

04-119

Special Objective Grant Agreement (SpOAG)

USAID Grant Agreement No. 278-011

SPECIAL OBJECTIVE GRANT AGREEMENT  
BETWEEN THE  
UNITED STATES OF AMERICA  
AND  
THE HASHEMITE KINGDOM OF JORDAN  
FOR THE  
CASH TRANSFER  
SPECIAL OBJECTIVE

DATED: MAR 23 2004

APPN:  
BPC:  
RCN:

<b>FUNDS AVAILABLE FOR</b>	
ADM. RES. <input type="checkbox"/>	OBLIGATION <input checked="" type="checkbox"/>
EM. RES. / EM. <input type="checkbox"/>	COMM. RES. / COMM. <input type="checkbox"/>
ACTION TAKEN BY <i>AD</i>	DATE <i>3/23/04</i>
APPROPRIATION: <i>724/51037</i>	
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# Special Objective Grant Agreement

## Table of Contents

Article 1: Purpose	1
Article 2: Special Objective and Results	1
Section 2.1. The Special Objective	
Section 2.2. Results	
Section 2.3. Annex 1, Amplified Description	
Article 3: Contributions of the Parties	1
Section 3.1. USAID Contribution	
Section 3.2. Grantee Contribution	
Article 4: Completion Date	2
Article 5: Conditions Precedent to Disbursement	2
Section 5.1. First Disbursement	
Section 5.2. Additional Disbursement	
Section 5.3. Notification	
Section 5.4. Terminal Dates for Conditions Precedent	
Article 6: Subcommitting, Subobligating and Disbursing Grant Funds	5
Article 7: Miscellaneous	5
Section 7.1. Communications	
Section 7.2. Representatives	
Section 7.3. Standard Provisions Annex	
Section 7.4. Language of Agreement	
Article 8: General Terms and Conditions Relating to Use of the Cash Transfer	6
Article 9: General Terms and Conditions Relating to the Local Currency Account associated with the Cash Transfer	7
Article 10: Trust Fund Account	8
Article 11: Covenants	8

## SPECIAL OBJECTIVE GRANT AGREEMENT

Dated:

Between

The United States of America, acting through the United States Agency for International Development ("USAID")

and

The Hashemite Kingdom of Jordan, acting through the Ministry of Planning and International Cooperation ("Grantee")

### Article 1: Purpose

The purpose of this Special Objective Grant Agreement ("Agreement") is to set out the understanding of the parties named above (the "Parties") about the Special Objective described below.

### Article 2: Special Objective and Results

Section 2.1. Special Objective. The Special Objective ("Objective") is to improve the overall balance of payments situation, enhance the climate for reform and help alleviate some of the economic difficulties facing Jordan.

Section 2.2. Results. In order to achieve that Objective, the Parties agree to work together to achieve the following two Intermediate Results:

- (a) Improved Environment for Sustained Policy Reform
- (b) Increased Technical Capacity to Implement Policy Reform

Section 2.3. Amplified Description, Annex 1, attached, elaborates the above Objective and Result. Within the limits of the above definition of the Special Objective, Annex 1 (including the Intermediate Result set forth above and indicators for measuring progress in achieving this result) may be changed by written agreement of the authorized representatives of the Parties named in Section 7.2 without formal amendment of this Agreement.

### Article 3: Contributions of the Parties

Section 3.1. USAID Contribution

(a) The Grant. To help achieve the Objective set forth in this Agreement, USAID, pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Grantee under the terms of the Agreement not to exceed one Hundred and thirty eight million five hundred and twenty five thousand United States ("U.S.") Dollars (\$138,525,000) (the "Grant").

(b) Total Estimated USAID Contribution. USAID's total estimated contribution to achievement of the Objective will be U.S. Dollars Four hundred and Forty million (\$440,000,000), which will be provided in increments. Subsequent increments will be subject to the availability of funds to USAID for this purpose and the mutual agreement of the Parties, at the time of each subsequent increment, to proceed.

(c) If at any time USAID determines that its contribution under Section 3.1(a) exceeds the amount which reasonably can be committed for achieving the Objective or Results or activities during the current or next U.S. fiscal year, USAID may, upon written notice to the Grantee, withdraw the excess amount, thereby reducing the amount of the Grant as set forth in Section 3.1. Actions taken pursuant to this subsection will not revise USAID's total estimated contribution set forth in 3.1(b).

#### **Article 4: Completion Date**

(a) The Completion Date, which is September 30, 2009, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all the activities necessary to achieve the Objective and Results will be completed.

(b) Except as USAID may otherwise agree to in writing, USAID will not issue or approve documentation which would authorize disbursement of the Grant for services performed or goods furnished after the Completion Date.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, are to be received by USAID no later than nine (9) months following the Completion Date, or such other period as USAID agrees to in writing before or after such period. After such period USAID, at any time or times, may give notice in writing to the Grantee and reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, were not received before the expiration of such period.

#### **Article 5: Conditions Precedent to Disbursement**

Section 5.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to USAID in form and substance satisfactory to USAID:

(a) An opinion of counsel acceptable to USAID that this Agreement has been duly authorized or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

- (b) A statement in the name of the person holding or acting in the office of the Grantee specified in Section 7.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

Section 5.2. FY 2004 Cash Transfer, General Conditions Precedent.  
Prior to disbursement of the cash transfer of one hundred and thirty eight million United States Dollars (\$138,000,000) envisaged under this Agreement (hereinafter referred to as "cash transfer"), or prior to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to USAID, in form and substance satisfactory to USAID:

- (a) Evidence that the Grantee has established the Separate Dollar Account described in Article 8 of this Agreement, together with the Grantee's certification that such bank account has been established and will be maintained as required by this Agreement and/or subsequent Implementation Letters ("ILs").
- (b) Evidence that the Grantee has established the Local Currency Account described in Article 9 of this Agreement, together with the Grantee's certification that such account has been established and will be maintained as required by this Agreement and/or subsequent ILs.

Section 5.3. FY 2004 Cash Transfer, Policy Reform Conditions Precedent.  
Prior to the disbursement of the cash transfer, or prior to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, meet the following policy reform and related Conditions Precedent and furnish to USAID, in form and substance satisfactory to USAID, evidence of the following actions:

5.3.1. A Memorandum of Understanding (MOU) is signed between the Ministry of Water and Irrigation/Water Authority of Jordan (MWI/WAJ) and the Ministry of Finance (MOF) requiring:

- MWI/WAJ to approve Income Tax Department clearance certificates that are issued to owners of wells.
- MWI/WAJ to approve property transactions at the Land and Survey Department that are related to lots of land owned by well owners.

5.3.2. A private sector water company is established in Aqaba.

5.3.3. The cabinet issues a directive that establishes enforcement guidelines for the new building codes that pertain to sanitary fixtures.

5.3.4. The MWI develops an action plan to address administrative losses in water systems in the Greater Amman and the Northern Governorates.

5.3.5. The Cabinet of Ministers has approved the National Reproductive Health Action Plan: 2003 - 2007.

5.3.6. The Higher Population Council establishes and appropriately staffs a Reproductive Health Unit to implement the National Reproductive Health Action Plan.

5.3.7. The Ministry of Health establishes a budget line item for a minimum of JD 30,000 in their annual budget to fund annual surveillance of risk factors for chronic diseases.

5.3.8. The Ministry of Health creates a written plan to institutionalize a standardized disease-specific hospital discharge information system in MOH hospitals.

5.3.9. The Ministry of Health drafts a written plan to train Hospital Directors and other key personnel on the purpose and utilization of job descriptions in hospitals.

5.3.10. The Minister of Health approves a strategy for the continuing medical education (CME) of clinical personnel of the Ministry of Health and implement Steps 1 – 8 of the joint MOH - WHO strategy.

5.3.11. The Government of Jordan issues an international tender to fully privatize the Jordan Aircraft Maintenance Limited and Jordan Airmotive Limited.

Section 5.4. Notification. USAID will promptly notify the Grantee when USAID has determined that a condition precedent has been met.

Section 5.5. Terminal Dates for Conditions Precedent.

- (a) The terminal date for meeting the conditions specified in Section 5.1 is 60 days from the date of this Agreement or such later date as USAID may agree to in writing before or after the above terminal date. If the conditions precedent in Section 5.1 have not been met by the above terminal date, USAID, at any time, may terminate this Agreement by written notice to the Grantee.
- (b) The terminal date for meeting the conditions specified in Sections 5.2 and 5.3 is 120 days from the date of this Agreement or such later date as USAID may agree to in writing before or after the above terminal date. If the conditions precedent in Sections 5.2 and 5.3 have not been met by the above terminal date, USAID, at any time, may cancel the undisbursed balance of the Grant, to the extent not irrevocably committed to third parties, and terminate this Agreement by written notice to the Grantee.

## **Article 6: Subcommitting, Subobligating and Disbursing Grant Funds**

With respect to disbursements made under this Agreement, after satisfaction by the Grantee of the Conditions Precedent set forth in Sections 5.1 to 5.3, the Grantee hereby agrees that USAID may subcommit, subobligate and disburse Grant funds available under Subsection (a) ("The Grant") of Section 3.1 ("USAID Contribution"), whether such use covers Foreign Exchange or Local Currency Costs described in Annex 2 ("Standard Provisions") hereof so long as such actions and disbursements are consistent with the terms and conditions of Annex 1 ("Amplified Description") hereof without any further approval or concurrence. USAID shall periodically inform the Grantee of all disbursements directly made by USAID under this Agreement, providing the Grantee with the amount(s) and purpose(s) of such disbursement(s). Prior approval of the Grantee, however, shall be required, for all disbursements of Grant funds made directly to the Grantee for, by way of example and not limitation, financing host country contracts let by the Grantee to achieve the Special Objective and Intermediate Results.

## **Article 7: Miscellaneous**

Section 7.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram, telefax, email or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To USAID:

Mail Address:

United States Agency for International Development  
P.O. Box 354  
Amman, 11118, Jordan

To the Grantee:

Mail Address:

Ministry of Planning and International Cooperation  
P.O. Box 555  
Amman, 11118, Jordan

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The e-mail addresses of the parties will be agreed upon through ILs.

### **Section 7.2. Representatives**

(a) For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the Office of Minister of Planning and International Cooperation and USAID will be represented by the individual holding or acting in the Office of Mission Director, each of whom, by written notice, may designate additional representatives.

(b) Amendments to Annex 1 made in accordance with Article 2 hereof may be made by the mutual agreement of the representative of USAID and the representative of the Grantee, provided, however, that revisions to the Financial Plan set forth in Annex 1 may be made by the mutual agreement of the representative or additional representative of USAID and the representative or additional representative of the Grantee so long as i) no component of such Plan is, as a result of any such revision or revisions, decreased by more than fifteen percent (15%), and ii) no USAID, GOJ or other Total set forth in the final bottom line of such Plan is changed.

(c) The names of the representatives of the Grantee, with specimen signatures, will be provided to USAID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.3. Standard Provisions Annex. A "Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

Section 7.4. Language of Agreement. The language of the Agreement is English.

#### **Article 8: General Terms and Conditions Relating to Use of the Cash Transfer.**

##### Section 8.1. Use of the Cash Transfer

(a) The cash transfer provided under this Agreement shall be utilized by the Grantee to cover payments and/or reimbursements for payments made during the period from October 1, 2003 or after in the following categories, in order of precedence: (1) debt owed to the United States Government ("USG"); (2) debts owed to the USG arising out of loan guarantee transactions where, as of the effective date of this Agreement, the USG has paid claims to lenders and records the Grantee's obligations to the USG as a subabrogated claim; (3) debt (both current and refinanced) owed to multilateral financial institutions such as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD); (4) for other debt as agreed to by the Parties.

(b) The cash transfer may not be used to finance: military, paramilitary, or police requirements of any kind, including the procurement of commodities or services for military, paramilitary, or police purposes; for the servicing of loans or credits that originally financed such requirements; for ineligible commodities such as surveillance equipment, abortion equipment, luxury goods, gambling equipment, weather modification equipment; and/or for any purpose other than the one authorized in section 8.1 (a) above.

##### Section 8.2. Separate Account for the Cash Transfer

(a) The Grantee shall establish an interest bearing account ("Dollar Separate Account") in a U.S. bank for deposit of the cash transfer, and shall not commingle the cash transfer with funds from any other source. The Grantee may, as its discretion, choose to establish a final, separate, non-commingled interest bearing account in the Central Bank of Jordan to receive the cash transfer proceeds from the U.S. bank for eligible transactions as defined in the Agreement.

(b) Unless otherwise waived by the USG subsequent to this Agreement, any interest earned on funds deposited by USAID into the Dollar Separate Account shall be returned to the U.S. Treasury.

#### Section 8.3. Deposits of Disbursement(s)

After satisfaction of the Conditions Precedent for disbursement of the Cash Transfer, and at the written request of the Grantee, USAID will disburse the Cash Transfer into the Dollar Separate Account established by the Grantee for this purpose.

#### Section 8.4. Date of Disbursement (s)

Disbursement by USAID will be deemed to occur on the date on which the Cash Transfer is disbursed by USAID pursuant to Section 8.3 into the Dollar Separate Account.

#### Section 8.5. Reporting

The Grantee will furnish information and reports on a periodic basis demonstrating the use and/or intended use of the cash transfer for the agreed upon purposes. The required content and timing of the reports shall be communicated by USAID to the Grantee in a separate IL.

### **Article 9: General Terms and Conditions Relating to the Local Currency Account associated with the Cash Transfer**

#### Section 9.1. Separate Account for Jordanian Local Currency

(a) The Grantee shall establish a separate interest bearing account ("Local Currency Account") in the Central Bank of Jordan (CBJ), and will deposit into such account currency of Jordan (Jordanian Dinar) in the amount and subject to the procedures specified in this Agreement and/or separate ILs.

(b) Any interest earned on funds deposited into the Local Currency Account shall be programmed jointly with USAID and utilized by the Grantee as if it were principal.

#### Section 9.2, Deposit into the Local Currency Account

The Local Currency equivalent of the total value of the cash transfer will be deposited into the Local Currency Account in four installments as described below or as the Parties may otherwise agree in writing through an exchange of ILs. Four equal installments, each in the amount of the Jordanian Dinar equivalent of U.S. Dollar 34,500,000, will be made within 15 working days after the beginning of following months in calendar year 2004: March 1, 2004; May 1, 2004; July 1, 2004; and September 1, 2004, calculated at the highest legally obtainable rate of exchange as determined by the Central Bank of Jordan, which, as of the date of deposit, is not unlawful in Jordan."

#### **Article 10: Trust Fund Account**

(a) For the FY 2004 cash transfer, the Grantee shall transfer from the Local Currency Account the equivalent of three million five hundred thousand U.S. Dollars (U.S.\$ 3,500,000) in Jordanian Dinars to the USAID Trust Fund Account established pursuant to the Commodity Import Program Agreement between the Parties dated September 23, 1993, as amended. The Jordanian Dinars shall be provided at the highest legally obtainable exchange rate as determined by the Central Bank of Jordan, as of the date of deposit, in two equal installments of the equivalent of one million seven hundred fifty thousand United States Dollars each, with one installment due on May 1, 2005 and the other due on October 1, 2005. These funds will help meet a portion of USAID administrative expenses beginning October 1, 2004 through September 30, 2006.

(b) The Trust Fund Account shall be governed by the provisions of the most recent Trust Account Agreement between the parties, which shall be amended as needed to encompass the funds provided pursuant to this Agreement.

#### **Article 11. Covenants**

##### **Section 11.1. Support for Jordan's Economic Reform Program**

The cash transfer is designed to improve the overall environment for sustained economic reform in Jordan, and its disbursement will help ease Jordan's foreign exchange situation, reduce its debt burden, lower its debt service payments commitment, and impact favorably on the general environment for trade and investment. Use of a cash transfer mechanism in the future will include additional Conditions Precedents and /or Covenants designed to make further progress towards sustained economic reform in Jordan, especially in key areas such as water, social sector development and economic growth.

##### **Section 11.2. Redeposit and Refunds Relating to the Local Currency and Dollar Separate Accounts under the Cash Transfer**

If any of the U.S. Dollars or Jordanian Dinars deposited in the Separate Dollar or Local Currency Accounts under this Agreement are used by the Grantee for purposes not permitted under the Agreement, or if the proper use of

such funds is not supported by documentation required under this Agreement and /or applicable ILs, the Grantee agrees to redeposit, within sixty days after receiving notice from USAID of such breach, an equivalent amount of funds into the appropriate Account, with the addition of interest calculated from the date of the breach. Funds so redeposited shall be used for purposes permitted under this Agreement. Proper use of such redeposited funds shall be considered to have corrected any prior breach up to the amount of funds redeposited. USAID reserves the right to require such a redeposit, notwithstanding any other provision of this Agreement, for five years after the date of the last disbursement of dollars by USAID under this Agreement.

Section 11.3. Monitoring and Evaluation of the use of the Local Currency. Prior to the first disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made, the parties will, except as the Parties may otherwise agree in writing, exchange implementation letters concerning the monitoring, evaluation and audit of the use of the local currency.

#### Section 11.4. Audit of the Cash Transfer and Related Local Currency

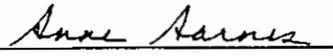
(a) USAID and the Grantee agree to arrange for annual audits of both the Local Currency and Dollar Separate accounts described in this Grant Agreement. In the case of the Dollar Separate account, the audits will include, but not be limited to, tests and examinations of pertinent documentation and financial records and activities in order to determine whether the receipt and expenditure of funds provided as cash transfer were in compliance with the terms of the Agreement and the funds were utilized for agreed upon purposes. The audits of the Separate Dollar account must include tracking and direct confirmation of a selection of installment payments made under the program to the foreign debt creditor institutions. The audits will be performed in accordance with auditing standards approved by the Comptroller General of the United States (the revised 1994 GAO publication, "Government Auditing Standards"). In the case of the Local Currency account, the audits will include, but not be limited to, tests and examinations of pertinent documentation and financial records and activities in order to determine whether the deposits and transfers of local currency funds were in compliance with the terms of the Agreement and the funds were utilized for agreed upon purposes. These audits will be executed according to generally accepted international auditing standards and accounting principles.

(b) The audits will be performed by the Jordanian Audit Bureau or a private chartered audit firm under the Generally Accepted Accounting Principles (GAAP) utilizing funds available under the Local Currency Program or from other resources available to Grantee for this purpose. The Grantee shall afford authorized representatives of USAID, the U.S. government and/or agreed-upon audit institutions access to any pertinent books, documents, papers, and records to inspect the program and perform audit functions related to the Grant. The Grantee shall not subordinate or infringe USAID's right to audit the funds emanating from this Grant.

IN WITNESS WHEREOF, the United States of America and the Grantee, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

BY:   
H.E. Dr. Bassem Awadallah  
Minister of Planning and  
International Cooperation

BY:   
Edward W. Gnehm  
U.S. Ambassador

BY:   
Anne Aarnes  
USAID Mission Director

ANNEX 1  
USAID/JORDAN SPECIAL OBJECTIVE  
CASH TRANSFER  
AMPLIFIED PROGRAM DESCRIPTION

I. INTRODUCTION

This Annex describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of the Agreement.

II. BACKGROUND

Despite some debt rescheduling and forgiveness in the 1990's the GOJ's external debt service burden remains uncomfortably high. Between 1995 and 2002, the external debt (including Brady Bonds) to GDP ratio decreased from approximately 96 percent to 81 percent. However, total external debt rose to \$8.3 billion at the end of 2002 from \$7.7 billion in 2001, equivalent to about 88 percent of GDP and 182 percent of exports of goods and services. Most of the debt was public and publicly guaranteed debt, the balance being commercial bank debt. Official creditors accounted for 85 percent of total debt, with about one-third owed to multilateral institutions and two-thirds to bilateral creditors. The increase in public external debt in 2002 was fairly small as a percent of GDP and followed several years of decline. However, continued progress is still necessary to achieve the goal of 60 percent of GDP, which is specified in the Public Debt Law.

Although the present situation is encouraging, and nicely parallels the GOJ's policy reform accomplishments, the remaining debt leaves Jordan vulnerable to shifts in exchange rates between the dollar (to which the JD is pegged) and currencies of countries to which the debt is owed. Progress can thus be quickly eroded by an adverse exchange rate shock which has indeed become a reality in 2003. Such a shock, in turn, can translate into adverse fiscal conditions for the GOJ.

Revived economic growth and a concomitant increase in government revenues have further allayed the debt service burden.

Unfortunately, the recovery that began in 2000 is still relatively slow, in part because of renewed violence in the West Bank and Gaza, the aftermath of September 11, and the war with Iraq. A significant foreign currency fixed cost, namely annual debt service, therefore keeps the GOJ budget unacceptably vulnerable to external political and economic shocks.

Although uncomfortable, the debt service to export ratio of about 19 percent has not reached crisis proportions. Furthermore, through rescheduling and other devices, the GOJ has managed to keep actual debt service payments lower. On a cash basis, debt service is in the range of 13.7 percent of exports of goods and nonfactor services. However, the approach of rolling over obligations to keep the cash payments below commitments is ultimately not sustainable and even now debt service places a strain on government revenues. To mitigate the effects of this situation, the GOJ has regularly approached the Paris Club for reschedulings and debt relief with more success realized at the former. USAID cash transfers reinforce that effort by providing dollar resources that the Ministry of Finance uses to repay dollar debt.

The program of balance of payments assistance is an effective tool to help strengthen the GOJ's foreign exchange position. Meanwhile, local currency associated with the cash transfers also helps Jordanian economic development through support for activities in specific regions within Jordan, providing support for the Jordanian counterparts of USAID's SOs' and contributing to poverty alleviation activities.

At the economic level, the immediate impact of the cash transfer will be to provide to the GOJ a limited amount of external debt servicing relief and a modest increase in official foreign exchange reserves. These effects will help to sustain confidence in the Jordanian dinar (JD) during a period of regional turmoil and political uncertainty. The associated policy conditions are a means for the USG to play an active role in supporting GOJ policy reform in the economic, water and health sectors. Those reforms will speed privatization, accelerate financial sector reform, support trade and investment reforms, improve public sector efficiency in the health and water sectors, and generally improve the overall economic environment for promoting local and foreign investment in the Kingdom.

At the strategic and foreign policy level, the cash transfer is also important. Given the political imperative to demonstrate tangible commitment and support to Jordan, a cash transfer is the fastest disbursement mechanism available, providing an immediate, positive, and highly visible contribution to Jordan's fiscal requirements.

Finally, the policy agenda accompanying this cash transfer supports the GOJ's goal of ongoing institutional and policy restructuring in the economic, health and water sectors to form a foundation for more rapid and sustainable long-term growth.

### III. SPECIAL OBJECTIVE AND INTERMEDIATE RESULTS TO ACHIEVE THE SPECIAL OBJECTIVE

The Special Objective: The purpose of the Special Objective (SO 11) is to improve the overall balance of payments situation, enhance the climate for reform, and help alleviate some of the economic difficulties faced by average Jordanians. In particular, the cash transfer program under the special objective will provide a means for the Government of Jordan to pay down external debt, which will strengthen its foreign exchange position. Local currency associated with the program can then be channeled to a variety of high priority development needs, including activities which bolster employment and alleviate poverty. At the political level, the cash transfer is a rapid, quick-disbursing form of assistance with immediate impact.

At the economic level, SO11 responds immediately to one of Jordan's major ongoing concerns: a large external debt burden within the context of a fragile balance of payments situation. While Jordan's relative external debt has declined in recent years, the debt servicing burden remains high and is equivalent to nearly one-third of all Jordan's export earnings. SO11 will provide additional foreign exchange on a grant basis to reduce the burden of servicing external debt, thereby enhancing credit worthiness, and improving the overall economic environment for promoting expanded trade and investment.

SO11 builds on technical assistance provided by USAID project assistance under the Mission's regular strategic objectives. Such correlation between technical assistance and policy reform at the national level is essential for Jordan's overall growth objectives. Hence, SO11 will be measured under each of the Mission's regular strategic objectives. And, following current implementation procedures, USAID and the GOJ will continue to agree on an annual series of policy reform conditions linked to annual disbursements of balance of payments support.

B. Intermediate Result (IR): The Special Objective for this Agreement will be accomplished through the achievement of two Intermediate Results, as follows:

- 11.1 Improved Environment for Sustained Policy Reform
- 11.2 Increased Technical Capacity to Implement Policy Reform

The key indicators in determining progress toward achieving IR 11.1 include the conditions precedent for each cash transfer track:

C. Other Indicators: In addition to the above indicator which is reported to USAID/Washington on an annual basis, other indicators are tracked as detailed in a USAID/Jordan-maintained "Performance Monitoring Plan" for the Special Objective. Details on the indicator set forth above may be further agreed upon or revised in accordance with Article 2 and Section 7.2 of the Grant Agreement for the Special Objective ("SpOAG") of which this Annex 1 is an integral part. For all purposes of the SpOAG, including Article 2 and Section 7.2, indicators may include baselines and targets for measuring or achieving performance.

#### IV. ILLUSTRATIVE USAID-FUNDED ACTIVITIES

The Parties agree to finance activities covering one Intermediate Result needed to achieve the Mission's broader Special Objective. The proposed activities will be selected from among the illustrative activities described below, or others agreed upon by the parties:

- A. Improved Environment for Sustained Policy Reform (IR 11.1)

This Intermediate Result is implemented through a policy-based balance of payments grant in the form of a cash transfer. Under the program, USAID and the GOJ agree on an annual series of policy reform conditions linked to annual disbursements of balance of payments support. Dollar funds are used to service the GOJ's foreign debt obligations. In addition, local currency associated with the program is jointly programmed by USAID and the GOJ to support development activities and the trust fund. The program supports policy reforms related to the economic, water and special sectors. Future cash transfers are contingent on the availability of funds. Such transfers will continue to be policy-based and will continue to include relevant conditions precedent and covenants aimed at supporting Jordan's policy reform efforts.

(a) Increased Technical Capacity to Implement Policy Reform (IR 11.2)

This Intermediate Result will provide technical assistance for implementation, monitoring and evaluation of the cash transfer program.

V. PROGRAM APPROACH

This program has been designed to allow flexible selection and modification of policy conditions over time, where warranted, to best achieve the special objective and Intermediate Result identified above. The emphasis under this program is on achievement of agreed upon policy reforms, not simply completion of specific activities.

USAID will coordinate with the GOJ and other relevant parties prior to selection of stipulated policy reforms, as discussed above and using means appropriate under the circumstances, which may include consultation with the GOJ on the substance of proposed reforms.

VI. MONITORING AND EVALUATION

USAID and the GOJ jointly agree to provide resources and information to insure an adequate level of monitoring and evaluation needed to assess progress towards achievement of the Special Objective and Intermediate Result.

A progress review will be conducted at least annually, based on a range of indicators used to measure progress in achieving the Intermediate Result. The annual USAID-generated "Annual Report" represents the mechanism for reviewing progress and ensuring that activities are on track.

A performance monitoring plan and related performance data may be developed based on indicators and the cash transfer policy matrix and agreed upon further in accordance with Article 2 and Section 7.2 of the Grant Agreement for the Special Objective ("SpOAG") of which this Annex 1 is an integral part.

Financial audits of grants will be conducted in accordance with relevant standard provisions contained in Annex 2 of this agreement.

As determined during the course of implementation of this Agreement, USAID and the GOJ may from time to time jointly authorize an external evaluation of the progress and impact of the activities towards accomplishing the Special Objective and the Intermediate Result.

Each contracting/assistance instrument will include a performance-monitoring tool to permit USAID and the GOJ to evaluate progress towards the goals and objectives of the respective contract instrument.

#### VII. FINANCIAL PLAN

The Financial Plan, set forth on Attachment 1 to this Annex 1, entitled "Illustrative Special Objective Budget", may be revised in accordance with Sections 3.1(c)(1) and 7.2 of the Agreement without formal amendment to this Agreement. Changes may be made to the financial plan by representatives on the parties without formal amendment to the Agreement, if such changes do not cause (1) USAID's contribution to exceed the amount specified in Section 3.1 of the Agreement, or (2) the Grantee's contributions to be less than the amount specified in Section 3.2 of the Agreement.

ILLUSTRATIVE SPECIAL OBJECTIVE BUDGET

SO: Special Objective-Cash Transfer

INTERMEDIATE RESULT	INITIAL FUNDING			LIFE OF PROJECT FUNDING		
	USAID	GOJ	TOTAL	USAID	GOJ	TOTAL
1. Improved Environment for Sustained Policy Reform	138,000,000	0	138,000,000	439,475,000	0	439,475,000
2. Increased Technical Capacity to Implement Policy Reform	525,000		525,000	525,000		525,000
TOTAL	138,525,000	0	138,525,000	440,000,000	0	440,000,000

**Annex 2**  
**Standard Provisions**  
Table of Contents

Article A: Definitions and Implementation Letters	A2-2
Section A.1. Definitions	
Section A.2. Implementation Letters	
Article B: General Covenants	A2-2
Section B.1. Consultation	
Section B.2. Execution of Agreement	
Section B.3. Utilization of Goods and Services	
Section B.4. Taxation	
Section B.5. Reports and Information, Agreement Books and Records, Audits, and Inspections	
Section B.6. Completeness of Information	
Section B.7. Other Payments	
Section B.8. Information and Marking	
Article C: Procurement Provisions	A2-7
Section C.1. Source and Origin	
Section C.2. Eligibility Date	
Section C.3. Plans, Specifications and Contracts	
Section C.4. Reasonable Price	
Section C.5. Notification to Potential Suppliers	
Section C.6. Shipping	
Section C.7. Insurance	
Section C.8. U.S. Government-Owned Excess Property	
Article D: Disbursements	A2-10
Section D.1. Disbursement for Foreign Exchange Costs	
Section D.2. Disbursement for Local Currency Costs	
Section D.3. Other Forms of Disbursement	
Section D.4. Rate of Exchange	
Article E: Termination; Remedies	A2-11
Section E.1. Suspension and Termination	
Section E.2. Refunds	
Section E.3. Non-waiver of Remedies	
Section E.4. Assignment	
Article F: Miscellaneous	A2-12
Section F.1. Investment Promotion	
Section F.2. Voluntary Family Planning	
Section F.3. Prohibition on Assistance to Drug Traffickers	
Section F.4. Workers' Rights	