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INVESTMENT OPPORTUNITY PROPOSAL
FOR
REVOLVING FUND

UMBRELLA LOAN GUARANTEE FACILITIES

ON BEHALF OF

ARAB BANK
CAIRO AMMAN BANK
JORDAN NATIONAL BANK
IN THE AMOUNT OF
$5 MILLION

OFFICE OF INVESTMENT
BUREAU FOR PRIVATE ENTERPRISE

DATE

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

INVESTMENT OPPORTUNITY PROPOSAL
FOR
REVOLVING FUND

LOAN FACILITY
JORDANIAN BANKS

Table of Contents

LOAN GUARANTEE FACILITY

JORDANIAN BANKS

I. EXECUTIVE SUMMARY

A. PROJECT DESCRIPTION

1.01 PRE proposes to make available to two or more commercial banks operating in Jordan loan guarantee facilities (LGF) of up to a combined total of US$5.0 million for the purpose of mobilizing upto US$10.0 million equivalent in short and medium-term credit for privately owned small and medium scaled enterprises (SMSE's) in Jordan. No one bank will receive more than $3 million. The proceeds of the loans are to be used for productive private enterprises while strengthening the capabilities of Jordanian commercial banks to undertake expanded lending initiatives for the small and medium scaled enterprise sector. An additional objective is that this facility will provide an opportunity to introduce the participating banks to cash flow lending, without which development will be restricted largely to the already wealthy sectors (those which have collateral) which can now access the collateral mentality of the banking system. A focus of the proposed project is to finance imports of U.S. goods and services.

This is the first extension of credit in Jordan for the PRE Revolving Fund and is a result of joint USAID and PRE discussions of the proper role of PRE in supporting USAID Jordan's active financial market intervention. USAID Jordan is carrying on an active dialogue with the financial authorities to achieve a more market responsive policy towards financial institutions. USAID Jordan has also invited PRE to help it establish its own indigenous loan guarantee program. In addition, USAID Amman and PRE are jointly sponsoring "cash flow" seminars to ensure that the necessary skills are available for Jordanian banks to move away from a collateral-lending-trade-finance mentality to a cash-flow-industrial-finance mentality.

These Revolving Fund facilities, with their SMSE emphasis, will form a bridge between the CIP program (now nearing its completion) and the small to micro loan guarantee program being prepared by USAID Jordan. This proposed project will be jointly engineered, structured and financed by USAID and PRE.

Under this proposed loans, guarantees representing 50% of the risk will be provided to a maximum of three Jordan banks, Arab Bank (max. US$3,000,000), Cairo Amman Bank (up to US$2,000,000) and Jordan National Bank (up to US$2,000,000). Lending will be at market rates with an eighteen month drawdown period, a further eighteen month grace period for principal and five equal repayments at 36, 42, 48, 54 and 60 months. The overall term will be five years. The terms of the subloans may vary, but will not be greater than the term of the PRE facility.

Jordan - Problem Areas

1.02 Jordan is a strategically located country with severe economic adjustment problems as a result of the reduction in the price of petroleum. Jordan's Balance of Payments and labor market have been hit particularly hard because Arab Gulf exports have fallen by 65% and Jordanian remittances from Jordanian's working abroad (30% of the workforce) have been reduced by 50%. Returning workers who have been laid off have swelled the already high ranks of the Jordanian unemployed.

Development Aspects

1.03 This facility has been structured to address Jordan's

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economic problems at the invitation of USAID as a part of its CDSS. Under the facility presently being recommended, the terms and focus of each bank's facility may vary somewhat but each will include the following parameters:

-- Small and medium-sized enterprises are targeted. The largest bank in Jordan Arab Bank has been brought into the A.I.D. fold by offering a facility with A.I.D. financings up to $250,000. The smaller banks have been limited to financings of less than $100,000 with correspondingly smaller sized SMSEs. Thus PRE has three projects with graduated SMSE and loan size to cover a broad section of SMSEs.

-- The subloans will finance the import of U.S. enterprises' products whether manufactured in the USA or abroad (if abroad, no less that 51% US subsidiary).

-- Introduces the indigenous banking system to cash flow lending through training seminars.

-- Finances machinery and equipment for expansion of the fledgling manufacturing sector.

-- Assists the Jordanians in overcoming the deterioration in their balance of payments as in this small relatively unindustrialized economy any incremental production increases exports or decreases imports almost immediately.

-- Supporting the target group, SMSE's importing USA goods, is consistent with USAID's efforts directed at development of the SMSE sector and monitoring the growth and LDC involvement of U.S. private enterprise.

-- This loan guarantee facility will generate dinar financing for market segments which have not been traditional importers of U.S. goods and technology and which have been limited users of bank financing.

Participating Financial Institutions

1.04 Arab Bank, Cairo Amman Bank and Jordan National Bank enjoy excellent reputations as creditworthy financial institutions with a history of successful operations and highly respected management. In meetings with the banks' senior executives, their response has been positive to undertaking the developmentally desirable SMSE loans that our loan guarantee facility is designed to support. Jordanian bank interest in participation is

Arab Bank US$3 - 2,000,000, Cairo Amman Bank US$2 - 1,000,000 and Jordan National Bank US$2 - 1,000,000. Total participation will be limited to a total of US$5,000,000.

Project Timetable

1.06	Investment Opportunity Proposal	5/13/88
	Investment Proposal	6/21/88
	Loan Agreement Signing	6/30/88
	First Disbursement	9/30/88

Risk

1.07 We are working with the top tier of Jordanian private financial institutions on a risk-sharing (50%) basis. The major risk factor will therefore be in the subloans. The targeted borrowers - SMSE's - are considered to be of somewhat higher risk than a bank's average borrowers because, being smaller, they generally are less diversified and have access to less management talent. In addition, the problematical politico-economic environment in Jordan adds to commercial risk. However, the banks are confident that they can extend the kind of credit contemplated by applying a greater supervisory component aided by USAID bank training seminars in cash flow lending. The banks are also adept in structuring and managing credit in the Jordanian market place.

TRANSACTION SUMMARY

Amount US$5,000,000

Facility A facility covering loan guarantee risk-sharing agreements with pre-qualified Jordanian financial institutions for amounts not to exceed US$3 million for Arab Bank and US$2,000,000 for Cairo Amman Bank and Jordan National Bank.

It is anticipated that in the spirit of the continuing U.S.A./Jordan support for economic development that a strict definition of SMSE will be used perhaps as low as $500,000 in non land fixed assets and sub loans of not more than $250,000 in size. These loans will be used exclusively to purchase goods and services of U.S. origin, or manufactured by subsidiaries of U.S. corporations (not less than 51% owned).

<u>Term</u> A participating Jordanian bank will be granted a five (5) year tenor from the initial drawdown with a drawdown period of eighteen months and a further grace period for principal of eighteen months. Repayment shall be in five equal semi-annual installments at 36, 42, 48, 54 and 60 months.

<u>Documentation</u> (1) Loan agreement with a U.S. bank, and (2) project agreement with each participating bank

<u>Fees</u> (1) A <u>facility fee</u> of 1/4 to 1/2% flat of the principal amount of each loan, in US$, payable at loan execution and (2) an <u>availability fee</u> of 1/4 - 1/2 p.a. (depending on the risk evaluation of each participating bank) payable semi annually in arrears on all amounts outstanding under the loan.

<u>Availability Period</u> Up to eighteeen (18) months after loan guarantee facility agreement signing.

Qualifying Sub-Borrowers

Each participating Jordanian bank will provide Dinar financing, from its own resources, to small-and medium-size borrowers importing manufactured goods and services of U.S. origin or manufactured by a 51% subsidiary of a U.S. corporation if manufactured outside the United States. The definition for small and medium-sized firms will be a level of total assets not to exceed the Dinar equivalent of US$500,000 and emphasis will be given to borrowers located outside the metropolitan areas. Generally these will include new-client, small and medium-scale borrowers. Reduced Collateralreqiurements, expansion into new areas, and longer repayment terms will qualify existing bank clients.

III. PROJECT SPONSORS: THE PARTICIPATING BANKS

A. Overview

3.01 The Jordan financial system consists of banking institutions and non-bank institutions that provide financial services. The system is headed by the Central Bank of Jordan which provides government oversight to all financial institutions.

3.02 The Jordanian financial system includes (a) 10 domestic banks, 7 foreign banks; (b) specialized banks for industrial development, agriculture, cooperatives and urban areas; (c) 4 real estate savings companies; (d) 7 finance companies; (e) 10 foreign bank representative offices and (f) 70 money exchangers and other companies. A summary of financial institutions is recorded in Table 1.

B. The Commercial Banking Sector

3.03 Table 2 gives a capsule summary of the Jordanian commercial banking system and the target banks for this facility. Arab Bank in Jordan comprises 1/3 of the entire banking system and as a result its conservatism sets the tone for the system as a whole. Cairo Amman

Bank is one fifth the size of Arab Bank but tends to be relatively conservative also. Conservatism is most easily distinguishable in loan collateral requirements which often reach 200%.

A second reflection of the conservative lending policy is the high ratio of cash due from banks of 30.9%. Loans amount to little more than 50% of total assets.

3.04 These institutions engage in normal banking operations such as accepting demand deposits, providing short term lending and trade financing. The national banks are all privately owned. About an equal number are branches of foreign owned banks.

It is interesting to note from the table that the Arab Bank Ltd. is by far the largest bank in terms of total assets, being in fact 1.5 times larger than the next largest institution, the Housing Bank. The Arab Bank is also exceedingly profitable having recently declared a $15.5 million profit in 1986 and a healthy dividend per share. These commercial banks may be categorized as being very liquid, with the exception of Petra Bank. Reasons for such high liquidity include low levels of private investment which has resulted in depressed demand for credit facilities and reluctance on the part of banks to expand credit facilities under the prevailing recessionary conditions. Commercial banks total assets growth rate in 1986 of only 10.1% (12.0% in 1985) was due to the economic recession in Jordan.

3.05 Lending

Banks in Jordan are extremely conservative. Jordan is in the first stages of economic development. Both businessmen and bankers think in terms of borrowing/lending against collateral. The bulk of trader assets are mobile - cash inventory and receivables. Bankers traditionally take physical possession of assets not immediately being bought and sold. Collateral is a prime consideration in credit decisions.

As the Jordanian economy develops and manufacturing becomes a major part of the economy, managers and bankers can turn to cash flow lending. The cash flows will become more important than collateral for loan repayment.

The training component of this project will make this gradual transition possible. The cash flow lending seminars will be jointly financed by USAID and PRE. If the banks are to maintain a practiceof cash flow lending trained loan officers and supervisors must be in place. While it is doubtful that the requirement for traditionally high levels of collateral will change greatly until there is some deregulation of interest rates, training in this area will still be extremely beneficial to the financial intermediaries. The commercial banks have, with very few exceptions, indicated that the tightly regulated interest rates have been a major constraint to their lending operations. The maximum interest rate allowed to be charged on a loan is 9% which represents 8% interest rate and a 1% commitment fee. With a marginal cost of funds between 7 and 9% and a maximum lending rate of 9% to Jordanians and 12% to foreign companies they say that their spreads are too thin to warrant taking any unnecessary risk. As it is, they are concentrating on fee generating activities, such as opening Letters of Credit, and Issuing Guarantees, which are not subject to ceilings. They say that there is no doubt that their loan portfolios would expand if they were allowed to be compensated for the increased risk. Through these Revolving Fund facilities, A.I.D. will be able to release credit facilities otherwise not available to SMSE's by providing the banks with essentially risk-free loans for 50% (the A.I.D. guaranteed portion) of their total loans under the facility. From a return on risk view, the banks will double their usual spread on the portion of the loan with commercial risk. This example of the power of increasing the return on risk assests will assist USAID Jordan in their ongoing effort to influence the central Bank to adopt a market responsive interest rate policy.

The mission financial market policy includes in its dialogue a recently completed seminar jointly sponsored with the Central Bank which placed great emphasis on market driven interest rates. The Revolving Fund facilities are structured and timed to support the missions overall dialogue and specifically this transition to market rates.

A detailed credit analysis of each bank is underway and will be fully reviewed in the I.P. by which time we expect to have the year end 1987 financial figures. An overview of each bank is included here concentrating on size, reputation, ownership and general operations.

Table 1

Jordan Financial System

A. Central Bank of Jordan

B. Commercial Banks

National Banks

Year Established		Total Assets (Million JD)	Ranking	1986 profit (Million JD)	# of Branches
1930	Arab Bank Ltd.	665	1	5.4	24
1951	Jordan National Bank	134	7	2	29
1960	Bank of Jordan	127	8	1.9	24
1960	Cairo Amman Bank	140	5	1.3	15
1977	Jordan - Kuwait Bank	137	6	1.1	13
1978	Jordan and Gulf Bank	109	9	0.5	20
1978	Petra Bank	267	3	1.4	22
1978	Arab Jordan Investment Bank	109	10	1.3	1
1979	Jordan Islamic Bank	162	4	0.8	11
1980	Syrian - Jordan Bank	N/A	N/A	N/A	-

Foreign Banks

Year Established		Total Assets (Million JD)	Ranking	1986 profit (Million JD)	# of Branches
1949	The British Bank of the Middle East (U.K.)	72	11	0.4	3
1953	Arab Land Bank (Egypt)	35	16	0.2	8
1957	Rafidain Bank (Iraq)	13	17	0.2	3
	Srindlaye Bank (U.K.)	53	13	0.01	11
1973	Bank Al Masheer (Lebanon)	36	15	0.2	3
1974	Citibank (U.S.A.)	44	14	0.2	6
1975	Bank of Credit and Commerce International (Luxemberg)	60	12	0.7	2

C. <u>Non Bank Financial Institutions</u>

Specialized Credit Institutions					
Joint Ownership					
1965	Industrial Devleopment Bank	60	N/A	0.5	1
1974	Hojeing Bank	427	2	2.8	79
Public Ownership					
1959	Agriculture Credit Corp.	N/A	N/A		
1966	Cities and Villages Dev. Bank	49	N/A	1.4	
1968	Jordan Co-operative Drs.	N/A	N/A		
Savings and Financial Intermediarier					
1979	Arab Finance Corp. (Jordan)	19	N/A	0.2	
1980	Jordan Securities Corp.	32	N/A	0.2	
1981	National General Investment Co.	35	N/A	0.3	
1981	Jordan Finance House	10	N/A	0.2	
1981	Islamic Finance House	N/A	N/A	N/A	
1982	Finance and Credit Corp.	42	N/A	0.6	
1982	Jordan Investment & Finance Co.	45	N/A	1.0	
Real Estate Savings					
1960	Real Estate Finance Co.	21	N/A	0.07	
1982	Barco	2	N/A	0.09	
1984	National Develop. & Finance Co.	2	N/A	0.02	
1984	Baitona	3	N/A	0.20	

Foreign Bank Representatives

Manufacturers Hanover Trust Co.
Bank National De Paris
Austrian Laender Bank
Petra International-Washington
Credit Lyonnais Bank
Habib Bank
Societe General
Arab African Bank
American Express
Jordan Finance Consortuim

Money Exchange Companies

Al-Mashren Money Exchange
Arab Eagle Exchange Company
Middle East Exchange Company

Plus other 70 Companies

Table 2

Selected Jordan Banks
(in 000,000 Jordan Dinars)
JD = $2.89
1986

	Consolidated	Arab Bank	Petra Bank	Cairo Amman	Jordan National Bank
Cash &	657.4	233.0	80.9	26.8	21.0
Bonds	261.7	138.0	15.5	17.5	18.5
Bills & O.D.'s	908.1	216.3	142.2	82.4	76.0
Loans	171.0	34.7	9.6	3.8	6.0
Total Assets	2126.5	665.6	267.1	139.5	134.1
Demand Dep.	330.8	121.3	36.1	25.6	29.2
Time Dep.	1437.8	470.2	190.0	79.3	73.7
(Foreign)	310.6	131.2	48.3	8.2	3.6
Total Deposits	2079.2	722.7	274.4	113.1	106.5
Debt	110.5	18.1	18.2	14.0	4.6
Capital Paid In	84.5	12.0	5.0	5.0	7.1
Reserves	54.3	10.1	4.5	3.8	12.2
Retained Earnings	6.8	0	1.7	1.2	.5
Total Capital	145.6	22.1	11.2	10.0	19.8
Interest Received	135.6	36.7	19.8	9.2	9.6
Interest Paid	108.9	35.1	17.2	7.0	5.7
Net Profit Before Tax	18.9	5.4	1.5	1.3	1.9
Before Tax R.o.A	.89	.81	.56	.93	1.4
R.o.E Before Tax Aver.	13.8	27.1	13.9	13.6	9.5
Capital/T.A. Aver.	7.2	3.5	4.4	7.4	15.5
Loan Growth	12.2	- 1.6	20.5	11.5	8.1
Deposit Growth	12.1	11.9	7.6	3.2	13.0
Net Worth Growth	13.0	24.9	12.0	3.4	- 1.5

3.06 Arab Bank

This bank not only is the largest commercial bank in Jordan in terms of Jordanian assets but when all its international assets and subsidiaries are consolidated it is nearly twice as large as the entire Jordan banking system with twice the profit. (See Table 3). With subsidiaries in international money centers and branch and subsidiary networks in North African Arab countries, this is truly a regional bank in outlook rather than a Jordanian bank. The largest ownership is by the Shorman family which is also generously represented in management.

This bank by virtue of its size and international outlook as much as by its conservative operating style has the highest reputation. The figures for the Jordan operations and summary figures for the entire bank bear out this reputation as do the accompanying ratios in Table 3.

Arab Bank's capital funds amount to US$416 million. The maximum size of PRE's loan guarantee to this bank will be US$3,000,000 well within the capacity of the banks management and less than 1.0% of total capital funds.

3.07 Cairo Amman Bank

Table 3

Arab Bank Ltd
(Thousands of Jordan Dinars)
as of December 31

Balance Sheet	Jordan Assets Only 1985	Jordan Assets Only 1986	Consolidated 1986
Primary Assets	314,009	370,950	
Loans	254,986	250,950	
Other Assets	35,523	43,671	
Total Assets	604,518	665,571	4,206
Deposits	528,739	591,458	
Other Liabilities	58,092	51,926	
Total Liabilities	586,831	643,384	4,063
Capital Funds	17,687	22,187	143
Total Liabs & Capital Funds	604,518	665,571	4,206
Contingent Accounts	87,826	76,723	
Income Statement			
Operating Income	42,291	50,845	
Net Income Before Taxes	2,212	5,407	26.5
Ratios			
Primary Assets/Deposits	59.4%	62.7%	
Loans/Deposits	48.2%	42.4%	
Capital Funds/Total Assets	2.9%	3.3%	
Capital Funds/Loans	6.4%	8.8%	
Capital Funds/Total Liabs	3.0%	3.4%	
Net Income/Aver. Total Assets	-	0.85%	
Net Income/Aver. Capital Funds	-	27.1%	
Note: US$/Dinar as of 12/31	1:2.72	1:2.91	

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Cairo Amman Bank (CAB) is a medium sized indigenous bank. It has a generally conservative reputation and is a strong generator of foreign exchange. It has a wide spread branch system. In fact A.I.D. uses the CAB branch system to administer three programs on the West Bank. In none of these programs are U.S. Government funds deposited or loaned to Cairo Amman thus a $2 million U.S. Government exposure would not exceed 10% of the banks capital (U.S. $30 million). Further, the A.I.D. mission, which knows this bank well, is absolutely convinced that the management is deep enough to absorb all the A.I.D. programs with ease. This has been confirmed by PRE's own visit and discussions concerning this program.

In fact CAB's previous experience with A.I.D. has permitted CAB to agree to a reasonable cap, $75,000, on individual loans. With Arab Bank at a higher ($250,000) per loan cap the combined facilities will permit A.I.D. to cover a broad spectrum of the small and medium sized enterprise sector.

Table 4

Cairo Amman Bank
(Thousands of Jordanian Dinars)
as of December 31

Balance Sheet	1985	1986
Primary Assets	45,717	44,341
Loans	77,321	86,156
Other Assets	6,229	9,044
Total Assets	129,267	139,541
Deposits	94,515	104,877
Other Liabilities	25,080	24,647
Total Liabilities	119,595	129,524
Capital Funds	9,672	10,017
Total Liabs & Capital Funds	129,267	139,541
Contingent Accounts	42,892	51,184
Income Statement		
Operating Income	11,689	11,738
Net Income Before Taxes	2,063	1,330
Ratios		
Primary Assets/Deposits	48.4%	42.3%
Loans/Deposits	81.8%	82.1%
Capital Funds/Total Assets	7.5%	7.2%
Capital Funds/Loans	12.5%	11.6%
Capital Funds/Total Liabs	8.1%	7.7%
Net Income/Aver. Total Assets	-	1.0%
Net Income/Aver. Capital Funds	-	13.5%
Note: US$/Dinar	1:2.72	1:2.91

CAB capital funds at end 1986 were US$29.1 million. The maximum direct loan to this bank will be US$2 million which at 6.9% of capital funds and with the bank's capable management is a fully acceptable risk.

3.08 Jordan National Bank

Jordan National Bank is a medium sized Jordanian privately owned bank with twenty-nine branches. It has a conservative ratio of capital to deposits compared with its peers. JNB's reputation is conservative and it is reputed to have a sound loan portfolio with its large customer base among the smaller SMSE's, a testament to its strong management.

USAID has not worked with this bank in any of its other programs and looks forward to establishing a relationship to expand its SMSE lending and particularly initiating cash flow lending through the use of the Revolving Fund. The maximum loan size for JNB will be approximately one half that of Arab Bank. JNB has been approached to participate with PRE at the $1 to 2 million level, depending on number of participants and the total demand. (PRE/I will limit 1988 Jordan Revolving Fund facilities to a total of $5,000,000).

JNB capital funds were the equivalent of nearly $58

Jordan National Bank
(Thousands of Jordan Dinars)
as of December 31

Balance Sheet	1985		1986
Primary Assets	33,404		39,563
Loans	75,856		81,970
Other Assets	12,790		12,522
Total Assets	122,050		134,055
		128,053	
Deposits	91,185		102,926
Other Liabilities	10,772		11,289
Total Liabilities	101,957		114,215
Capital Funds	20,093		19,840
Total Liabs & Capital Funds	122,050		134,055
		19,967	
Contingent Accounts	26,448		26,480
Income Statement			
Operating Income	11,188		12,121
Net Income Before Taxes	2,051		1,904
Ratios			
Primary Assets/Deposits	36.6%		38.4%
Loans/Deposits	83.2%		79.6%
Capital Funds/Total Assets	16.5%		14.8%
Capital Funds/Loans	26.5%		24.2%
Capital Funds/Total Liabs	19.7%		17.4%
Net Income/Aver. Total Assets	-		1.5%
Net Income/Aver. Capital Funds	-		9.5%
Note: US$/Dinar as of 12/31	1:2.72		1:2.91

million at end of 1986. At this level the maximum $2 million facility would be less than 3.5% of the bank's capital and less than 1% of the bank's total liabilities well within reasonable credit risk limits.

IV. CURRENT PROBLEMS AND CREDIT NEEDS

Jordan - a unique political economic entity

4.01 Jordan continues to be a key country for the United States in the Middle East. Jordan is host to many displaced Palestinians. During the halcyon days of high petroleum prices, Jordan balanced this refugee labor pool with large exports of skilled and unskilled labor throughout the Middle East. The depressed oil prices have caused greatly (50%) reduced remittances from Jordanians employed abroad and reverse migration back to Jordan of now unemployed workers. Also, Arab government financial support for the government of Jordan has been reduced by 65% as oil prices have tumbled.

The Economy - sector by sector

4.02 The Jordanian public sector includes the usual bureaucracies in civil services, import controls, foreign exchange controls, interest rate controls, business licensing, tax collections and a number of parastatals. In short, like most governments, this government is not likely to be an effective force in generating dollars, absorbing unemployment efficiently or providing progressive financial techniques to the smaller private enterprises. The mission reports that Jordan does, however, have a reasonably well-educated population and properly introduced to development reforms the Government should not prove to be a brake to growth of the private sector.

The agricultural sector is and has been the subject of a number of U.S. A.I.D. projects, which are endeavoring to expand and strengthen the technological inputs. The manufacturing sector has been the beneficiary of U.S. commodity import programs.

The Agribusiness Sector has been the subject of major A.I.D. assistance to expand fruit and vegetable production. A.I.D. is now concentrating on packaging, handling and marketing, in addition to ongoing production assistance in the valley and the highlands.

In the private sector, Government is pervasive from licensing, interest rate controls, foreign exchange intervention, and a favored status for parastatals. The private sector is stunted and requires substantial strengthening in management and marketing. Import protection has permitted lax quality control and little emphasis on exports.

The role of A.I.D. within Jordan economic scene.

4.03 A.I.D./Jordan has determined that its policy dialogue encouraging more emphasis on private enterprise should be supported by: (1) training in all aspects of financial intermediation including cash flow analysis, risk analysis, venture capital and an improvement in accounting standards, (2) production, marketing and small entrepreneurship, (3) support for business organizations, (4) counter measures to improve private sector image and (5) relieving public sector constraints.

Jordan's less-than-efficient agricultural sector, its rudimentary manufacturing and service sectors and a quasi state of hostilities, all contribute to the structural shortage of foreign exchange.

The chronic unemployment from the world's record highest birthrate, unabsorbed Palestinians and now the recent and continuing reverse flow of workers abroad creates a volatile threat to political stability.

Industrialization requires a different lending approach. A.I.D./Jordan has realized the necessity of introducing the Jordanian banking system to a cash flow lending policy which will be more conducive to developing the private sector into a more dynamic role in meeting the current problems facing the Jordanian economy.

Given the Jordanian climate and the physical as well as technical limitations on agricultural sector, agriculture is not considered to be a major force in the dynamic growth needed to efficiently absorb the growing unemployment, balance the budget and the balance of payments.

It is unlikely that the public sector can even match the agricultural sector as the growth engine for development. This leaves the private sector as an appropriate focus of A.I.D. strategy in Jordan.

A.I.D./Jordan has targetted the private sector financial system as one of six target areas, with specific attention to cash flow and risk analysis.

This $5,000,000 loan facility addresses a number of the urgent needs of Jordan's future development. Initially, two or three Jordanian banks will be picked from the list in Section 1.04 above to receive loan guarantees in amounts of $1-3 million for a five year term from first draw down. This will be comb: with a training grant from USAID/Jordan to expose tl ending institutions - A.I.D. borrowers included but ·exclusively - to cash flow lending concepts and tecl ues within the broader field of credit analysis.

The usage of Revolving Fund loans, will be contingent upon each financial institution agreeing to match A.I.D. funds pasi passu in terms and risk, sending a team of lending officers to the A.I.D. supported "Financial

Management" Seminar and ensuring that the funds are utilized to purchase and import equipment and expertise of USA origin or from U.S. 51% owned subsidiaries if not of USA origin with loans of less than $250,000 to entities with assets of less than $500,000.

V. CONTRIBUTION TO DEVELOPMENT

A. Impact of PRE Participation on USAID Policy Areas

5.01 PRE participation in this proposal will provide a positive impact in key USAID policy areas: private sector development, strengthening the financial system, basic human needs, policy dialogue, increased production to conserve foreign exchange while increasing U.S. private sector exports.

Private sector development will be promoted through the use of market rates on the participating banks' loans to small and medium-size enterprises and additional availability of credit for private sector small businesses development in accord with the objectives of the GOJ.

Development of institutional financing will be supported by expanding the participating banks' lending activities to small and medium-size enterprises.

Basic human needs will be advanced by additional employment which should accrue as the smaller enterprises receive the needed financing to expand their operations with imported goods and equipment.

Mission policy dialogue is buttressed by the illustrative aspects of this project with respect to the negative affects of interest rate ceilings.

Utilizing the U.S. private sector to assist in the development process through supporting U.S. origin manufactured exports or exports from 51% U.S. owned subsidiaries.

While the above are areas are served, the prime rationale for preparing this project is to further the missions on going efforts to bring the financial sector into a market driven positive force for industrialization.

B. Relationship to the CDSS

5.02 This project conforms with the priorities of the USAID CDSS particularly as it concerns balance of payments support, educating the financial system, uses the U.S. private sector to assist development and provides technical assistance as well as dollars to the emerging entrepreneurial sector The timing of this project, a co-design and co-financing facility of A.I.D./Jordan and PRE/I comes as the first Commodity Import Program nears its completion in the private sector and the second and smaller stage CIP commences in 1989. Its SMSE emphasis also forms a bridge between the CIP program and the proposed microsector program A.I.D./Jordan is working on.

C. Relationship to PRE Objectives and Policies

5.03 This loan guarantee facility will mobilize US$10 million equivalent in credit on a self-sustaining basis. This credit will be a net addition to the investment resources presently available.

The project meets PRE objectives for Revolving Fund investments as follows:

- Has a Demonstration Effect upon the banks by:

(a) introducing private financial institutions to lending activities with a developmental impact, (b) mobilizing alternatives to public sector, subsidized credit, and (c) introduces "Cash Flow" lending techniques through education and dedicated funds.

- <u>Exhibits Financial Viability</u> based on a backdrop of proven Jordan demand, proven IFI management, and market pricing.

- <u>Targets Development Impact Appropriate to Jordan</u> by providing import financing for SMSEs ensuring a source of spare parts, efficient equipment and high utilization of manufacturing capacity in the private sector.

- <u>Makes Resources Available to the Small and Medium-size Enterprise Sector</u> by leveraging the PRE/A.I.D. facility to create a pool of credit.

In addition the facility meets project-specific financial constraints, namely: (a) no facility will exceed US$3,000,000 (total proposed amount is US$5,000,000); (b) the facility cannot be more than 50 percent of project capitalization (the proposed facility would amount to no more than 50 percent of the facilities granted); and (c) the facility must be near market interest rates (the local currency borrowings will be at market, dollar borrowings will be based on T-bill rates). The facility will be financed under Section 108 of the Foreign Assistance Act of 1961 as amended.

In general, once we have this "first round" operative with the banks in question, consideration could be given to expanding the scope of the loan facility to include another tier of financial institutions - smaller banks and the soundest non-bank finance institutions. Also, if the banks' experience is favorable, we may be able to encourage them to take more risk with less guarantee thereby leveraging our present guarantee capacity - longer lending terms and/or more developmental content may result from positive experience. It is also conceivable that private foreign banks with a stake in Jordan could be persuaded to provide facilities to local banks on a basis similar to our Revolving Fund facility. Once again, the ultimate payoff in this whole experiment would be the justification for incorporating the Revolving Fund approach into the Mission's bilateral assistance at a level of magnitude representative of a major program effort.

D. Economic Impacts on the SMSE Industrial Sector

5.04 The proposed PRE/A.I.D. facility specifically targets the smaller-scale enterprise sector with a pool of dinar funds totaling US$10 million equivalent. This amount will be made available to provide short and medium-term financing to enterprises with less than $250,000 in total assets and in individual loans of less than $150,000. This source of finance represents additive credit and, as such, will stimulate incremental investment and employment. The incremental impact will pass through the dollar loans to incremental productive imports, through increased productive capacity (either an import substitute or incremental export) to the much needed industrial and managerial employment from Jordan's ever increasing pool of educated new and returning workers.

VI. MONITORING AND EVALUATION

A. MONITORING

6.01 Project monitoring will consist of review of (a) lending activities, (b) adherence to developmental covenants and (c) financial condition and performance of the participating banks. This will be done based on semi-annual reporting, debt service schedules and USAID/Jordan involvement in the project.

6.02 Reporting on the project will consist of (a) sub-borrowertransaction information reports, (b) participating bank annual reports. As appropriate, additional reporting materials may be required on an ad hoc basis.

B. EVALUATION

6.03 The evaluation of this follow on project will be conducted in Jordan by A.I.D./PRE. It will be based on a review approximately one year following full disbursement of the loan funds to determine: the project's success toward achieving its objectives; potential for replicability to other A.I.D.-assisted countries; and to provide guidance to A.I.D./PRE and the

IFI allowing for adjustments in project design and implementation, if necessary. An end-of-project review will be conducted only if A.I.D. determines it is necessary. A grant will be provided by A.I.D./PRE to perform the evaluation.

6.04 The quarterly reporting requirements by the bank to A.I.D. will provide baseline data for the evaluation in the following areas: (1) employment generation; (2) foreign exchange generation; (3) management and technical skills development; (4) technology transfer and (5) increased income and economic activity in as a result of this project. The reporting form is attached. The report is an indication of the variety of data which can be compiled in reports submitted by borrowers and the usefulness of this data for evaluation purposes.

VII. PROPOSED TIMETABLE

Investment Opportunity Proposal:	May 13, 1988
Loan Committee Review:	June 14, 1988
Investment Proposal:	June 21, 1988
Loan Agreement Signing:	June 30, 1988

First Disbursement: September 1988

VIII. LOAN FACILITY PROCEDURES

A. Project Methodology

8.01 Once we have an approved Investment Opportunity Proposal, PRE/I will recontact the proposed list of respected Jordanian banks/financial institutions to obtain offers from them regarding the term of loan agreements which will support our risk-sharing commitment under the Project. The offers received will be competitively judged as to pricing, service considerations, and suitability as IFI's under this project.

8.02 Preparation of an Investment Proposal will be based on the terms negotiated above.

8.03 Upon approval of the Investment Proposal, Loan Agreements shall be prepared for each of the participating financial institutions in accordance with the I.P. The loan agreements will set out the provisions by which each borrowing IFI shall make available equivalent funds in local currency on a pasi passu basis such that the revolving fund advances shall not exceed 50% of each advance to sub-borrower.

8.04 The participating Jordanian financial institutions proceed to qualify sub-borrowers according to their own practices and procedures, applying market rates/fees, and concurrently notify the Revolving Fund to make available a U.S. dollar equivalent for 50 percent of the Dinar credit they are granting.

8.05 Under the proposed US$5 million loan facility, the participating Jordanian financial institutions would create a pool of Dinar funds from their own resources equivalent to US$10 million (2/1 leverage). The participating Jordanian banks price their loans according to their own criteria. PRE/I earns a flat fee of 1/4 to 1/2% and an annual fee of 1/4 to 1/2% of the principal amount of the loan. Claim procedures are part of the Loan Agreement and permit the participating Jordanian banks to offset the A.I.D. portion of loans made in conjunction with the A.I.D. agreement. The A.I.D. portion shall be denominated in dollars. Claims against A.I.D. will be made coincidentally with charge off by IFIs and recoveries will likewise be shared pro rata.

ATTACHMENT A

SUB-BORROWER INFORMATION REPORT

1. Name of Borrower:

2. Contact Person(s):

3. Business Address:

4. Location and/or Geographic Scope of Enterprise:

    - Community of
    - Region of
    - Province of
    - National

5. Nature of enterprise/Business Activity:

6. Loan Amount (Dinars):

7. Date Granted:

8. Term:

9. Repayment Schedule:

10. Purpose of Loan:

11. Collateral/Security Provided:

12. Size of Enterprise (As of / /):

- Employees -
- Annual Sales/Revenues -
- Total Assets -
- If Individual, size of Family Unit -

13. New Customer

Previous Customer :

Existing Customer :

What is New Aspect of Borrowing Relationship? :

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92881

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

May 25, 1988

5/29

MEMORANDUM

TO: AA/PRE, Neal Peden

FROM: PRE/I, Daniel Roberts

SUBJECT: Investment Opportunity Proposal - Jordan Banks (Arab Bank, Cairo Amman Bank, Jordan National Bank)

The attached Investment Opportunity Proposal for Jordan Banks (Arab Bank, Cairo Amman Bank, Jordan National Bank) is scheduled for review on Friday, May 27, 1988 at 2:30 p.m. in your office, Room 6210, N.S. The following persons have been invited to attend.

DAA/PRE, Chris Russell
PRE/I, John Hardy
PRE/I, Maury Claeys
PRE/I, Kathy Wilson
PRE/PD, Russ Anderson
PRE/PR, Mike Unger/Bob Friedline
GC/PRE, Mike Kitay
PPC/PDPR, Neal Zank (5 copies)
ANE/EA, Benjamin Hawley

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This is slightly dif from May 11 version 940 ordering docs

Attachments: a/s

42