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INVESTMENT PROPOSAL  
FOR  
REVOLVING FUND

LOAN GUARANTEE FACILITY

ON BEHALF OF

CAIRO AMMAN BANK

IN THE AMOUNT OF  
\$2 MILLION

OFFICE OF INVESTMENT  
BUREAU FOR PRIVATE ENTERPRISE

June 17, 1988

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

INVESTMENT PROPOSAL  
FOR  
REVOLVING FUND

LOAN FACILITY  
CAIRO AMMAN BANK

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## LOAN GUARANTEE FACILITY

### CAIRO AMMAN BANK

#### I. EXECUTIVE SUMMARY

##### A. PROJECT DESCRIPTION

1.01 This Investment Proposal is for a \$2 million loan guaranty for Cairo Amman Bank, one of the top five banks in Jordan in size and capability. This is one of two loan guarantee facilities to commercial banks operating in Jordan loan guarantee facilities (LGF) in a combined total of US\$5.0 million for the purpose of mobilizing up to US\$10.0 million equivalent in short and medium-term credit for privately owned small and medium scaled enterprises (SMSE's) in Jordan. The proceeds are to be used for productive private enterprises while strengthening the capabilities of Cairo Amman Bank 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 conjunction with these credits, 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.

This Revolving Fund facility, with its SMSE emphasis, will form a bridge between the CIP program (now nearing

its completion) and the small enterprise loan guarantee program being prepared by USAID Jordan. This project will be jointly engineered, structured and financed by USAID and PRE.

Under this proposed loan, guarantees representing 50% of the risk will be provided to Cairo Amman Bank (for US\$2,000,000). Lending will be at market rates with a twenty-four month drawdown period, a further twelve 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 significant 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 financial support has fallen by 65% and inward remittances from Jordanian's working abroad (30% of the workforce) have been reduced by 50%. Returning workers who have been laid off have created an unemployment problem in Jordan.

Development Aspects

1.03 This facility has been structured to address Jordan's economic problems with joint financing and collaborative design. The program primarily supports the Mission's assistance strategy and private sector as follows:

-- Small and medium-sized enterprises are targeted.

Cairo Amman Bank has agreed to expand its loan portfolio with maximum size advances of Jordan Dinars twenty-five thousand (equivalent to US\$75,000) for any one borrower's guaranteed credit.

-- The subloans will finance the import of U.S. enterprises' products whether manufactured in the USA or abroad. If abroad, the manufacturer must be more than 51% owned by U.S. citizens.

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

-- Finances machinery, equipment and services for expansion of the fledgling manufacturing and agricultural sectors.

- Assists the Jordanians in overcoming the deterioration in their balance of payments. In this small relatively unindustrialized economy any incremental production increases exports or decreases imports almost immediately.
  
- Financial assistance to this target group, SMSE's importing USA goods, is consistent with USAID's efforts directed at development of the SMSE sector and promoting 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 recent importers of U.S. goods and technology and which have been limited users of bank financing.

Participating Financial Institution

1.04 Cairo Amman Bank enjoys an excellent reputation as a creditworthy financial institution with a history of successful operations and 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. Cairo Amman Bank participation is US\$2,000,000.

Project Timetable

1.06	Investment Opportunity Proposal	5/27/88
	Investment Proposal	6/21/88
	Loan Agreement Signing	6/30/88
	First Disbursement	9/30/88

Risk

1.07 We are working with one of the top five 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 the bank's average borrower 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 and follow up assistance in cash flow lending. The banks are also adept in structuring and managing credit in the Jordanian market place.

TRANSACTION SUMMARY

Amount US\$2,000,000

Facility A facility covering loan guarantee risk-sharing agreement with Cairo Amman Bank for US\$2,000,000.

It is anticipated that in the spirit of the continuing USA/Jordan support for economic development that a strict definition of SMSE will be used JD150,000 (\$450,000) in net fixed assets and subloans of not more than JD50,000 (\$150,000) in size. These loans will be used exclusively to purchase capital goods and services of U.S. origin, or manufactured by subsidiaries of U.S. corporations (not less than 51% owned).

Term A five (5) year tenor from the initial drawdown with a drawdown period of twenty four months and a further grace period for principal of twelve months. Repayment shall be in five equal semi-annual installments at 36, 42, 48, 54 and 60 months.

Documentation (1) Loan agreement with a U.S. bank, and (2) project agreement with Cairo Amman Bank.

Fees (1) A quarterly fee of 1/4% per annum from the date of signing on the average daily amount of the loan guaranty facility available to the lending bank payable quarterly in arrears on all amounts outstanding under the loan.

Availability Up to twenty-four (24) months after loan  
Period guarantee facility agreement signing.

Qualifying Cairo Amman Bank will provide 100% of the Dinar  
Sub-Borrowers 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 net fixed assets not to exceed Jordan Dinars 150,000 (equivalent of US\$450,000) and emphasis will be given to borrowers located outside the metropolitan areas. Generally these will

include new-client, small and medium-scale borrowers. Reduced collateral requirements, expansion into new areas, and/or longer repayment terms will qualify existing bank clients.

III. PROJECT SPONSOR: THE JORDANIAN BANKING SYSTEM AND CAIRO  
AMMAN BANK

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 commercial banks, 7 foreign commercial banks; (b) specialized credit institutions for industrial development, agriculture, cooperatives and urban areas; (c) 4 real estate savings companies; (d) 7 finance companies; (e) 10 foreign bank representative office and (f) 75 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 level of cash and due from banks, 30.9% of total assets. 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 Jordan commercial banks are all privately owned and operated. About an equal number of banks are branches of foreign owned banks.

It is interesting to note from the table that the domestic operations of the Arab Bank make up by far the largest Jordan 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. The growth rate of commercial bank total assets 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 as Jordan credit extension is in the first stages of economic development. Both businessmen and bankers think in terms of borrowing/lending against collateral. The

historical reason is that 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 must 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 practice of 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 of up to 8.5% and average cost between 6.5 and 7.0% and a maximum lending rate of 9% to Jordanians and 12% to foreign companies banks say that their spreads are too thin to warrant taking any unnecessary risk. As it is, they are concentrating on conservative lending and 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 assets 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.

An overview of each bank is included here concentrating on size, reputation, ownership and general operations. 1987 financial figures are not yet publicly available so this section uses 1986 figures. 1987 Financial Statements are available for Cairo Amman Bank and are used in the individual bank analysis.



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	-
		<u>1,850</u>		<u>15.7</u>	

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
		<u>313</u>		<u>1.9</u>	

C. Non Bank Financial Institutions

Specialized Credit Institutions

Joint Ownership

1965	Industrial Development Bank	60	N/A	0.5	1
1974	Housing 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 Intermediaries

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	

747 7.4

Foreign Bank Representatives

Money Exchange Companies

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 Consortium

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 & Bonds	657.4 261.7	233.0 138.0	80.9 15.5	26.8 17.5	21.0 18.5
Bills & O.D.'s Loans	908.1 171.0	216.3 34.7	142.2 9.6	82.4 3.8	76.0 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	1768.3	591.5	226.1	104.9	102.9
Debt and other Liabilities	213.3	52.0	29.8	24.6	11.3
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	<u>6.8</u>	<u>0</u>	<u>1.7</u>	<u>1.2</u>	<u>.5</u>
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 Cairo Amman Bank

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. \$29 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.

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.

Table 3

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

<u>Balance Sheet</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Primary Assets	45,717	44,341	60,947
Loans	77,321	86,156	97,898
Other Assets	6,229	9,044	9,631
Total Assets	<u>129,267</u>	<u>139,541</u>	<u>168,476</u>
Deposits	94,515	104,877	131,841
Other Liabilities	25,080	24,647	26,279
Total Liabilities	119,595	129,524	158,120
Capital Funds	9,672	10,017	10,356
Total Liabs & Capital Funds	<u>129,267</u>	<u>139,541</u>	<u>168,476</u>
Contingent Accounts	42,892	51,184	46,351
<u>Income Statement</u>			
Operating Income	11,689	11,738	12,795
Net Income Before Taxes	2,063	1,330	855
<u>Ratios</u>			
Primary Assets/Deposits	48.4%	42.3%	46.2%
Loans/Deposits	81.8%	82.1%	74.3%
Capital Funds/Total Assets	7.5%	7.2%	6.1%
Capital Funds/Loans	12.5%	11.6%	10.6%
Capital Funds/Total Liabs	8.1%	7.7%	6.5%
Net Income/Aver. Total Assets	-	1.0%	0.6%
Net Income/Aver. Capital Funds	-	13.5%	8.4%
 Note: US\$/Dinar	 1:2.72	 1:2.91	 1:3.04

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 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 projects, which are endeavoring to expand and strengthen the technological inputs. The manufacturing sector has been the beneficiary of U.S. commodity import programs and a number of training and TA activities.

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) measures to improve private sector image and (5) relieving public sector policy and administration constraints.

Jordan's less-than-efficient agricultural sector, its rudimentary manufacturing and service sectors and a general cutback in the Gulf economies, all contribute to the structural shortage of foreign exchange.

The chronic unemployment from one of the world's highest birthrates, unabsorbed Palestinians and now the recent and continuing reverse flow of workers abroad is leading to economic instability.

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 the 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 targeted the private sector financial system as one of six target areas, with specific attention to cash flow and risk analysis.

This \$2,000,000 loan facility addresses a number of the urgent needs of Jordan's future development. Cairo Amman Bank is one of two Jordanian banks selected to receive loan guarantees for a five year term from first draw down. This will be combined with a grant for a series of training seminars to expose these and other lending institutions - to cash flow lending concepts and techniques within the broader field of credit analysis.

The usage of Revolving Fund loans, will be contingent upon the financial institution agreeing to match A.I.D. funds *pasi passu* in terms of 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 JD50,000 (US\$150,000) to entities with net fixed assets of less than JD150,000 (US\$450,000).

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 finance 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 manufactured exports and services of U.S. origin or from 51% U.S. owned subsidiaries.

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

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

- o 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.
- o Exhibits Financial Viability based on a backdrop of proven Jordan demand, proven IFI management, and market pricing.
- o Targets Development Impact Appropriate to Jordan by providing import financing for SMSEs ensuring a source of spare parts, efficient equipment and high utilization of manufacturing capacity in the private sector.
- o Makes Resources Available to the Small and Medium-size Enterprise Sector by leveraging the PRE/A.I.D. facility to create a pool of credit.

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 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. Its SMSE emphasis also forms a bridge between the CIP program and the Private Enterprise Technical Resources and Assistance Project (PETRA) loan activities and the Proposed Guarantee Project for Small Enterprise Development which PRE staff are helping to design.

C. Relationship to PRE Objectives and Policies

5.03 This loan guarantee facility will mobilize US\$4 million equivalent in credit on a self-sustaining basis. This credit will be a net addition to the investment resources presently available.

In addition the facility meets project-specific financial constraints, namely: (a) this facility cannot exceed US\$2,000,000; (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 local currency borrowings will be at current market 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" in operation, 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\$4 million equivalent. This amount will be made available to provide short and medium-term financing to enterprises with less than JD150,000 (US\$450,000) in net fixed assets and in individual loans of less than JD50,000 (US\$ 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 subloans 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-borrower transaction information reports, (b) participating bank semi-annual and annual reports. As appropriate, additional reporting materials may be required on an ad hoc basis.
- 6.03 USAID/Jordan will perform, from copies of the source reports its monitoring of USAID total private sector activity in Jordan. To the extent possible and on an experimental basis USAID and A.I.D./PRE monitoring activity will be coordinated and complimentary.



B. EVALUATION

- 6.03 The evaluation of this follow on project will be conducted in Jordan by A.I.D./PRE and USAID/Jordan. It will be based on a review approximately one year following initial 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. Should significant changes be introduced as a result of this evaluation, a second evaluation may be desirable approximately six months after last drawdown. An end-of-project review will be conducted only if A.I.D. determines it is necessary. A grant may be provided by A.I.D./PRE to perform the evaluation.
- 6.04 The quarterly reporting requirements by the lending 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 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 27, 1988
Loan Committee Review:	June 2, 1988
Investment Proposal:	June 17, 1988
Loan Agreement Signing	June 30, 1988
First Training Program	Third Quarter 1988
First Disbursement:	September 30, 1988

VIII. LOAN FACILITY PROCEDURES

A. Project Methodology

8.01 Since approval of the Investment Opportunity Proposal,

PRE/I has recontacted the proposed list of respected Jordanian banks to negotiate offers from them regarding the term of loan agreements which will support our risk-sharing commitment under the Project. The offers received have been competitively judged as to pricing, service considerations, and suitability s IFI's under this project.

- 8.02 Preparation of this Investment Proposal has been based on the terms negotiated.
- 8.03 Upon approval of the Investment Proposal, Loan Agreements shall be prepared for each of the participating financial institutions in accordance with the IP. 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 will proceed to qualify sub-borrowers according to their own practices and procedures, applying market rates/fees, and will 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\$2 million loan, guaranty facility, Cairo Amman Bank would create a pool of Dinar funds from their own resources equivalent to US\$4 million (2/1 leverage). The participating Jordanian banks price their loans according to their own criteria within market constraints. PRE/I earns an annual fee of 1/4 of the principal amount of the loan from Project Agreement signing date. Claim procedures are part of the Loan and Project Agreements and permit the participating Jordanian banks to offset the A.I.D. portion of subloans made in conjunction with the A.I.D. agreement. Claims against A.I.D. will be made in dollars coincidentally with charge off by IFIs and recoveries will likewise shared pro rata.

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