect the prosperity of the surrounding area, to which Jordan is closely linked, both politically and economically.

B. DESCRIPTION OF THE TARGET GROUP

Housing costs receive a weight of 35% in the Jordanian Cost of Living Index, reflecting the importance of housing expenditures to the average Jordanian household. Urban households tend to spend an even larger proportion of their income on housing. While some part of this heavy expenditure on housing can be attributed to the high cost that rapid growth has produced, much of it is a reflection of the strong desire for housing of the average Jordanian family. To them, housing is important: it is worth sacrificing for and worth waiting for, and they do both.

The typical Jordanian family will buy only one home during its life, and it is still common (though increasingly less so) for young married couples to establish their home in one of their parents' homes until such time as the crowding becomes unbearable or they have saved enough money so that, with help from family and friends, they can make a downpayment on a home of their own. The home they try to buy is the home they intend to live in for the rest of their married lives, so they often buy a home which so burdens them with debt that they must continue to sacrifice other aspects of their lives in order to pay for the housing that is so important to them. This they do willingly. It is not unusual for Jordanian families to pledge 30% or more of their income to mortgage payments, while at the same time committing themselves to repay the funds they are borrowing from family and friends to help them make the downpayment.

The attitudes of Jordan's younger families do not mirror entirely that of their parents. Education levels and labor force participation rates are higher among young Jordanian women than was ever true for earlier generations, and this seems to be associated with an increased desire on the part of young families to establish their own households as soon as possible. This preference is apparently so strong that these young families are willing to become renters, often of inferior units, even though home ownership is the norm for housing tenure in Jordan. (Even in urban areas more families own than rent, according to the most recent information available.) These young renting families have not abandoned their goal of home ownership, however, and one of the reasons they rent inferior units is because this allows them to continue saving toward the day when they can buy or build the home they want.

Another common form of sacrifice among Jordanians trying to become home owners is to spend several years working outside of Jordan, usually unaccompanied by their families and often living in crowded, unsatisfactory housing in order to accumulate a sizable downpayment. The savings rate among Jordanians working abroad is, by all reports, phenomenal, and since the wages they receive in the Gulf States, where most of them work, are much higher than those paid in Jordan, they can accumulate relatively large sums of money in a few years. Many of these workers work outside the country periodically, returning to the Gulf States to work when their local employment opportunities are poor, or when their need for earnings increases. At any moment, about three out of every seven Jordanian workers will be working outside the country, and their remittances have amounted to more than a billion U.S. dollars per year in recent years, so one can see that this phenomenon is an important factor in the Jordanian economy, and an extremely important source of funds for housing finance.

In the most general sense, the target group will be lower income Jordanian families. It is likely, however, given the high costs of land and construction in Jordan, that developers will be very cautious in moving down scale in the housing they produce and market. It is anticipated that private developers will initially service households with current monthly incomes in the range of JD 200 ($500) to JD 250 ($625), i.e., between the 40th and 50th percentile. Assuming a 25% down payment and JHB terms this would be housing units costing between JD 8,124 and JD 10,155, clearly within its REFCO range. While this income range does not represent the very poorest families in urban areas, targetting construction to this income groups represents a significant deepening of the private sector's involvement in lower income housing. More importantly, as private corporate developers gain experience with lower construction standards, and at the same time realize the potential market for low-cost housing, it is expected that further deepening will take place.

Up to half the project funds will be used to finance homes that are not built by developers under the program, but, under JHB's regular individual loan program. Included among these will be some of the families moving into homes or upgrading their homes in UDP-2. In these cases, it is anticipated that the JHB loans will reach some families with incomes between $250 and $500, who are residents of upgrading sites or purchasers of new sites. This segment of the population generally lives in overcrowded housing with limited access to services. There will probably also be some very low income families who will seek JHB financing to finish units they have already begun but were unable to finish. Thus, this project will likely reach some significant numbers of very low income families in spite of the likelihood that the developers will probably begin their participation by building just under the project limitations. These specify that all loan recipients will be below median income, and none will be borrowing more than JD 7,616 to finance their housing, so the program will certainly reach down to an income level that has generally not been served in the home ownership market in Jordan.

Jordanian households are large, averaging 6.7 persons per household according to the 1979 Census. One of the reasons why they are so large, and one of the reasons why so many of them live in overcrowded conditions, is because an average of 20% of them are made up of two families. Apparently this has been acceptable in the culture or sociology of Jordan, but it is becoming less so. If the developers can provide an economically sensible alternative that allows young married couples to move out of these overcrowded households, then not only they but also the rest of the household will find themselves living in less crowded conditions.

C. ACCEPTABILITY OF THE PROPOSED SOLUTIONS

The acceptability of various low-cost housing options is an open question, even among the developers who will be designing and building the low-cost housing. REFCO plans to test the market with a number of different offerings before they really commit themselves to any one of the low-cost housing options they have discussed. Traditionally high building standards make Jordan a special case in terms of trying to reduce the standards: it is unlikely that really low standards will sell at all. However, there are a number of options that begin by providing less space in the housing unit while maintaining the basic quality of construction. These include providing core housing that can be expanded, or offering young married couples the chance to get a "starter home" that will give them a foothold in the housing market and allow them to accumulate equity which they can reclaim by selling the unit when they need more space. Also included in this class of options is the REFCO proposal to sell apartment buildings of 2 3/4 stories, expandable to 3 1/2 stories as the occupants' incomes allow. This will enable families to buy the smaller third story and expand it later to a full story plus up to half of the fourth story, if they desire and can afford it.

Another option in producing low-cost housing is cutting back on items such as trim and finishings that can be added as income allows. This will offer families the option of sacrificing some of the housing features that they may want in the long run, but which they cannot afford now. Because housing is so important in Jordanian culture, it is entirely possible that some families may be eager to make these sacrifices in order to hasten the day when they can own their own name.

D. AFFORDABILITY

In much of the world, the solutions proposed in this project to the problem of providing housing for lower income families would be infeasible. Lower income families in much of the world could not dedicate 30% of their family income to housing expenditures, and poor families in most of the world could not make a 25% downpayment on a unit even if they could afford the monthly payments. But Jordan is a special case. It is special because a strong saving ethic, an aversion to debt, and the great importance of housing in the Jordanian culture all combine to make this kind of behavior the rule rather than the exception. The importance of remittances is also unique to Jordan's economy, and the tendency to save these funds accumulated while working outside the country enables many Jordanian families to make downpayments much larger than the 25% envisioned in this project.

Also uncommon is the access that Jordanian families seem to have to the savings of friends and relatives. This may be explained in part by the fact that it is common for several related Jordanian families to live together in a single housing unit. Thus if one of these families is able to buy a unit, they all benefit from the undoubling, since those who remain in the original housing unit are no longer so overcrowded after one family moves out. Part of the explanation may also lie in the continuing reluctance of many Jordanians to view savings as just another economic asset which should be earning a rate of return. Many Jordanians, though not most, still refuse to accept interest payments on their accounts with banks. Such a reluctance to view savings as an economic asset rather than proof of a prudent life may encourage savers to loan their accumulated funds to friends who have a need for them rather than seek the highest rate of return and the most security they can with these funds. For whatever reason, it is an incontrovertible fact that Jordanian families are willing and able to come up with large downpayments when they purchase a home.

Jordanian families also commonly spend more than 30% of their income on housing. As pointed out in an earlier section, surveys of household expenditures reveal that the average urban Jordanian family spends more than 35% of its total expenditures on housing. According to the UDD, many lower income families already spend about 30% of their incomes on rent. REFCO has also formalized the recognition of this by allowing monthly mortgage payments to be as much as one third of the family's income.

It is clear from these indications that Jordanian families, including lower income families, can and do regularly produce downpayments in excess of 25% and can and do commonly spend more than 30% of their income on mortgage payments make the project guidelines appear very affordable to the target population.

In summary, the affordability of the units financed by this project is not the major issue. Lower income Jordanians often spend their lives saving to buy a home, and the options available to them for safe and sanitary housing have been more expensive than those that will be produced under this project. The real question is still how cheaply developers will be able t produce units for lower income families. The targets that have been set appear to be reasonable and the availability of financing, when coupled with the potential market, indicate success is achievable.

Table 4 below indicates the maximum mortgages that can be financed, and the maximum sales price that would be permissible under the terms of the proposed project.

Table 4

AFFORDABILITY ANALYSIS FOR HOUSING
FINANCED UNDER THE PROJECT

Program Parameters:		March 1985 Target Groups:
	40th Percentile	50th Percentile
Monthly Income	$500	$625
Monthly Payment	$150	$188
Affordable Mortgage	$15,232	$19,040
Maximum Sales Price*	$20,431	$25,388

* Assumes a 25% downpayment.

IX. ECONOMIC ANALYSIS

A. HOUSING'S PLACE IN THE ECONOMY

Housing's importance to the Jordanian economy mirrors its importance to Jordanian families. As pointed out in earlier sections of this report, housing has long been an important element of Jordan's economy. At the current time, it should assume an even more important role in providing employment opportunities for those Jordanian contractors and construction workers who have returned from the Gulf States as tightening oil revenues have curtailed the long construction boom in those countries. The opportunity for directing these valuable economic resources toward solving Jordan's lower income housing problem should not be missed, especially since many of these resources might be unemployed in the absence of employment opportunities created by an effort to provide housing for Jordan's lower income families. Jordan already has a substantial number of vacant housing units in the upper middle income range, so that market is apparently already saturated. Major industrial investment projects are being curtailed in Jordan as in the Gulf States. Thus some new use must be found for the skills that these Jordanian construction workers bring to the marketplace. This project could not be better timed for directing these resources into the effort to provide housing for Jordan's lower income families.

Because housing in Jordan has a very low import component, it is a doubly desirable industry to promote at this time. Jordan has for many years run a balance of trade deficit that has been financed by unrequited transfers and remittances. The unrequited transfers have already fallen off markedly, and in spite of continued increases in remittances and Central Bank projections that they will continue to increase, there is a widely held belief that they simply must begin to fall as the economies of the Gulf States continue to wind down. Thus Jordan needs to divert the expenditures of consumers away from consumer durables and other imported commodities and toward products that are largely manufactured in Jordan. Housing is such a commodity.

In sum, the importance of this project is not so much dependent upon housing's place in the Jordanian economy, which has always been important, but rather on the importance to Jordan's economic health of having exactly this kind of employment-generating, import-substituting economic activity going on at this time.

B. ECONOMIC BENEFITS FROM THE PROJECT

The previous section discussed the importance to the Jordanian economy of having projects underway that would generate employment for construction workers, and the importance of producing commodities that could substitute for the imports that Jordanian families buy in such quantities. They are undoubtedly other economic benefits to providing safe and sanitary housing for all Jordanians, but they are largely unquantifiable. It is difficult to place a value on the improved health, physical and emotional, that results from reducing overcrowding, but it is no less real for being immeasurable. Healthier, happier workers not only miss fewer days of work, they are also more productive when they are working. Of this there can be no doubt. But so many factors contribute to the health and happiness of any group of people that it is and will likely remain impossible to identify the contribution of safe and sanitary housing to these factors, or to measure the extent to which overcrowding diminishes them.

On a less subjective note, there are economic benefits to be obtained not only from the nature of the project, but also from the way in which the project is structured. The project proposed here will produce lower income housing units as cheaply as they can be produced without subsidies, since it takes full advantage of the competitive forces of the marketplace to gain production efficiencies, efficient site use, etc. Although there may only be a few developers who try to build for this market in the beginning, others will follow suit if they are successful. This approach avoids all the issues of how deep subsidies should be versus how broadly they should be available (which plague all subsidized attempts to provide low income housing), and it leaves to the marketplace all those kinds of production decisions, land use choices, style and quality of construction options, etc., which the marketplace is best suited to resolve, relying as it does on consumer choice as manifested in purchase decisions.

C. JORDAN'S CAPACITY TO SERVICE HG DEBT

Jordan is endowed with few natural resources, and its major economic asset is a well-trained and well-educated workforce in a region where such workers are in short supply. Jordan has been willing to export its workers, and their remittances play an important role in the country's external trade accounts.

Situated in the Middle East, Jordan is vulnerable to external political conditions which are largely outside of its control. Despite these political uncertainties, however, in the past Jordan has proven itself capable of sound economic management, and by all indications it will continue to do so. The level of Arab grants and number and earnings of Jordanian emigrants working in the Gulf states is dependent on future world oil price levels and world oil consumption, replacement of foreign workers by nationals within the Gulf states, and other factors. Should economic conditions in the Gulf change precipitously for the worse, Jordan's debt service management problems would become more difficult. However, prospects for a very much sharper downturn in the Gulf than has now been experienced, while possible, seem unlikely.

Jordan's level of foreign indebtedness has increased in the last decade. Growth has been particularly marked in the last four years. Disbursed external government and government guaranteed debt of over one year maturity has nearly doubled from $1,204 million at the end of 1980 to $2,354 million at the end of 1984, equivalent to 50% of GNP. Nonethless, debt service obligations are still within reasonable levels. The country's debt service ratio (measured as interest and principal payments against the total of [1] domestic exports, [2] receipts from tourism, and transportation, and [3] inflows of workers' remittances) at year-end 1984 was only 8.9%, well below that of many developing countries and below the 9.2% ratio registered in 1983. Other external indicators, such as the country's balance of payments, currency competitiveness, terms of trade and foreign exchange reserves, all confirm that Jordan is relatively sound from a debt/risk perspective and faces no immediate problems. Jordan has experienced a decrease in Arab grant aid, but it appears to be compensating for this reduced capital flow as well as possible.

In 1984 Jordan's current account deficit declined by $166 million from $389 million to $223 million, equivalent to 4.6% of GNP. A $429 million improvement in the trade balance resulting from a $177 million rise in exports to $680 million and a $250 million decline in merchandise imports was the main contribution to the improvement in current account performance. Despite a $127 million increase in workers' remittances, net receipts from services and transfers were reduced by $264 million, reflecting declines in earnings from transportation, travel, expenditures for services, and a $119 million reduction in Arab aid. The balance on Jordan's capital account was reduced by some $200 million in 1984. Net public sector inflows declined by $170 million and errors and omissions changed from a positive $63 million in 1983 to a negative $171 million in 1984. As a result Jordan experienced a $165 million overall balance of payments deficit in 1984, with a consequent fall in reserves.

In the first four months of 1985, official reserves continued to decline, dropping by $171 million to $516 million. Official reserve levels (excluding such foreign assests as balances in foreign clearing agreements and Central Bank facilities for exports to Iraq) rose by $39 million in May and remained relatively constant in June. Preliminary data for 1985 indicate further improvement in Jordan's trade balance. In the first three months of 1985, domestic exports rose by 7.9% compared to January-March 1984. Largely reflecting reduced oil prices, imports continued to decline, dropping by 8.3% over the first quarter of 1984.

In terms of overall demand management, Jordan is adjusting to reduced external resource flows. Growth in money supply (M2) has been substantially contained. M2 expanded by 13.3% between June 1983 and June 1984; growth has been curtailed to 4.7% between June 1984 and June 1985. Jordan also continues to pursue a prudent fiscal policy, reducing capital expenditures to stay in line with available external resources.

Jordan's imports peaked at $3,169 million in 1981. Notwithstanding a subsequent 12 per cent decline, to $2,786 million in 1984, total reserves declined by $720 million, or 50 per cent, during the 1981-84 period. Although near-term export prospects are reasonably good, the export base remains too narrow, in itself, to reverse the trend. The country thus needs to continue the process of adjustment to reduced external resources. The authorities, though, have thus far amply demonstrated their willingness to adjust to changed circumstances, and will likely continue to do so. Jordan is not as risk-free with respect to debt service management as it appeared even a year or two ago, but should be able to handle its debt obligations for the foreseeable future.

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