The Jordan Exception in U.S. Foreign Assistance

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Brief Analysis

By increasing Amman's funding amid austerity measures elsewhere, Washington has reaffirmed the kingdom's strategic importance, but close engagement is needed to make sure the money is well spent.

During a February 14 meeting in Amman, Secretary of State Rex Tillerson signed a foreign assistance memorandum of understanding with his Jordanian counterpart Ayman Safadi. Tillerson described the MOU as "a signal to the rest of the world that the U.S.-Jordan partnership has never been stronger." At least in dollar terms, his assessment is accurate.

The MOU outlines a new five-year, $6.375 billion commitment ($1.275 billion per year) beginning in fiscal year 2018 and ending in FY 2022—a $275 million annual increase over the previous three-year agreement. At a time when the Trump administration is cutting foreign assistance, Jordan remains among the top five recipients, along with Iraq, Afghanistan, Israel, and Egypt. The MOU pushes Jordan past Egypt's total aid for the first time, showing just how high Washington prioritizes the kingdom's continued stability.

At the same time, Jordan's budget remains in perennial debt, the population is changing with the continued refugee influx, and pressures at home and abroad pose an ongoing threat. The MOU therefore remains only one piece of the comprehensive policy required to support one of Washington's most stalwart allies in the Middle East.

HISTORY OF THE MOU

The latest MOU follows two others that covered FY 2009-2014 and FY 2015-2017. These are not legally binding documents, but they hold considerable symbolic value by emphasizing the enduring nature of U.S. strategic commitment to Jordan. They also help Amman plan for a minimum amount of assistance from the United States—an annual tally that has increased with each MOU, from $660 million to $1 billion and now $1.275 billion.

In addition to the baseline level of assistance laid out by the MOUs, Washington has provided supplemental funds for specific projects beyond the original allotment. For example, since 2013, the Defense Department has allocated an additional $100 million from its Cooperative Threat Reduction account to help install security barriers and detection equipment along Jordan's borders with Syria and Iraq, in part to watch for weapons of mass destruction. Similarly, the U.S. government has given several hundred million dollars since 2011 to help Jordan with its massive Syrian refugee population, funding projects implemented primarily by UN agencies and international NGOs. Washington also guaranteed $3.75 billion in loans in 2013-2015 (at a cost of $413 million to the United States), for which Jordan would not otherwise have qualified given its poor credit status. In other words, although the previous MOU specified $1 billion in annual assistance, the United States has actually provided closer to $1.5 billion in each of the past few years.

WHERE THE MONEY GOES

In general, U.S. foreign assistance is divided between Economic Support Funds (ESF) and Foreign Military Financing (FMF). Whereas assistance to some of Jordan's neighbors countries consists mainly of FMF (e.g., 100 percent in Israel's case, and 85 percent in Egypt since military aid was restored after the 2013 coup), Amman's aid package has evolved over the past decade from a near-even ESF/FMF split to a strong emphasis on economic assistance.

In that vein, the new MOU sets minimum annual ESF to Jordan at $750 million and FMF at $350 million, leaving a cushion of $175 million to be allocated where needed. This change signals the administration's assessment that existing support for the Jordan Armed Forces is adequate, and that the real threat to regional stability is economic volatility and pressure from the surge of Syrian refugees.

The largest ESF component is earmarked for direct budgetary support to the Jordanian government, which totaled over $230 million in FY 2016. Jordan funds approximately 12 percent of its budget through direct grants, and the United States is routinely the leading provider of such support behind Saudi Arabia, whose assistance fluctuates. (Although other Gulf Cooperation Council states have provided budgetary support in the past, they currently focus on funding capital investments to support specific development projects in Jordan.) Washington's remaining ESF is split between projects focusing on education, job growth, environmental issues, water, and energy, as well as civil society and governance support.

Even with this generous assistance, however, Jordan remains heavily dependent on foreign aid and burdened by major debt. In 2017, its debt-to-GDP ratio reached 94 percent—an extremely high proportion given Jordan's low growth rate. Worse, the annual cost of servicing this debt is nearly $1.3 billion, or about 11% of current spending.

As Secretary Tillerson explained, the MOU is intended "to support His Majesty King Abdullah's political and—importantly—his economic reform agenda, and move Jordan closer to achieving the self-reliance that it seeks." Indeed, U.S. assistance helps mitigate domestic pressures resulting from the economic and fiscal reforms that Jordan has implemented in line with its IMF program. To reduce its debt, Amman has made controversial decisions such as eliminating bread subsidies (which the IMF did not recommend), increasing electricity prices, and raising sales taxes to between 10-16 percent on a broad range of commodities.

JORDANIAN REACTIONS

Although Amman initially hoped that Washington would increase its assistance baseline to $2 billion, Jordanian official reaction to the new MOU was nevertheless glowing. In his joint press conference with Tillerson, Safadi repeatedly emphasized the "fraternal" nature of bilateral relations and sought to downplay or compartmentalize any disagreements, particularly regarding President Trump's Jerusalem embassy decision.

Tillerson's visit received positive coverage in the Jordanian media as well, though it had to compete with a slew of domestic developments. Subsidy reductions dominated the news given the small but persistent protests against them, including occasional flare-ups in traditionally pro-government portions of central and southern Jordan. The kingdom was also gearing up for a parliamentary no-confidence vote scheduled a few days after the MOU signing. Prime Minister Hani al-Mulki's government survived the vote, but he felt compelled to reshuffle his cabinet for the sixth time since May 2016. He also introduced the position of deputy prime minister for economic affairs; the new post was filled by Jafar Hassan, who previously served as head of the king's private office.

None of these developments is dramatic enough to threaten the stability of a kingdom accustomed to crises. Collectively, however, they highlight the incessant economic and political challenges under which U.S. assistance to Jordan takes place, and the necessity of maintaining close engagement.

MAXIMIZING THE MOU'S IMPACT

The effectiveness of Washington's increased assistance to Jordan will depend on regular dialogue between key officials at the departmental/ministerial level. To make sure that new funds are well spent, the United States needs an effective interagency team as well as a fully staffed and active U.S. mission in Amman to work with Jordan's new deputy prime minister for economic affairs and his team. That will enable the administration to regularly evaluate how well the assistance programs are addressing critical needs such as creating jobs, encouraging Jordan to reduce government inefficiencies, and mediating potential disputes with the IMF on the timing and substance of recommended fiscal reforms.

As for the MOU's extra $175 million in unspecified assistance, U.S. officials should designate it for a multiyear project aimed at ameliorating Jordan's high unemployment. The practice of granting microfinance loans to support the emergence of small businesses has not been particularly successful in creating significant jobs, so other options should be explored, including Overseas Private Investment Corporation loans to American companies as a way of encouraging them to invest and open branches in Jordan.

In exchange, Jordan needs to take several regulatory measures and expand access to financing in order to spur job creation. In the World Bank's annual "Doing Business" report, the kingdom ranks 110th globally in "ease of doing business" (10th in the Middle East and North Africa), and 159th in access to credit (well behind the regional average, trailing Egypt and Lebanon). Any additional U.S.-funded projects should aim to improve access to credit and facilitate foreign direct investment.

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