SECTOR POLICY REFORM PROGRAM

(278-K-646)

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

TECHNICAL SUPPORT FOR THE SECTOR POLICY REFORM PROGRAM

278-0289

PROJECT PAPER

Revised
August 25, 1993

Doc:PAAD.FIN;PAADANX2

TABLE OF CONTENTS

TABLE OF CONTENTS . . . . . - i -
ABBREVIATIONS . . . . . - v -

I. SUMMARY . . . . . - 1 -

II. PROGRAM RATIONALE . . . . . - 2 -
A. ECONOMIC STRUCTURE AND PERFORMANCE . . . . . - 2 -
B. BALANCE OF PAYMENTS ANALYSIS . . . . . - 7 -
1. Balance of Payments and Debt Remain High Despite Gains . . . . . - 10 -
2. Structural Adjustment Lags . . . . . - 10 -
3. Balance of Payments Projections . . . . - 12 -
4. External Debt Outlook . . . . . - 12 -
5. Conclusions . . . . . - 14 -

III. PROGRAM STRATEGY AND IMPLEMENTATION . . . . . - 15 -
A. PROGRAM OBJECTIVE AND STRATEGY . . . . . - 15 -
B. FRAMEWORK FOR POLICY REFORM . . . . . - 15 -
C. TRADE AND INVESTMENT ENVIRONMENT . . . . . - 16 -

IV. THE SECTOR POLICY REFORM PROGRAM-CASH TRANSFER 278-K-646 . . . . . - 18 -
A. SECTOR POLICY REFORM AGENDA . . . . . - 18 -
1. Import and Export Process . . . . . - 19 -
2. Customs Export Incentive Systems . . . - 22 -
3. Tax Treatment of Exporters . . . . . - 24 -
4. Business Registration/Licensing . . . . - 25 -
5. Encouragement of Investment Law . . . . - 26 -
6. Foreign Investment Law . . . . . - 27 -
7. The "Issuing Committee" Procedures for Underwriting of Shares under the Companies Law . . . . . - 29 -
8. Investment Promotion Strategy . . . . . - 30 -
9. Protection of Intellectual Property . . - 31 -
B. PROCEDURES FOR DISBURSING CASH TRANSFER . - 32 -
C. ASSISTANCE MODE RATIONALE . . . . . - 34 -
D. ASSESSING BENEFITS FROM A CASH TRANSFER . - 35 -
E. ECONOMIC RATIONALE FOR CASH TRANSFER . . . - 37 -
1. Key Problems Addressed . . . . . - 37 -
2. Structural Lags in Trade and Investment - 37 -
3. Financing Gap and High External Debt . - 38 -
F. CONFORMITY TO AGENCY PRIORITIES AND USAID STRATEGY . . . . . - 39 -
G. CONFORMITY TO GOJ PRIORITIES . . . . . - 40 -
H. RELATED OTHER DONOR PROGRAMS AND ACTIVITIES - 40 -

V. SPR PROGRAM TECHNICAL SUPPORT, PROJECT No. 278-0289 . . . . . - 42 -
A. ASSISTANCE MODES . . . . . - 42 -

1. Proposed Technical Assistance for the Policy Reforms . . . . . - 42 -
2. Commodities . . . . . - 43 -
3. Technical Assistance for Monitoring Reforms . . . . . - 43 -
B. PROCUREMENT AND FINANCIAL PLAN . . . . . - 44 -
1. Procurement Plan . . . . . - 44 -
2. Illustrative Cost Estimate for the Technical Support . . . . . - 45 -
3. Management of the SPR Program Technical Support Project . . . . . - 45 -
C. PROJECT ANALYSES . . . . . - 47 -

VI. PROGRAM FINANCIAL PLAN AND COST ESTIMATES . . - 48 -
A. SPECIAL ACCOUNT FOR DOLLARS . . . . . - 49 -
B. USES OF DOLLARS . . . . . - 50 -

VII. MONITORING AND EVALUATION . . . . . - 51 -
A. PROGRAM IMPLEMENTATION AND MONITORING . . - 51 -
B. EVALUATION . . . . . - 52 -
C. AUDIT . . . . . - 53 -

VIII. CONDITIONS PRECEDENT AND GENERAL COVENANTS - 53 -
A. CONDITIONS PRECEDENT TO DISBURSEMENT . . . - 54 -
1. First disbursement . . . . . - 54 -
2. First Program Disbursement: Cash Transfer - First Tranche . . . . . - 54 -
3. Subsequent disbursements: . . . . . - 55 -
B. SPECIAL COVENANTS . . . . . - 55 -
1. Program-Related Policies or Actions . . - 55 -
2. Import and Export Measures . . . . . - 56 -
3. Reform Impact Information . . . . . - 56 -
4. Companies Law. . . . . - 56 -
5. New Designated Counterparts. . . . . - 56 -

ANNEX A Sector Policy Reform Program (MATRIX)
ANNEX B Proposed Technical Assistance To Implement Policy Reforms
ANNEX C Environmental Examination
ANNEX D GOJ Letter of Request for Program Assistance
ANNEX E A.I.D./Washington Approval Cables
ANNEX F Gray Amendment Certification
ANNEX G Financial Management Guidance on Dollar Separate Accounts for ESF Cash Transfers. (State 194332)
ANNEX H Statutory Checklist

ABBREVIATIONS

AEP	Approved Economic Project
AMF	Arab Monetary Fund
BTN	(Customs tariff classification system)
CBJ	Central Bank of Jordan
CIF	Costs, Insurance, Freight
CIP	Commodity Import Program
CP	Condition(s) Precedent to disbursement
CY	Calendar Year
EE	Environmental Examination
EEC	European Economic Community
ESF	Economic Support Fund
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FY	Fiscal Year
GATT	General Agreement on Tariffs and Trade
GCFCG	Gulf Crises Financial Coordination Group
GDP	Gross Domestic Product
GOJ	Government of Jordan
GSM	General Sales Manager program of the U.S. Department of Agriculture
GST	General Sales Tax
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IQC	Indefinite Quantity Contract
JD	Jordanian Dinar
JEDCO	Jordan Export Development and Commercial Centers Corporation
MOF	Ministry of Finance
MOP	Ministry of Tourism
MOIT	Ministry of Industry and Trade
MRP	macroeconomic reform program
NPD	New Project Description, A.I.D. document
PAAD	Program Assistance Approval Document
PACD	Program/Project Assistance Completion Date
PAIP	Program Assistance Identification Paper
PL480	Public Law 480 (Food for Peace)
PPAS	Program Performance Assessment System
RLA	Regional Legal Advisor
RFQ	Request for Quotations
SBA	Stand-By Agreement
SPR	Sector Policy Reform Program
USAID	United States Agency for International Development
WIPO	World Intellectual Property Organization

I. SUMMARY

This document is a consolidated Program Assistance Approval Document (PAAD) and Project Paper for, respectively, $29 million of A.I.D. Handbook (HB) 4 non-projectized cash transfer assistance for a Sector Policy Reform (SPR) Program and $1 million of HB 3 project assistance for the SPR Technical Support Project, a complementary project for the implementation, monitoring, and evaluation of the Sector Policy Reform Program.

The United States has long been interested in supporting a stable and moderate government in Jordan committed to peaceful solutions for the region's problems. Recently, Jordan has renewed its traditional role of advancing the Arab-Israeli peace process. To continue as a regional stabilizing force, Jordan will need international donor assistance in addressing its domestic problems, including the implementation of an economic adjustment program in the aftermath of the Persian Gulf crisis.

Although the Hashemite Kingdom of Jordan has enjoyed continuous economic growth from the 1970's until the late 1980's its economy has been heavily dependent on expatriate workers remittances from the Gulf States and on financial assistance primarily from its oil-rich neighbors. The recent Gulf crisis has further exposed the structural weaknesses of the Jordanian economy, already evident from the effects of the regional recession.

The analysis herein shows that real economic growth in Jordan must be based heavily on increasing exports of goods and services and that export growth can be stimulated most effectively by a sustained increase in the level of private investment. While the Government of Jordan (GOJ) has entered into a Stand-By Agreement with the International Monetary Fund (IMF) and is in the process of rescheduling its massive foreign debt, these actions are necessary but not sufficient to create the conditions for vigorous economic growth. Because of one time events such as good weather leading to favorable harvests, and returnees willing to spend savings in Jordan, the GOJ has been able to meet the SBA targets. However, the economy remains fragile because of delays in implementing structural changes. The IMF and International Bank for Reconstruction and Development (IBRD) indicate that other measures must be taken, including a concerted effort to improve policies and strengthen institutions related to trade development and investment promotion.

The Sector Policy Reform (SPR) Program is designed to complement and expand on the IMF/IBRD's macroeconomic reform program at the sectoral level. It will provide cash transfers to the GOJ to repay official, non-military debt owed to the U.S., while contributing to the short-term economic stability of Jordan by supporting legal, regulatory and procedural reforms in the trade and investment area. The SPR Program supports the Agency for International Development (A.I.D.), USAID Mission, and GOJ goals and priorities.

With regard to trade the SPR Program will: (1) promote greater governmental efficiency through regulatory and procedural changes to speed export and import processing, and (2) support export growth through an improved financial and trade relations environment. With regard to investment the SPR Program will promote a legal and regulatory environment which supports domestic and foreign investment in export oriented activities.

The SPR Program - Cash Transfer will be financed over a two year period with a total obligation of $29 million. The cash transfer will be disbursed to the GOJ in three tranches and used to relieve official, non-military debt owed to the U.S. Government. The first tranche, $5 million, will be disbursed upon signing the SPR Program Agreement and meeting conditions precedent (CP) to the first disbursement. The second and third tranches will be disbursed after nine and eighteen months, respectively, if USAID determines that the GOJ has made "satisfactory progress" in implementing policy-based reforms.

The SPR Technical Support Project will obligate one million dollars to fund technical assistance and commodities as required to implement and monitor the policy reforms. The expected result is a strengthened trade and investment policy framework which will create an enabling environment for critically needed growth of Jordanian exports and the investment necessary to support export expansion.

II. PROGRAM RATIONALE

A. ECONOMIC STRUCTURE AND PERFORMANCE

While Jordan's natural resources are limited, its population growth is not. Natural resources are few, comprising primarily phosphate, potash from the Dead Sea, and a few other products such as limestone. Arable land for agricultural use is limited, as only about nine percent of all Jordanian land receives more than 200 mm of rain per year. The spatial and temporal distribution of rainfall is also highly unreliable, and water from aquifers and surface sources is extremely limited. The country's natural rate of population growth has been one of the highest in the world, exacerbated by periodic inflows of refugees and displaced persons from the chronic political upheavals in the region. In 1952 the population of the East Bank was estimated at less than 600,000. The population in 1992 is estimated at 3.8 million and continues to grow at a rate of over three percent per year. Nearly half of the population is under 15 years of age. In short, Jordan's principal comparative advantage is a well-educated, healthy, but under-utilized labor force.

Early in Jordan's development the economic outlook was not

promising for a growing country that relied heavily on traditional trade, rainfed agriculture and pastoralism. Nevertheless, over the course of the last forty years the economy of Jordan has been substantially transformed. Western donors supplied resources essential for transforming a primarily rainfed agriculture to a system heavily dependent on irrigation. Improved infrastructure began the industrialization process in the 1960's and pastoralism was largely laid aside. Over half of the country's entire population now resides in the urbanized, greater Amman area (the Amman and Zarqa Governorates).

From 1952 through 1966 the annual real GDP growth rate averaged 6.9 percent, and from 1967 through 1972 it averaged 4.25 percent per year. However, Jordanian economic growth has resulted from a persistent balance of trade deficit, perpetuated by the lack of exportable resources and products to balance the high levels of imports demanded by consumers and the industrial and public sectors.

The aftermath of the 1973 war and the spiraling price of oil created major changes in Jordan's economy. The persistent balance of trade deficit was relieved by large inflows of aid from the Gulf and other Arab states, supplanting Western aid. The oil boom also fueled labor demand in the Gulf States which allowed Jordan to export a major portion of its labor surplus to the Gulf. Remittances from these workers generated a substantial stream of income to support consumer, industrial and public sector import requirements. During this period the development of heavily protected industry was also encouraged. Government intervention increased the support to develop capital intensive, extractive industries. Regionally based trade, primarily to the Gulf States and Iraq, also increased in importance. This trade was often channelled through protocol arrangements to compensate for chronic shortages of foreign exchange among the trading partners.

As a result Jordan's economy continued to grow rapidly. Real GDP growth averaged 5.9 percent annually from 1973 through 1976, and 8.5 percent from 1976 to 1980. However, this growth was tied to the price of oil and the strength of the oil-rich economies in the region. When that growth faltered in the 1980's, Jordan's economic position began to deteriorate. From 1981 through 1985 real annual GDP growth averaged 4.2 percent. From 1986 through 1990, according to IMF estimates, average annual real GDP growth was a negative 2 percent. Aid flows and remittance income fell, leaving Jordan in search of an alternative to support the continuing trade deficit and maintain its standard of living. Jordan's response to bolster the economy through 1988 was to increase the level of long-term borrowing, much of it on commercial terms. The result today is a crushing debt burden which cannot be serviced given the size of the economy and its level of foreign exchange earnings. By the end of 1991 the total

stock of debt stood at $7.32 billion in an economy whose size in GDP terms was estimated at $4.10 billion in 1991. The debt to GDP ratio of 178 percent was estimated to be the second highest in the world. Table 1 summarizes Jordan's GDP growth, balance of trade, and external debt statistics from 1990 to 1993.

In 1989 Jordan sought alternative means of economic relief. In concert with the IMF and the International Bank for Reconstruction and Development (IBRD), Jordan began a major macroeconomic reform program (MRP). The adjustment process focused on freeing administratively controlled interest rates, freeing the exchange rate (leading to a massive devaluation of 50 percent in less than a year's time), and promoting industrial growth through a series of administrative reforms. Jordan also began reducing tariffs to expose local producers to global competition. These reforms appeared to be making some headway when the country's economic vulnerability was fully demonstrated once again by the Gulf crisis.

As a result of the Gulf crisis and its aftermath, Jordan's economy endured several major economic shocks. The principal regional trading markets in the Gulf and Iraq were closed to Jordan. An estimated 300,000 individuals, including as many as 60,000 workers, returned from the Gulf. While temporarily boosting domestic demand, the returnees will lead to a major long-term decline in remittance income. Aid from the Gulf countries ceased. Tourism revenues, which have become increasingly important to Jordan as a foreign exchange earner, declined drastically. Export growth stagnated due, in particular, to restricted entry to traditional markets in the Arab States. Meanwhile the demand for imports grew, fueled by the increasing demand for public services and consumer goods by a population swollen by the returnees from the Gulf. Unemployment rose to unprecedented levels, reaching an estimated 20 percent by the end of 1991.

Stopgap measures have been taken, in particular, by a consortium of Western nations that provided over $1 billion in aid following the crisis. The longer-term measures being taken are a new Macroeconomic reform program (MRP) put into place under IMF/IBRD auspices and debt rescheduling. The MRP framework focuses on reduction of the public budget deficit by (1) containing the growth of debt and the expansion of the bureaucracy, and by (2) a structural change that will allow Government revenues to rise in accordance with growth, primarily through a general sales tax (GST). Containing inflation through controls on public sector domestic borrowing and tight monetary/fiscal policies are also important in the plan. Furthermore, the framework calls for nearly eliminating the current account deficit in the balance of payments by 1998 through continued tariff reform and other measures to promote exports, and by restricting aggregate demand to control import growth.

TABLE 1: Summary, Jordanian Balance of Payments and Debt Statistics

(Million dollars unless otherwise specified)

	Actual		Program Proj.	Prelim. Actual	Program Proj.
	1990	1991	1992	1992	1993
GDP Growth (percent)	1.7%	1.8%	3.0%	11.3%	6.0%
Trade Balance (Deficit)	1,668	1,439	1,209	2,119	1,880
BOP Current Account Deficit	-754	-712	-696	-741	-534
External Debt	7,591	7,323	8,198	6,625	6,832
Debt as Percent of GDP	193%	178%	188%	138%	133%
Debt Service Due Before Rescheduling As a Percent of Exports	45.7%	42.0%	40.0%	36.0%	35.0%
Gross Official Reserves in Months of Imports	1.0 months	3.8 months	2.2 months	2.7 months	2.0 months
Current Account Deficit (as percent of GDP)	-19.2%	-17.4%	-15.9%	-15.5%	-10.4%
GDP in JD	2,612	2,779	3,239	3,257	3,624

Source: IMF, "Jordan: Staff Report", June 1993, Tables 2 and 3.

Debt has been rescheduled through the Paris Club (major donors) and commercial debt rescheduling with the London Club is nearing completion. However, the package of rescheduled debt is necessary but not sufficient to deal with Jordan's deep-seated economic problems, according to the IMF. Structural and sectoral policy changes leading to increased productive investment for exports are required.

The IMF's scenario for stabilization assumes that both regional trade and the level of remittances from the Gulf States will be on the rise shortly, an optimistic assumption. The Gulf States appear to be undergoing their own transformation to more efficient modes of production and the use of other sources of labor, thus making it difficult for Jordan to regain the bulk of its lost remittance income. In any case, remittances have been erratic for some years. Furthermore, aid from the Gulf States is extremely problematic in the short-term for both political and economic reasons. A review of the aid trend over time also indicates the unreliability of such a stream of income for economic support as the Western donors and Japan are strapped by their own relatively low growth rates, domestic demands for resources, and increasing demands for international assistance around the world.

Reopening Jordan's regional trade markets is a priority. However, over-reliance on these markets, given the relative instability of the regional situation, has produced -- and can again produce -- disastrous economic results. Jordan's exports must be internationally competitive so that it can compete effectively both within and outside the Arab region.

There is no question that the macroeconomic adjustment policies which the GOJ is pursuing in conjunction with the IMF/IBRD are essential. Nevertheless, the GOJ must be encouraged to take collateral action which is designed to promote greater openness in the Jordanian economy and to diversify its export base, both in terms of product and markets. Nothing else will substitute for declining levels of aid, uncertain levels of remittances, and unserviceable levels of debt. Possibilities for efficient import substitution have been exhausted in a market of 3.8 million people whose incomes are stagnant or falling. The protectionist barriers inhibit the competitiveness needed, both in terms of quality and price, to penetrate international markets. Some compression of imports is possible, through such measures as high tariffs on luxury items. However, Jordan's limited natural resource base, the need for imports to satisfy basic consumer needs, and the needs of industry for imported inputs are factors limiting import compression.

The only viable alternative is to increase exports of goods and services. In addition to the macroeconomic adjustment now

underway, it is essential that the GOJ take all the necessary steps to create a policy, administrative, and financial climate conducive to the production and export of goods and services which are internationally competitive.

B. BALANCE OF PAYMENTS ANALYSIS

Jordan's current account deficit, excluding grants from the Gulf Crisis Financial Coordination Group (GCFCG), declined from $754 million in 1990 to $712 million in 1991 as indicated in Tables 1 and 2.[1]

The IMF has estimated that the deficit rose in 1992 to $741 million. This 1992 deficit, and the scheduled amortization and payments of arrears raised Jordan's financial requirements to over $1.9 billion. Disbursements of grants ($379 million), loans ($272 million) and debt rescheduling ($1.2 billion) exceeded the financial requirements, which led to an increase in external reserves at the Central Bank of Jordan (CBJ), excluding the foreign exchange deposits of residents. These foreign exchange reserves are estimated to have increased from $457 million in 1990 to approximately $1,207 million by the end of 1992, which is equivalent to about 2.7 months of imports (Table 1). Inflation has dropped substantially and imports have remained stable without adding quantitative restrictions.

Essentially all quarterly quantitative performance criteria under Jordan's Stand-By Agreements (SBA) have been attained through September 1992, and by wide margins. The associated SBA policy reforms, coupled with new government initiatives, such as encouraging nontraditional exports, and beneficial exogenous factors, such as favorable agricultural conditions and higher than anticipated remittances and savings by returnees have contributed to higher real growth and lower inflation than anticipated and have improved Jordan's balance of payment and debt positions substantially beyond earlier projections. These SBA policy reforms include (1) the control of the money supply, (2) restraint in fiscal expenditures, (3) strengthening of

---

[1] The measure of Jordanian deficit levels depends on how grants and remittances are measured. This discussion is based on the IMF approach which divides grants into two categories. Ordinary grants include those that Jordan usually obtains. Extraordinary grants include those received because of the Gulf Crisis. As a result of the Gulf Crisis, workers' remittances to Jordan jumped in 1992. However, a large portion of the remittances are savings of Jordanian and Palestinian families who have returned to Jordan. The IMF believes this pool of savings has been depleted. The statistics used in this balance of payments analysis includes ordinary grants as part of the current receipts and excludes transfers of workers' savings from the current accounts. The IMF estimates these transferred savings at $112 million in 1990, $719 million in 1991, $600 million in 1992, and a projected $250 million in 1993.

TABLE 2: Jordan Balance of Payments, 1990-1993
(Million of dollars)

	Actual		Program Projections	Preliminary Actual	Program Projections
	1990	1991	1992	1992	1993
Current Account	-754	-712	-696	-741	-534
Goods and Services	-1,176	-897	-856	-1,247	-931
Trade Balance (Def.)	-1,668	-1,439	-1,209	-2,119	-1,880
Exports, fob	1,064	1,132	1,225	1,220	1,350
Imports, cif	2,732	2,571	2,434	3,339	3,230
Services (net)	493	543	353	873	949
Remittances (net)	430	389	334	714	760
Receipts	500	450	404	800	850
Payments	71	61	70	86	90
Travel (net)	176	35	105	112	180
Investm't Inc. (net)	-402	-362	-466	-335	-325
Other (net)	289	481	380	381	334
Unrequited Transfers	422	185	161	506	397
Trans of Wrkrs' Savings	112	719	50	600	250
Capital Account	-362	-646	-575	-449	-523
Public Sector	-431	-672	-575	-337	-349
Cost of Debt Restruct.	---	---	---	158	203
Private Sector	69	26	---	---	---
Errors and Omissions	243	372	---	102	---
Overall Balance	-760	-267	-1,221	-488	-807
Financing	760	267	605	488	807
IMF/AMF (net)	-11	-7	-27	21	-22
Debt Rescheduling	610	98	0	1,149	733
Exceptional sources	1,114	1,368	-559	517	630
GCFCG Grants & Loans	327	726	157	28	20
Change in Overdue Oblig.	177	544	-716	-660	-123
Increase in Reserves	-342	-1,094	-20	-51	200
Financing Gap	---	---	1,826	---	---

Source: IMF Staff Report (1993), Table 5

revenue collections, (4) the devaluation of the previously overvalued Jordanian Dinar (JD), and (5) the removal of bank interest rate ceilings. Remarkably, this excellent economic performance has taken place in spite of a significant long-term deterioration over the past decade in Jordanian per capita Gross National Product from a peak of $1,690 in 1982 to about $1,060 in 1991, which in real terms represents less than half of the 1982 level.

In 1992 the growth rate of real Gross Domestic Product (GDP) at market prices registered 11.3 percent, compared to an SBA target of 3 percent, due to strong activity in agriculture, trade, construction and manufacturing. Construction has been particularly strong with the massive return of Jordanians and Palestinians with their savings. Moreover, an excellent agricultural harvest, favorable import prices, and an impressively managed macroeconomic demand supported a sharp decline in the inflation rate to approximately 4 percent in 1992. This substantially improved upon the much higher SBA program target of 9 percent. As a result of the policy reforms, lower inflation and rising nominal interest rates have led to positive real interest rates which have curtailed the outflow of savings and thus have been better able to mobilize substantial domestic funds for Jordanian investment. Informed sources in banking indicate that the Jordanian financial sector has more than JD 3 billion in liquidity. The unemployment rate declined to 18 percent as workers were absorbed in the fast growing construction, manufacturing, business and trade sectors.

The improvements in the balance of payments and external debt positions have also been tied to substantial amelioration in the overall budget deficit position, excluding foreign grants. The domestic budget deficit fell from 17.8 percent of GDP in 1991 to 4.0 percent in 1992, which substantially improved upon the IMF's SBA program target of 13.7 percent. The sharp fall in the budget deficit to GDP ratio reflects in part effective macroeconomic management. Policy decisions to increase revenues and reduce expenditures in order to stabilize the deficit included the cancellation of a $1 billion contract to purchase military aircraft, which would have added about 2 percent of GDP to interest payments on external debt. As indicated above by the decline in the budget deficit to GDP ratio, the GOJ appears to be continuing its excellent performance in maintaining strict expenditure controls and generating greater than expected revenues. This improved fiscal position, on a cash basis and including foreign grants, is expected to be in surplus for the first time in Jordanian history, with the Government becoming an overall net repayer to the domestic banking system in 1992.

With this greatly improved fiscal position and a cautious credit policy position, growth of the net domestic assets of the banking system was contained to 7.4 percent in 1992, below the program

target of 8.5 percent. Broad money supply increased by nearly 7.4 percent in 1992, as against the program target of 9 percent. Commercial bank profits were sharply higher, as a primary consequence of continued large remittances and repatriation of savings by returnees and favorable real interest rates. With the deceleration of the inflation rate, interest rates on both time and savings deposits and all lending rates have turned significantly positive in real terms.

1. Balance of Payments and Debt Remain High Despite Gains.

Despite the outstanding gains described above, Jordan's balance of payments deficits and external debt, summarized in Table 1, remain extremely high by any measures, as reflected by the substantial levels of financing required for debt repayment as indicated in Tables 2 and 3. This gap needs to be financed in order to maintain the economic stability that would prevent a potential prolonged downturn in the Jordanian GDP, and would allow the continuation of the structural adjustment and policy reforms initiated by Jordan under its past and current SBA.

The underlying balance of payments situation in 1992 has also been weaker than expected under the program. The current account deficit registered $741 million as contrasted with program projection of $696 million. The increase in imports was substantially higher than programmed as a result of the surge in domestic activity associated with increased savings of returnees. The high officially recorded savings may have substantially underestimated overall savings by omitting those that have returned unofficially. The strong outcome has been made possible mainly by a 17 percent increase in domestic exports which is attributable to a surge in nontraditional exports, remittances, and a recovery in tourism receipts.

Expatriate and returnee contributions to the balance of payments were about $1.4 billion. Regular remittances from expatriates amounted to $800 million in 1992 which represented a substantial increase over the $450 million level of 1991, as indicated in Table 2. They are expected to increase to $850 million in 1993. Moreover, the unexpectedly large inflow of workers' savings from returnees totaled $600 million in 1992, a drop from the $719 million in 1991.

2. Structural Adjustment Lags.

Current economic growth and recent improvements in the balance of payments and debt positions, however, cannot be sustained without structural reforms, which continue to be sluggishly implemented in Jordan. The IMF has indicated that the structural reforms for sustained growth are lagging in the energy, agriculture, water, transport and manufacturing sectors. In particular, the

TABLE 3: Prospective External Financing Requirements, 1993-98

(Expected disbursements in million dollars)

	1993	1994	1995	1996	1997	1998
Gross External Financing Requirements	1,458	1,439	1,311	1,137	924	632
- Current Accounts (excluding grants)	881	742	637	453	310	132
- Amortization	679	561	567	560	471	402
- Reserve build-up	-200	145	100	100	107	92
- Workers' savings	-250	---	---	---	---	---
- IMF (net)	15	-15	7	24	36	6
- AMF (net)	7	6	---	---	---	---
- Change in overdue obligations	123	---	---	---	---	---
- Restructuring Costs	203	---	---	---	---	---
Regular financing	485	486	573	564	561	562
- Grants	347	340	273	264	261	262
- Loans (excluding CG BOP support loans)	138	146	300	300	300	300
Private capital inflows	30	30	40	50	60	70
Debt rescheduling (secured in 1992)	203	---	---	---	---	---
Exceptional financing	740	922	699	523	303	---
- Eligible debt resched.'g (1993 & beyond)	203	496	425	340	303	---
- Amortization	147	348	305	232	189	---
- Interest	56	148	120	108	114	---
Balance of payments support loans from CG	192	150	---	---	---	---
Of which IBRD	40	60	---	---	---	---
Debt relief from banks	325	---	---	---	---	---
GCFCG grants and loans	20	---	---	---	---	---
Remaining financing gap	---	276	274	183	---	---

Source: IMF Staff Report (1993), Table 9

Generalized Sales Tax (GST), which will allow government revenues to rise in accordance with growth and thus diminish the budget deficit, has not been established because of legislative resistance. These difficult political reforms are needed for sustained, efficient, broad-based economic growth. Continued budget support will be needed for Jordan's costly transition from an overall inefficient import-substitution orientation to one based on private sector export promotion.

3. Balance of Payments Projections.

The medium-term balance of payments projections contained in the IMF's report on the request for the current SBA have been revised to reflect the much improved current account and foreign exchange reserve position in 1991. The medium-term targets continue to be the near elimination by 1998 of the current account deficit, excluding grants and the exceptional financing requirements, as indicated in Table 3. However, imports, remittances, and foreign exchange reserves are now projected to be at higher levels throughout the medium-term period. The remittances are higher because many workers appear to have returned to their former jobs. It also now seems that many of the returnees were the workers' dependents, who returned with substantial family savings, while the workers themselves remained and thus would continue to send remittances back to their families in Jordan. However, this revised scenario, like the original one, would require substantial but declining exceptional financing for most of the medium-term period as shown in Table 3. The exceptional financing requirements described in Table 3 are estimated to decline from $740 million in 1993 to $303 million in 1997, and should not be required by 1998. Once again, the exceptional financing requirements are expected to be met essentially by a combination of rescheduling or refinancing of debt service obligations falling due and new medium- and long-term concessionary loans and grants. The external debt to GDP and debt service ratios are lower than earlier projections partly because of the buy-back of debt to the former Soviet Union in 1992 and the restructuring of commercial bank debt. As a result, Jordan's capacity to repay debt has been enhanced.

4. External Debt Outlook.

External debt service payments, based on commitments and the existing stock of debt, are projected to remain over $1.2 billion annually until 1998 when it is projected to drop to $1.165 billion, as reflected in Table 4. Accounting for new borrowing on concessionary terms and long grace periods for repayments, debt service payments are projected to peak at about $1.4 billion in 1995 and then gradually decline during most of the rest of the medium-term period.

The external debt to GDP ratio would decline steadily from 133

Table 4: Jordan: Medium-Term External Debt Service Projections, 1991-1988

(in millions of U.S. dollars)

	1991	Prelim. Actuals 1992	Program Proj. 1993	Projections 1994	1995	1996	1997	1998
Principal due								
- Paris Club creditors	301	271	269	262	305	312	260	220
- London Club creditors	189	184	213	47	47	30	13	10
- Other creditors	93	13	13	15	15	14	10	6
Subtotal	583	468	495	324	366	356	283	236
- Arab funds	57	57	48	45	38	38	36	31
- Multilateral	80	99	130	116	106	123	131	122
- Other	109	76	60	62	62	60	53	41
TOTAL	829	700	733	547	573	578	503	429
Interest due								
- Paris Club creditors	191	197	200	189	169	145	135	110
- London Club creditors	78	88	58	37	77	79	90	103
- Other creditors	34	4	3	2	2	1	1	--
Subtotal	303	289	262	228	248	224	225	213
- Arab funds	16	15	14	12	11	10	9	7
- Multilateral	67	69	67	60	55	47	39	32
- Other	64	60	66	61	59	57	52	50
TOTAL of which:	450	434	409	361	372	339	325	303
Moratorium interest	86	72	89	91	89	82	74	66
Debt service on end-1992 debt	1,279	1,133	1,142	908	945	916	828	731
Total debt service (including new borrowing)	1,279	1,291	1,353	917	1,014	1,018	955	871
As percent of exports of good and services	42	36	35	22	22	20	17	15
Debt as percent of GDP	168	138	133	132	128	122	113	102

Source: IMF Staff Report (1993) Table 10.

percent in 1993 to 105 percent by 1998. The debt service ratio is now projected to decline from 46 percent of exports of goods and services in 1993 to 23 percent by 1998, as indicated in Table 4. The improved external payments situation would enhance even further Jordan's capacity to repay the loans.

While repeated principal rescheduling and interest refinancing would provide significant cash flow support, the estimated debt to GDP ratio at 133 percent for 1992 and its projected decline to 105 percent in 1998 would remain well above the current average level for developing countries with recent debt servicing problems. The debt service ratio, although less extreme than 1990 and 1991, would persist in the upper end of the range for the developing countries. In view of these considerations, Jordanian authorities and international donors have formulated within a broader debt management strategy a restructuring of the commercial bank debt on the basis of a market-based financing menu. A deep reduction in the bank debt could be achieved through a combination of cash buy-back and collateralized par bond exchange.

During 1992 Jordan paid $285 million in interest to creditors of the Paris and London Clubs. Two factors reduced the outstanding indebtedness of Jordan from $7.7 billion in 1990 and $7.3 billion in 1991, to an estimated $6.83 billion in 1992. These were (1) repayment of the debt and (2) buy-back transactions. Indebtedness relative to GDP fell from 168 percent in 1991 to an estimated 138 percent in 1992, as noted in Table 4. Debt service is projected to decrease from 42 percent of exports of goods and services in 1991 to 15 percent in 1998.

5. Conclusions.

Thus despite its current outstanding macroeconomic performance, as described above, Jordan continues to have a high external financing gap, with a debt service that is expected to exceed $1.1 billion annually through 1998. This burden is largely due to Jordan's continuing current account deficit and its high level of overall external debt which is approximately $7 billion. Failure to adequately address the financing gap and the associated debt burden could destabilize the tenuous Jordanian economy, an economy still characterized by high unemployment.

In summary, the Jordanian economy remains fragile because of delays in implementing structural changes. One time events such as good weather leading to favorable harvests, and returnees willing to spend savings in Jordan have enabled the GOJ to meet the SBA targets. USAID agrees strongly with the IMF and International Bank for Reconstruction and Development (IBRD) that other measures must be taken, including a concerted effort to improve policies and strengthen institutions related to trade development and investment promotion.

III. PROGRAM STRATEGY AND IMPLEMENTATION

A. PROGRAM OBJECTIVE AND STRATEGY

The overall Mission goal is to promote broad-based and sustainable economic growth for Jordan. As defined in the Mission's Program Performance Assessment System (PPAS), the Strategic Objective No. 1 is to increase foreign exchange earnings from light industry, agribusiness, and tourism. The Sector Policy Reform Program will contribute to achievement of both the Mission's goal and the strategic objective by fostering a series of legal, regulatory and administrative reforms which will create an environment more conducive to the growth of exports. Increased exports will help Jordan address a severe balance of trade deficit and its chronically negative balance of trade situation.

The program will support the elimination of key policy constraints to improved trade and export performance and the attraction of domestic and foreign investments. The main areas selected for policy and administrative reform are fully consistent with the structure and spirit of the IMF's SBA, the GOJ's associated policy statement, and the projected program outcomes delineated in the Mission's PPAS. As such, the SPR Program builds on what has already been achieved and will reinforce further movement towards a more open economy. Individual policy, regulatory and procedural changes, once implemented and assessed by USAID, will constitute the basis for tranched disbursements under the Program. In turn, these changes will promote export growth by reducing transaction costs and promoting internationally competitive production. They will also increase private investment through a more supportive legal framework and a more transparent system of regulation.

B. FRAMEWORK FOR POLICY REFORM

The proposed Sector Policy Reform (SPR) Program is designed to complement and expand on the IMF/IBRD's macroeconomic reform program at the sectoral level. It will provide cash transfers to the GOJ to repay official, non-military debt owed to the U.S., while contributing to the short-term economic stability of Jordan by supporting legal, regulatory and procedural reforms in the trade and investment area. The Program/Project Assistance Completion Date (PACD) will be the date occurring two calendar years following the date of signing the consolidated Program/Project Agreement.

The framework summarized on the following pages is based on a thorough study of policies, institutions and current practice drawing on the work of A.I.D. financed consultancies and studies by the IBRD and the IMF. Areas considered for this program

include customs, trade issues, incentives to exports, export credit guarantees, investment incentives, foreign investment and the legal environment controlling business practices in Jordan. The full range of issues within each of the areas has been investigated. Final selection of candidate items for the agenda was based on a judgement of the magnitude and immediacy of economic impact and analysis of the feasibility of implementing the reforms within an eighteen month timeframe. The PACD, as determined above, allows for some flexibility in the timing of the tranches and completion of procurement under the complementary SPR Technical Support Project.

C. TRADE AND INVESTMENT ENVIRONMENT

Until the late 1980's, Jordan followed an import substitution policy which protected local industry through high tariff rates, quantitative restrictions and other non-tariff barriers. Regional trade was often conducted through government to government protocol arrangements. Structural reform, supported by the IMF, IBRD and other donors in 1989-90, has led toward a major change in approach. The most significant action taken involves the substantial lowering of import tariffs. The base tariff and a series of additional taxes for educational and other purposes have been reduced to a range between 5 and 50 percent. A number of luxury items have been excluded from this reduction and some agricultural items are still exempt from any tariffs.

Other than this action, formulation of a coherent outward-looking trade policy is still in its nascent state. The GOJ has no formal strategy for trade promotion and expansion, nor is there an overall coordinating body for trade policy. Input from the private sector is sporadic and not effectively organized. Most governmental agencies view their role as regulatory and revenue extracting, not as promotional in nature.

Other constraints in the trade sector are the lack of efficiency in export and import processing and the weakness or lack of key institutions to support export development. Jordanian manufacturers rely heavily on imported inputs and must receive such inputs without delay, free of duties and taxes if they are to compete in international markets. The duty drawback and temporary entry programs operated by the Customs Department need to be modified to reduce transaction costs and thereby promote overall competitiveness of Jordanian exports. Other customs-related systems involving the entry and testing of commodities are unnecessarily complex and time consuming. Licensing requirements for most exports and imports also create delays and add unnecessary costs. Most of these licenses could be eliminated without loss of regulatory control and with marginal impact on public revenue.

The investment environment is more difficult to assess because

data on investments are not as readily available nor as comprehensive as the data on trade. However, it is apparent that the amount of foreign investment in Jordan is very limited and comes almost exclusively from Arab sources. U.S. investment in Jordan is extremely limited, consisting of several financial and insurance investments and minority holdings in the industrial sector.

A number of factors are responsible for the low level of foreign investment and concentration among Arab countries. The relatively small size of the Jordanian market is not attractive to those foreign investors interested only in domestic sales. Undoubtedly, political risks are a factor influencing foreign investment decisions. Also, existing laws severely restrict foreign investment. This is unfortunate, since the flow of technology, market access and managerial expertise which could accompany such investment has also been limited.

Other constraints to private investment are: weaknesses in the current legal structure; lack of a national investment strategy and an effective investment promotion institution; and the limited number of financial investment instruments. From a legal perspective the current Foreign Investment Law, which severely restricts foreign ownership and control of businesses in Jordan, is overly restrictive and negative in its consequences. Other legislation governing important facets of foreign investment decision-making such as repatriation of earnings, international arbitration, and expropriation put Jordan at a disadvantage relative to current international standards. Antiquated copyright and patent laws do not adequately deal with new technologies such as electronic data processing, thus retarding investment in the service industries. The Encouragement of Investment Law lacks transparency in its criteria and automaticity in its application, leading to over-involvement of the public sector in feasibility analysis and delay in project approvals. The regulations governing the Amman Financial Market lack a market-led mechanism for pricing new issues. Limitations on retained earnings by publicly traded companies are also a constraint on equity financed investment. These administrative controls limit the number of new company listings on the Amman Financial Market and the number of new issues brought to the public.

Constraints on the legal side are compounded by a series of institutional weaknesses. New investors are frequently stymied or delayed by the lack of a systematic promotion system which can: (1) make investment and corporate laws and regulations readily available to the prospective investor, and (2) handle efficiently the necessary approvals from various GOJ departments. Finally, the number of financial investment vehicles and instruments are extremely limited in Jordan. The corporate bond market is thin and mutual funds and similar instruments are

unknown. Lack of a diversity of such instruments tends to limit investment growth.

IV. THE SECTOR POLICY REFORM PROGRAM-CASH TRANSFER 278-K-646

The SPR Program - Cash Transfer will be financed over a maximum two year period with a total obligation of $29 million. The cash transfer will be disbursed to the GOJ in three tranches and used to service or amortize official, non-military debt owed to the U.S. over an eighteen month period from the date the SPR Program Agreement is signed. Grant proceeds will be deposited in a separate account established by the Government in a U.S. bank. The first tranche, $5 million, will be disbursed upon signing the SPR Program Agreement and meeting conditions precedent (CP) to the first disbursement. The second and third tranches will be disbursed after anticipated nine and eighteen months, respectively, if USAID determines that the GOJ has made "satisfactory progress" in implementing policy-based reforms.

The SPR Technical Support Project will obligate one million dollars to fund technical assistance and commodities as required to implement and monitor the policy reforms. The expected result is a strengthened trade and investment policy framework which will create an enabling environment for critically needed growth of Jordanian exports and the investment necessary to support export expansion.

The one million dollars to finance technical assistance and commodities will be used to assist the GOJ implement the policy reforms and to provide, if necessary, experts to monitor and assess the Government's progress in implementing the reforms. Short and medium term consultants under direct A.I.D. contract will provide assistance as determined to be necessary by USAID. The SPR Program Technical Support Project is described further in Section V.

The expected result of this SPR Program is a strengthened trade and investment policy framework which will create an enabling environment for critically needed growth of Jordanian exports and the investment necessary to support export expansion.

A. SECTOR POLICY REFORM AGENDA

Areas considered for policy reform in this program fall within the trade and investment sector which includes customs, trade issues, incentives to exports, export credit guarantees, investment incentives, foreign investment and the legal environment controlling business practices in Jordan. Implementation of the reform measures is grouped in two consecutive nine month periods. The time frame for implementing

specific reform actions is shown in matrix form in Annex A. Satisfactory implementation of the specific measures within each time frame will be the basis for disbursement from the cash transfer part of this program.

1. Import and Export Process

a. PROBLEMS: Import and Export Process

Import/export procedures in Jordan are usually complex and restrictive and rigidly followed.

The number of different organizations, in addition to the Customs Department, that are involved in the import/export process greatly complicates the situation. The Ministry of Industry and Trade (MOIT) currently issues Import/Export licenses. The requirement for such licenses has vanished in light of the recent GOJ initiative to liberalize the economy. Although presently the issuance of these licenses is automatic, the requirement imposes an unwarranted burden on traders and manufacturers.

The customs clearing process is lengthy and complicated. A 1988 study indicated that only 23 percent of all imported goods were cleared within two days and, therefore, three-fourths of all shipments are subject to unreasonable delay. This is a direct result of the rigid application of rules and regulations by the Customs Department to ensure that revenues accruing to the GOJ are not reduced by fraud. Furthermore, the remuneration system is designed so that Customs officials augment their salaries by imposing fines when infractions are discovered. This leads to fines for routine customs entry mistakes or clerical errors where fraud was not intended. The penalties imposed in such cases can be double the amount of duty in addition to the duty properly payable. This practice not only contributes to an adversarial relationship between the private sector and the Custom Department, but it also delays the clearing process. The ambiguity in defining fraud or infractions under the law and the lack of delegation of authority to even senior customs officials in major customs houses, like Aqaba and Amman, perpetuates a problem that will continue to be a major irritant in the export/import procedure.

The excessive reclassification of goods in customs is another problem for the private sector in the import/export process. In 96 percent of reclassification cases, the result is a higher valuation of imports for duty assessment. This is partly due to ambiguities in the definition of each class item in the existing BTN system. The Customs Department has prepared a new classification based on the harmonized system and although the classification may be referenced in the customs entry declaration form, the basis for calculation of the custom duty is still based

on the old BTN classification. Traders lack the essential information on the tariff structure and amount of additional taxes and fees levied on imported/exported goods to be able to estimate the amount of duties levied by customs.

To encourage exports, the GOJ, through the Jordan Export Development Corporation (JEDCO), sought to enter into barter trade "protocol" agreements with neighboring countries and other countries in the region. These protocols require explicit trade balancing on a countertrade basis. While trade agreements are desirable in situations where a market would be otherwise closed to Jordanian products, these agreements should be negotiated to enable the business to be conducted in a competitive fashion and allow transactions to be done through commercial banking channels in foreign currency. As such, this policy of "protocol trade" adopted by JEDCO has not achieved the target of expanding exports and improving Jordan's balance of payments. In fact, this policy has restricted market access of exporters to regional markets rather than facilitated entry to international markets that would contribute positively to the foreign exchange earnings of Jordan. Manufacturers, as a result of this constrained policy, are less efficient and overly reliant in their marketing efforts on these government negotiated trade agreements.

Instead of protocol trade, the GOJ should establish an export credit guarantee scheme to support new and risky market penetration. Industries are not only unfamiliar with non-traditional markets but are also required to extend credit terms to buyers in order to meet foreign competition. While a proposed export credit guarantee scheme has the potential to facilitate credit for exporters, it has not been established, as enabling legislation is still in a draft format awaiting approval.

b. <u>REFORM ACTION: Import and Export Process</u>

In its efforts to facilitate trade and reduce the administrative burden on the trading community, the MOIT needs to waive the requirement for obtaining import/export licenses. Controls on trading in certain commodities, if desired, can be maintained through the customs clearing process.

The Customs Department needs to review its administration and procedures for clearing goods to reduce the time required to clear imports and exports through customs.

The Customs Department needs to issue instructions to clarify infractions in the customs process and to define the fines imposed on these infractions. Senior customs officials in major customs houses should be delegated the authority to look into these cases and make a determination whether fraud has been committed. An alternative incentive system for the customs officers should be developed.

The harmonized system of classification should be applied to determine customs duties in clearing goods. An import/export guidebook in Arabic and English needs to be published by the Customs Department to enable traders to assess the costs associated with clearing goods into and out of the country. The guidebook should contain all pertinent laws and regulations governing imports and exports, including clear and comprehensive information about tariffs, duties, fees and other taxes levied on each class of imported product.

The GOJ should move away from bilateral trade agreements and protocol trade and focus on assisting exporters to compete successfully in international markets and should enhance Jordan's status as a trading partner by seeking membership in the General Agreement on Tariffs and Trade (GATT).

c. ACTION PLAN: Import and Export Process

1) Abolish all import and export licenses.

2) Apply the Harmonized System exclusively for calculating taxes and duties in clearing goods from customs.

3) Reduce the average time required to clear goods at major entry points to two days.

4) Revise the application of customs fines to: 1) provide clear categorizations of infractions and fines imposed on these infractions; 2) delegate authority to key customs managers to administer the application of fines; and, 3) study alternatives to the present incentive system for customs officers.

5) Publish an import/export guidebook in Arabic and English to enable traders to assess the costs associated with clearing goods into and out of the country. The guidebook should contain all pertinent laws and regulations governing imports and exports, including clear and comprehensive information about tariffs, duties, fees and other taxes levied on each class of imported product.

6) Approve the Export Credit Guarantee Law.

7) Review by the Cabinet of Ministers of an assessment conducted to determine the feasibility and desirability of joining the GATT.

d. IMPLEMENTING AGENCIES: Import and Export Process

MOIT; Ministry of Finance, Department of Customs

2. Customs Export Incentive Systems:

a. PROBLEMS: Customs Export Incentive Systems

Currently two customs schemes promote exports in Jordan: temporary admission procedures and the duty drawback system. Temporary admission allows imported raw materials to enter duty free against a bank guarantee until such materials are used to produce manufactured goods and exported. Although the temporary admission scheme has been more successful than the drawback system in generating exports by small and intermittent exporters, it remains primarily oriented to large established firms. Its application is complex, overly reliant on bank guarantees, and restrictive in managing and controlling goods.

The duty drawback scheme allows exporters to receive refunds of custom duties paid on raw materials used in the production of exports. The system has been operating since 1988 but, in reality, very few of the firms which have used it have received a drawback payment from the GOJ.

Like customs procedures in general, the temporary admission procedures and the duty drawback system are constrained by the fact that customs operations remain centralized in Amman, the administration of the process is done manually, and the same stringent controls are applied to all exporters irrespective of their credibility and past performance. Many small and medium size manufacturers, which are potential exporters, or are trying to re-orient to external markets, lack the knowledge of how to use these systems and the advantages such systems can offer to exporters.

b. REFORM ACTION: Customs Export Incentive Systems

Streamlining both the temporary admission procedures and the duty drawback system is essential. This can be achieved by computerization of the customs operations, establishing good communication links between headquarters and the various customs houses, and building a data base on traders in the Customs Department. It should not have to apply the same stringent controls to all exporters, irrespective of their credibility and past performance. The database will allow the Customs Department to rate companies according to past performance. Furthermore, delegation of authority to major customs houses in the Kingdom is necessary to avoid having headquarters involved in every transaction. An effective promotion program aimed at small and medium size manufacturers, who can be potential exporters and are trying to re-orient to external markets, must be established to educate them on how to use these systems and the advantages such systems can offer.

The temporary admission procedures must be amended to address the

following constraints: (i) excessive reliance on bank guarantees that subject exporters to financial burdens and adds to the cost of exported items; (ii) the requirement for separate storage of raw materials and manufactured goods produced under temporary entry from those entered with duty paid.

The duty drawback system involves a difficult and lengthy process to administer and involves various approvals from different departments in the Ministry of Finance. Consequently, exporters are not receiving refunds of taxes paid. The requirements for a prior declaration of intent to export in order to claim drawback limits the program to firms which are already exporting, thus unnecessarily restricting access to indirect, intermittent exporters and those who are trying to re-orient to external markets.

c. ACTION PLAN: Customs Export Incentive Systems

1) Introduce officially the use of computers in the administration of the duty drawback and temporary admission systems; and, with a view to reducing financial and physical controls, establish a system for rating companies included in the drawback and temporary admission that is based on each firm's past history, current solvency, and integrity.

2) Amend the temporary admission procedures to:

-- Introduce alternatives to the requirement for bank guarantees. Various types of guarantees should be offered to exporters, e.g. a formal company affidavit to cover duty obligations, a single annual form of guarantee to cover all temporary entry admission during that year.

-- Authorize the commingling of materials on plant premises and abolish the strict inventory control measures now in place.

3) Establish a special account, e.g. an escrow account, which will allow the Customs Department to make drawback refunds within one month after submission of an export receipt. The Customs Department shall institute a credit document to refund duties on eligible exports which could become a negotiable instrument in subsequent financial dealings with Customs.

4) Abolish the requirement to declare intended usage of imported inputs at the time of entry of goods to provide the flexibility that will allow exporters to use the drawback system.

5) Delegate authority to major customs houses to administer the application of the duty drawback and temporary admission systems.

6) Initiate a proactive program to educate and guide potential exporters on the use of the drawback and temporary admission systems.

d. IMPLEMENTING AGENCY: Customs Export Incentive Systems

MOF - Department of Customs

3. Tax Treatment of Exporters

a. PROBLEM: Tax Treatment of Exporters

Jordanian manufacturers are not provided with adequate tax incentives to export. Currently, up to 30% of net income can be exempted from taxes based on export performance. Such tax incentives are less favorable when compared with incentives in countries that encourage exports. Current laws are not being optimally used to provide additional incentives encouraging manufacturers to export new products or penetrate new markets.

b. REFORM ACTION: Tax Treatment of Exporters

The Income Tax Law, Article 3.C, provides authority to the Cabinet of Ministers, upon the recommendation of the Minister of Finance, to exempt the income of some exports from tax, totally or partially. As such, the Income Tax Law allows the GOJ to encourage exports and to institute preferential exemptions to certain products and export markets. Based on this Article, the Council of Ministers can issue a new regulation that increases tax exemption on exports to non-traditional markets and reduces or maintains a lower percentage of exemption on exports to traditional markets. This will encourage exporters to seek new markets and expand exports to non-regional countries. In line with the GOJ's goal of increasing foreign exchange earnings, exports under the protocol trade agreements or barter trade agreements should not be exempted from income tax. It is understood that this reform action is not in conflict with the GATT.

c. ACTION PLAN: Tax Treatment of Exporters

The Cabinet of Ministers issues new instructions based on Article 3.C of the Income Tax Law to:

1) Exempt 100 percent of net income generated from exports to non-traditional markets from income tax.

2) Exempt a percentage of net income generated from exports to traditional "regional" markets from income tax. A list of countries that are considered to be traditional or regional should be specified.

3) Exclude from income tax exemption income generated from exports generated under protocol agreements, barter trade agreements, or exports in return for debt.

4) Maintain the exclusion of income from phosphate, fertilizer and potash industries from these exemptions.

d. IMPLEMENTING AGENCY: Tax Treatment of Exporters

MOF - Income Tax Department

4. Business Registration/Licensing

a. PROBLEMS: Business Registration/Licensing

The registration process is not transparent and contains unnecessary approvals and procedures. Registration applications are reviewed by numerous officials within the MOIT and "no objection" certificates have to be obtained from each affected line Ministry; businesses must deposit a minimum amount of the company's share capital in a domestic bank prior to receiving the registration certificate; and the Cabinet's approval is required in the case of applications for foreign investment.

b. REFORM ACTION: Business Registration/Licensing

Action is required to (1) further streamline the business registration and licensing decision process so that it is automatic for most types of investments and the process is more transparent; (2) centralize the administrative structure conducting the business registration/licensing processing in one institution and reduce the involvement of other ministries; and, (3) coordinate the various post-registration approvals and permits required for investors to initiate operations.

c. ACTION PLAN: Business Registration/Licensing

1) Delegate authority to the Controller of Companies to automatically register applications without additional approvals in the MOIT.

2) Eliminate the requirement in order to register to have "no objection" certificates from affected ministries.

3) Prepare a simple guide to the business registration/licensing process in Arabic and English for investors.

4) Establish a "one-stop-shop" to coordinate all post-registration approvals.

d. IMPLEMENTING AGENCY: Business Registration/Licensing

MOIT

5. Encouragement of Investment Law:

a. PROBLEMS: Encouragement of Investment Law

Investment activities approved under the Encouragement of Investment Law are accorded exemptions from customs duties on imported fixed assets and spare parts for a period of up to five years. Profits of projects in certain sectors are also exempt from income tax for a period of five years. The Law does not target incentives to projects that contribute to the most urgent needs of the economy such as exports and employment. The focus of the Encouragement of Investment Law is largely procedural, dealing with composition and functions of the committee which reviews and approves projects under the Law. The Law provides different incentives for projects based on two criteria: (1) type of business (special incentives are granted to projects in industry, mining, agriculture, hospitals and tourism); and (2) the project's capital and value of fixed assets. Projects are classified as "economical projects" and "approved economic projects (AEP)"; the major difference being that AEP's receive a five year tax holiday, with the possibility of an additional tax exemption of 25 percent of net profits for a two to four year period after the end of the tax holiday. No criteria are established covering such issues as profitability of the venture, capacity to earn foreign exchange, value added in the course of production, or the relative labor or capital intensity. Such criteria exist at the procedural level. However, the lack of transparency within the legislation itself regarding such criteria creates uncertainty in the mind of the potential applicant, leaves room for substantial discretion by the Investment Committee, and complicates the evaluation and approval process. Such ambiguity in the Law leads to severe delays in granting benefits and in many cases denying such benefits to qualified projects.

Overall, tax holidays as provided under the Law may have some negative impact on the long-term industrialization of Jordan as it favors short-term investments, may not benefit firms who are not profitable from the outset, and can lead to turnover in companies by businessmen that prefer to establish new companies

rather than pay normal corporate income tax.

b. REFORM ACTION: Encouragement of Investment Law

The effectiveness of tax incentives and other benefits provided under the Encouragement of Investment Law must be evaluated to ensure that such incentives promote investment that would not otherwise have taken place, and whether such incentives are utilized to benefit enterprises as intended. Therefore, the appropriateness of the Law as a stimulus to investment needs to be analyzed, taking in consideration that tax holidays (as an incentive for investors) can be achieved through reforms in the Tax Law.

c. ACTION PLAN: Encouragement of Investment Law

Cabinet review of an assessment which:

1) evaluates the effectiveness of the Law in promoting investment, and whether such incentives are utilized to benefit enterprises as intended;

2) determines if the Law has been a stimulus to investment, with the view that tax holidays, as incentives to investment, can be achieved through reforms in the Tax Law; and

3) reviews the Income Tax Law as an alternative means of providing incentives for investments.

d. IMPLEMENTING AGENCIES: Encouragement of Investment Law

MOIT; MOF

6. Foreign Investment Law:

a. PROBLEMS: Foreign Investment Law

Until recently, foreign investment was regulated through the Defense Regulation No. 51 of 1978 which provided that foreigners could not own more than 49 percent of any business company with the exception of industry and tourism ventures. All foreign ventures were subject to the approval of the Prime Minister which was revocable at any time. In 1986 a regulation was issued which modified this Law and accorded Arab investors the same rights as Jordanian investors, in effect exempting Arab nationalities from the provisions of the Foreign Investment Law.

In 1992 the Parliament approved a new law governing foreign investments which also has severe restrictions on foreign investments. The Foreign Investment Law requires the approval of

the Minister of Industry and Trade and the Cabinet of Ministers to allow foreign investors full ownership of businesses in the following sectors: industry, tourism, health, agriculture and housing. The language presented in the Law is ambiguous making it unclear as to whether or not foreign investors can own 100 percent of any business in the categories stated above. However, no foreigner may own more than 49 percent of any commercial, transportation, or contracting business.

The language of the new Foreign Investment Law as finally passed is not transparent and unduly restrictive. Given the prevailing economic situation, this is extremely unfortunate. If badly needed investment capital is going to be attracted into the country, the Law must be as liberal as other laws of countries that encourage foreign investment. The application of the Law and the regulations and procedures associated with it must be simple and transparent in their execution.

b. REFORM ACTION: Foreign Investment Law

Deficiencies in the existing legislation and procedures pertaining to foreign investment discourage the significant new foreign investment needed for a substantial long term contribution to the economy. The legislation, therefore, needs to be modified to address the following principle deficiencies: (1) requirement for foreign investors to receive Cabinet approval prior to registering a business in Jordan; (2) ambiguity about the criteria upon which the Cabinet will issue approval for foreign investment; (3) ambiguity about full ownership in sectors where foreign participation is permitted.

c. ACTION PLAN: Foreign Investment Law

1) Issue Cabinet instructions for the implementation of the existing law to: (a) provide for clear and transparent criteria upon which the Cabinet will issue approval for foreign investments; (b) clarify the ambiguity about full ownership of foreign investment in industry, tourism, health, agriculture and the housing sectors; (c) define the activities which are closed to foreign investment and those for which foreign equity interest is subject to the 49 percent ceiling.

2) Amend, by a Cabinet decree, the Foreign Investment Law to: (a) eliminate need for Cabinet approval of all foreign investments; (c) provide a negative list which clearly specifies activities that are closed to foreign investment or where foreign investment is subject to limitation.

d. IMPLEMENTING AGENCY: Foreign Investment Law

MOIT

7. The "Issuing Committee" Procedures for Underwriting of Shares under the Companies Law

a. PROBLEM: Procedures for Underwriting Shares

The Issuing Committee at the MOIT sets the price for share offerings using either par value, or a value determined by an average of par and market values of the issue. If the company is already listed, the value of new shares is determined by a bargaining process which ignores key factors. The Issuing Committee often under-values new issues because it excludes factors such as technical know-how, trademarks, access to export marketing networks, and other intangibles, and includes only the value of land, machines, and materials that the shareholding company owns. These procedures discourage efforts to expand Jordanian production and exports and impede foreign investment. The resulting situation has hindered efforts to expand domestic investment that would increase the scale, technology, and skills which Jordanian industries need to upgrade the quality of their products for export markets.

Articles 93 and 94 of the Companies Law establish the Issuing Committee and empower it to: (1) authorize dates of share issuance, (2) approve prospectuses, and (3) propose legislation and policies for the development of capital markets. However, the Committee's responsibilities for pricing of shares are not stipulated under the Law and are set out in adjacent procedures that are more commonly known as "special regulations". Revision of the "special regulations" does not require an amendment to the Companies Law.

b. REFORM ACTION: Procedures for Underwriting Shares

Revise the procedures, i.e. special regulations, of the Issuing Committee to permit private sector underwriters to determine the price of new share issues under the regulation and supervision of the Amman Financial Market.

c. ACTION PLAN: Procedures for Underwriting Shares

1) Issue a Cabinet decree giving permission for the Issuing Committee to revise the special regulations for the pricing of new shares.

2) Issuing Committee to revise the special regulations for the issuance of new shares which will permit private sector underwriters to determine the price

of the shares under the supervision of the Amman Financial Market.

d. IMPLEMENTING AGENCY: Procedures for Underwriting Shares

MOIT - Amman Financial Market

8. Investment Promotion Strategy:

a. PROBLEMS: Investment Promotion Strategy

Jordan has undertaken little investment promotion to date. A number of different institutions, including the Industrial Development Bank, the Industrial Estate Corporation, commercial banks, the Chamber of Commerce, the Chamber of Industry, and the MOIT, have undertaken some promotional activities. However, these have not been coordinated or focused as part of a single national drive. A country strategy to promote and encourage investment, which is critical to Jordan's economic growth, has not been developed.

b. REFORM ACTION: Investment Promotion Strategy

Jordan needs to move from the present position of poor servicing of investors and virtually no investment generation, to building up a reactive promotional capability in the short term, and expanding this into a more pro-active campaign in the medium term. The reactive program focuses on providing accurate and timely information and approval services to investors who come to Jordan, while the pro-active program would seek to identify, attract and support potential new investors from abroad, and increase the number who conclude a significant investment. The initial focus in investment promotion should be on improving pre-approval and approval servicing. Subsequent efforts should then seek to build on this base in developing a pro-active investor service program.

Jordan's institutions for dealing with investors are weak when viewed in light of international experience with institutional arrangements to promote local and foreign investment. Once a satisfactory investment strategy for investment promotion is established, an agency with its own legal structure, and with the authority and responsibility to promote investment will be needed.

c. ACTION PLAN: Investment Promotion Strategy

1) Develop a national investment promotion strategy for Jordan that will: i) indicate what industrial and service sectors, international markets and category of investors are to be targeted for foreign direct

investment (FDI); ii) identify the financial, legal and institutional constraints to stimulating domestic and foreign investment and how those constraints will be addressed; iii) describe the institutional framework and mechanisms that will be utilized to implement the national strategy.

2) Establish a joint public/private investment commission to develop a working plan and monitor the implementation of a national investment promotion strategy.

d. IMPLEMENTING AGENCY: Investment Promotion Strategy

MOIT

9. Protection of Intellectual Property:

a. PROBLEM: Intellectual Property

To compete successfully in the regional and international market places, Jordan needs ready access to the latest technology, know-how, information, electronic data processing software and automation. The legal framework to enable Jordan to acquire such services is weak and does not provide for adequate protection to intellectual property rights. The legislation offers only limited protection to trademarks and copyrights. Poorly made copies of trademarked products, software, and publications are widely available as a direct result of inadequate enforcement of the law. Such a situation constitutes a trade barrier and a disincentive to foreign investment, co-ventures and technology transfer. Lack of intellectual property rights also discourages investment in the services sector, in particular, the development of computer software, electronics production, art production, and publishing. The weak or nonexistent protection hinders the development and institutionalization of services which are potential foreign exchange earners and generate employment opportunities, in particular for Jordan's educated workforce. A law enacted in 1992 offers protection to foreign copyrights but only in cases where a country has a bilateral agreement with Jordan. While this law would also protect copyrights covered under international agreements, Jordan is not currently signatory to any agreements protecting intellectual property rights.

Without legal protection in Jordan for trade marks, copyrights, and intellectual property, the economy will be denied access to advanced technology needed for the development of the industrial and service sectors.

b. REFORM ACTION: Intellectual Property

Adopting stronger policies to protect intellectual property rights will bolster Jordan's image internationally as a country prepared to protect the rights of non-citizens. Such measures may also increase the attractiveness of Jordan to foreign investors by demonstrating its commitment to international standards protecting intellectual property rights. The GOJ must first begin enforcing its current copyright law. It should then broaden its protection to the level found in most developed countries by ratifying international conventions that safeguard intellectual property rights.

c. ACTION PLAN: Intellectual Property

Conduct an assessment and review by the Cabinet of Ministers of: (1) mechanisms to enforce existing copyright and intellectual property laws in Jordan; and (2) the feasibility for Jordan to ratify international conventions for copyrights and other intellectual property rights.

d. IMPLEMENTING AGENCIES: Intellectual Property

Ministry of Culture; MOIT

B. PROCEDURES FOR DISBURSING CASH TRANSFER

The first $5 million tranche will be disbursed when the GOJ signs the Program Grant Agreement and meets the Conditions Precedent (CP's) for that disbursement. The disbursement will be based on reforms already completed since negotiation of the Sector Policy Reform Program began (to be described in an action memorandum for the first SPR Program disbursement). The balance of the $24 million will be disbursed in two tranches of $14 and $10 million, respectively, at nine month intervals subject to agreed upon performance targets. Annex A provides a breakdown of the policy reforms and the expected timeframe for implementation.

Most reform actions have been clearly defined to easily determine if a specific action has, or has not, been taken. For example, the "issuance" of a delegation or authority, "revision" to a procedure, "elimination" of a requirement, "review" by the Cabinet of Ministers, "enactment" of a law can be easily verified. Other reform actions are less specific, and the determination as to whether or not the reform has been implemented satisfactorily will require a subjective, qualitative assessment.

The Mission will monitor and assess the reform actions taken by the GOJ in conjunction with this program for the purpose of disbursement. USAID will review the detailed status of each

reform action with the responsible GOJ agency or organization and prepare a report on the findings. The report will be used as the basis for performance reviews with the GOJ to determine if funds should be disbursed. The Mission may enter into a (1) direct contract with a U.S. firm, (2) use one of the Indefinite Quantity Contracts (IQC), or (3) buy-in to an existing A.I.D. contract, with funds from the SPR Technical Support Project, to periodically provide a team of experts to assist in assessing the GOJ's progress in implementing specific reforms and help prepare the report on findings.

The Ministry of Planning (MOP) will be responsible for overall coordination on behalf of the GOJ. The first joint review consisting of USAID, the Ministry of Planning and other GOJ entities will be held approximately nine months after the Grant Agreement is signed. The first joint review may be held at an earlier time if USAID and the Ministry of Planning determine that at such earlier time the GOJ may have already made satisfactory progress in implementing the reform actions agreed to by USAID and the GOJ for the second tranche. The first joint review may also be held at a later time if USAID and the Ministry of Planning determine that at such later time the GOJ may have made such satisfactory progress. Both parties may agree to waive a formal meeting of the first joint review and take action in writing in lieu of a formal meeting.

Prior to the first joint review, USAID will carry out a detailed assessment of actions taken by the GOJ. If USAID determines that progress has been satisfactory in implementing the second tranche reform actions, no less than $14 million will be released upon the GOJ meeting all conditions precedent for the second tranche disbursement. If progress has not been satisfactory, no cash transfer disbursement will be made at that time.

The second joint review consisting of the parties mentioned above will be held approximately eighteen months after the Grant Agreement is signed. The second joint review may be held at an earlier time if USAID and the MOP determine that at such earlier time the GOJ may have already made satisfactory progress in implementing third tranche reform actions. The second joint review may also be held at a later time if USAID and the MOP determine that at such later time the GOJ may have made such satisfactory progress, provided, however, that the second joint review will be held no later than one month prior to the PACD described in section III.B of this PAAD/PP. Both parties may agree to waive a formal meeting of the second joint review and take action in writing in lieu of a formal meeting.

Prior to the second joint review, USAID will carry out a detailed assessment of the actions taken by the GOJ. If USAID determines that progress has been satisfactory in implementing the reform actions agreed to by USAID and the MOP for the third tranche, no

less than $10 million will be released, together with no less than $14 million for the second tranche if such cash transfer funds were not earlier disbursed, provided that the GOJ has met all conditions precedent for each such tranche. Otherwise, USAID may take any one of the following actions:

i) disburse no less than $14 million for the second tranche if USAID determines at the second joint review that satisfactory progress in implementing second tranche reform actions has been made and all conditions precedent for the second tranche disbursement have been met but make no disbursement of the third tranche if satisfactory progress in implementing third tranche reforms has not been made;

ii) disburse no less than $10 million for the third tranche if USAID determines at the second joint review that satisfactory progress in implementing third tranche reform actions has been made and all conditions precedent for the third tranche disbursement have been met but make no disbursement of the second tranche if satisfactory progress in implementing second tranche reforms has not been made;

iii) make no disbursement of either the second or third tranche if satisfactory progress in implementing the reform actions for both tranches has not been made; or

iv) make a partial disbursement of either the second or third tranche, or both, after consultations by the USAID/Jordan Mission with A.I.D. Washington.

C. ASSISTANCE MODE RATIONALE

The continued stability and viability of the GOJ is vital to the goal of achieving a lasting Middle East peace settlement. Central to this goal, as it impacts Jordan, is the GOJ's ability to provide for its citizens' economic well-being.

Jordan's economy experienced a period of robust growth during the late 1970's and early 1980's. The economy stagnated after this period owing to the drop in the price of oil and subsequent decline in the economies of its regional trading partners. In 1988 the GOJ undertook a policy reform program. In 1989 the IMF and IBRD committed to assist the effort (between 1988 and 1990 Jordan's GNP per capita declined from US$ 2,050 to US$ 1,240). With the advent of the Gulf War in 1990, the expected aggregate positive effect of the reform program was cut short; yet, despite the adverse impact upon Jordan's economy, the GDP growth rate

fell only marginally in 1990 (-0.2 percent) and grew by 2.1 percent in 1991.

The influx of more than 300,000 refugees (roughly equal to 10 percent of the population prior to the Gulf War), the cessation of trade with many of its traditional regional trading partners, as well as the virtual elimination of aid from many Arab donors, has led the GOJ to consider significant new reform measures. USAID in conjunction with the IMF and IBRD have been supporting the efforts of the GOJ to promote a broad based and sustainable pattern of economic growth. USAID efforts are focused primarily upon the development of the private sector, particularly as it relates to Jordan's ability to provide for its mid-term and long-term foreign exchange needs through increased trade.

The IMF and IBRD have forecasted that major balance of payments problems will continue to exist for Jordan, in the short and medium term. These must be met in part through a combination of debt rescheduling and concessionary financing. Therefore, for USAID to achieve its objective of promoting policy change in the trade sector, while contributing to the international macroeconomic assistance program, a cash transfer is the preferred mode of assistance. The cash transfer dollars received by the GOJ for the policy reform program will be used to repay official, non-military debt owed to the U.S. Government.

During the review of the PAIP in A.I.D./Washington, it was recommended that the PAAD contain an analysis of the appropriate mode of disbursement. The cash transfer is the preferred mechanism for the disbursement of A.I.D. funds for the reasons enumerated below.

D. ASSESSING BENEFITS FROM A CASH TRANSFER

USAID's Sector Policy Reform Program focuses directly on removing Jordan's fundamental constraint to sustainable broad-based growth, an inefficient economy based on import-substitution and GOJ parastatals. The overall focus of the reforms would be to integrate Jordan into global markets based upon competitive free market economic principals. This has been the essential strategy of every successfully developing country over the past several decades.

Specifically, the expected benefits of the cash transfer versus a Commodity Import Program (CIP) are described in the following paragraphs.

The savings to the GOJ treasury from a reduction in debt service obligations will help defray the costs of the policy reforms, some of which will result in a short term loss of domestic revenue. The potential decline in domestic revenue comes at a time when the GOJ must increase domestic revenues and reduce the

fiscal deficit to comply with IMF Stabilization Program targets. (A substantial domestic taxation reform package is expected to be enacted in CY 1993). Under these circumstances and given that the Jordanian Dinar is convertible, a private sector CIP would be feasible only under subsidized credit terms. To institute a system of subsidized credit terms and to inflate consumer purchasing power to absorb an increased level of imports would be counter-productive to the intent of the overall reform program. Jordan must meet its domestic revenue needs from sources indigenous to the economy, while promoting the development of competitive domestic enterprises for long term economic development. Furthermore, reflows of CIP local currencies would become available to the GOJ only over a three to five year period. Under a CIP there would be a timing mismatch because CIP local currencies would not be available to defray the short term costs of the reforms. Finally, there is an ongoing dialogue regarding policy reforms under the IBRD's Agricultural Sector Reform Program. A separate dialogue which indirectly supported food subsidies carried on by USAID could strengthen the position of those who desire to maintain subsidies.

A cash transfer, rather than a CIP, is faster-disbursing and will be of greater assistance in the near to mid-term for the GOJ. In the early 1980's the CIP was an appropriate vehicle for U.S. balance of payments support for the Jordanian economy because of the poor economic policy environment, negative real interest rates, and an overvalued Jordanian dinar. At present many economic policies have substantially improved, including the establishment of positive real interest rates and the virtual elimination of the gap between official and unofficial exchange rates. With an improved macroeconomic and financial climate, there is no longer an immediate need to maintain a CIP to guarantee that the funding support will remain within Jordan, capital outflow is no longer a problem. The private sector is now more fully appreciated by Jordanian policy makers, and it has been supported by various policy reforms and GOJ support activities. However, fundamental policy constraints remain for trade and investment and the removal of these impediments is essential.

A cash transfer supports the IMF Stand-by Arrangements which call for restructuring incentives and strengthening institutions to increase and diversify exports beyond Jordan's traditional markets. By supporting an improved trade and investment climate in Jordan, a cash transfer, conditioned on policy reform and complementary technical assistance, is the most effective means to address the key problems which hinder Jordan's competitive development and growth of the private sector.

The primary expected benefit to the U.S. of the proposed cash transfer and associated policy reform is easier entry into Jordanian markets for U.S. exports and investments. Between 1985

and 1992, total U.S. exports to Jordan have averaged over $310 million annually, excluding 1991. Significant additional growth in U.S. manufactured exports, beyond the historical trend line, is dependent upon the GOJ's success in improving economic performance, particularly in the trade sector.

Another benefit to the U.S. results from using the cash transfer to pay-off debt owed to the U.S. Government; the dollars would flow directly to the U.S. treasury. Thus, accountability concerns would be minimized, which is particularly relevant given the limited manpower resources available to the USAID Mission.

Because of its greater value to Jordan's economy, as described above, a cash transfer is a more effective tool than a CIP in leveraging scarce U.S. aid funds to achieve the maximum impact in the design of the reform program. The cash transfer's conditionality would concentrate on fundamental reforms to directly improve the long-run balance of payments position through support of the private sector to increase exports.

E. ECONOMIC RATIONALE FOR CASH TRANSFER

1. Key Problems Addressed:

The fundamental problems being addressed by the policy reform program are:

a) Structural lags in trade and investment which continue to undermine Jordan's investment and international competitiveness and Jordan's efforts to integrate its economy into world markets;

b) Particular bias against foreign investment and other commercial activities, particularly those of non-Arabs; and

c) Potentially destabilizing Balance of Payments (BOP) financing gaps associated with high foreign debt.

Solving these problems through the proposed cash transfer would benefit Jordan and the U.S.

2. Structural Lags in Trade and Investment:

Despite the GOJ's recent efforts to develop the private sector and promote exports, many Jordanians still have a firmly rooted mentality associated with state-controlled resource allocation, import-substitution and protection. The public sector distrusts the private sector and foreign investors and is hesitant to remove many of Jordan's outdated regulations and "safeguards" related to trade and foreign investment. The IMF documented these structural lags in 1992, pointing out that Jordan's recent extraordinary macroeconomic gains in economic growth and reduced

inflation have not been accompanied by the requisite complementary structural changes and policy reforms needed to sustain them in the medium to long-run. Without these structural reforms, Jordan's gains will probably be transitory and the economy can be expected to return to economic stagnation and its persistent budget and trade deficit problems.

Among the lagging reforms, those in trade and investment are probably the most inhibiting and constraining to Jordan's economic modernization. They will continue to hamper efforts to generate more productive high-wage jobs. The current trade and investment environment continues to undermine efforts to integrate the Jordanian economy through foreign investment into global markets and to allow Jordan to transfer, adapt, and further develop new technologies needed to raise its overall productivity and to create export industries consistent with its potential comparative advantage. Implementing these reforms would increase exports and improve Jordan's balance of payments position, lower its foreign debt relative to GDP or exports, enhance its taxing capabilities, increase foreign exchange reserves, raise economic growth, and increase economic stability.

Jordan's investment environment hinders the efforts of non-Arab firms, including those from the U.S., to export or engage in mutually beneficial export, joint-venture and subcontracting arrangements, including those that would lower production costs, enhance product quality and introduce new business systems. It hinders efforts to introduce Jordanian products and services into important networking arrangements, outside the region, that are vital in developing Jordanian export industries. For example, the foreign majority ownership restriction on "modern" services, including consulting, banking, computer software development and engineering, are particularly inhibiting to Jordanian development efforts. This continued inward bias prevents Jordan from taking full advantage of the well documented gains from international trade obtained during the post-World War II era.

3. Financing Gap and High External Debt:

Despite recent extraordinary macroeconomic gains as documented in the balance of payments analysis, Jordan continues to have a high external financing gap in servicing its debt burden. Jordan's debt service is expected to exceed $1.1 billion annually through 1998[2]; its associated external debt totals approximately $7 billion. Failure to adequately address the financing gap and the associated debt burden could lead to a destabilizing and downward spiral of the Jordanian economy, which is still plagued by high unemployment. Such destabilization could undermine the tenuous

---

[2] An overview analysis of the proposed $30 million Cash Transfer on Jordanian debt servicing is presented in Annex 1.

stability of a region which is extremely important to the U.S. national interest, and thus could incur enormous costs to the U.S. in the future.

F. CONFORMITY TO AGENCY PRIORITIES AND USAID STRATEGY

The United States has long been interested in supporting a stable and moderate government in Jordan committed to peaceful solutions for the region's problems. Recently, Jordan has renewed its traditional role of advancing the Arab-Israeli peace process. To continue as a regional stabilizing force, Jordan will need international donor assistance in addressing its domestic problems, including the implementation of an economic adjustment program in the aftermath of the Persian Gulf crisis.

The SPR Program fully conforms to A.I.D. and U.S. Government policies on assisting countries to improve their trade and investment policies. Sound trade policies for developing countries are an integral component of an effective development strategy that will stimulate growth and the productive use of natural and human resources. Opening markets to foreign trade is an important step in accelerating economic growth. Exports play a vital role in long-term job creation and overall employment in the non-industrialized economies.

A.I.D. has stated that strengthening international trade and investment is mutually beneficial to all participants, both as a means of promoting efficient resource allocation and the transfer of needed technology to the developing countries, and as a means of expanding markets and building economic ties between developing countries and developed countries. While the overall volume is small by world standards, the United States has been historically one of the largest exporters to Jordan. A more open Jordanian economy with greater potential to export favors the growth of American imports to Jordan, as well as American investments.

The Mission itself has been redefining its priorities in line with A.I.D.'s imperative to streamline and focus programs. A new Mission strategy document has been developed following a series of strategic planning workshops in the Mission including one involving use of the new PPAS tools. A primary strategic objective of the Mission, as now defined through the PPAS exercise, is to: "Increase foreign exchange earnings from light industry, agribusiness, and tourism." Policy reform promoting an outward looking market orientation and a favorable investment climate is identified as a principal outcome needed to achieve this objective.

The A.I.D./Washington Guidance Cables on the PAIP and Technical Support arrangements are included in Annex D.

G. CONFORMITY TO GOJ PRIORITIES

The most recent statement of overall GOJ economic policy is associated with the current IMF Stand-By Arrangement. This statement of November 1991 commits the GOJ to the economic framework mutually agreed with the IMF and IBRD and states the following:

> "Economic recovery and growth in the medium term is predicated on increased investment and domestic savings, and further improvement in the efficiency of investment. To this end, the GOJ is committed to continuing with the process of institutional and structural reform as well as the maintenance of flexible pricing, interest rate, and exchange rate policies. Given the financial constraints faced by the GOJ, and keeping efficiency considerations in view, the private sector will have to play an increasing role in achieving the saving, investment, and growth objectives. There is need to follow a strong export promotion policy, involving a marketing strategy and enhancement of export competitiveness, in order to regain market shares and establish new markets."

The policy statement goes on to refer specifically to many of the trade and investment policy agenda items to be supported by this program. On the investment side, the policy statement notes the need for strengthening the Foreign Investment and Encouragement of Investment Laws. On the trade side, the statement calls for additional tariff and tax reform (introduction of a value-added tax by 1993), improvement of the duty drawback system, and strengthening of the export financing system. In sum, the proposed program is in the spirit of the current macroeconomic adjustment program agreed between Jordan and the IMF and the stated policies of the GOJ.

H. RELATED OTHER DONOR PROGRAMS AND ACTIVITIES

The most significant related other-donor program is the IMF Stand-By Arrangement. The current Stand-By replaces the one which collapsed in 1991 as a result of the Gulf Crisis, and supports the following major outcomes by 1998: (1) a reduction in the public budget deficit, excluding grants, from 18 percent of GDP to 5 percent of GDP; (2) a reduction in inflation from 10 percent to 5 percent; (3) the virtual elimination of the current account deficit in the balance of payments; and (4) a gradual increase in the annual rate of GDP growth to 4 percent. Continual GOJ adherence to the framework agreed with the IMF/IBRD is essential to the Sector Policy Reform Program as proposed in this document.

During the phase of structural adjustment which preceded the Gulf Crisis, the IBRD had its own macroeconomic reform program (MRP) in place. The second tranche of this program was suspended when the original IMF Stand-By Arrangement was suspended in 1991. With the establishment of the new IMF arrangement, the IBRD released the second tranche ($75 million) of its original MRP Loan. The IBRD is not now planning a new MRP Loan but expects to continue its program of sectoral lending. Recently, it issued a major study on trade enhancement entitled, "Export Incentives and Technological Capabilities: An Outward-Looking Strategy for Jordan." Some of the proposals made in that study may be incorporated in a future IBRD loan for the industrial sector.

During the previous IMF/IBRD-led macroeconomic reform efforts, action was taken by both the Paris and London Clubs to agree on a significant rescheduling of Jordan's foreign debt involving principal and interest through 1991. The Paris Club has agreed to a rescheduling of 100 percent of all principal and interest on official development loans falling due between January 1992 and June 1993. Repayment will begin in 2003 and extend over a ten year period. Further, 100 percent of the principal and 50 percent of the interest due in the same period on other guaranteed commercial credits is also rescheduled over a seven year period beginning in 2001. The London Club may also agree to reschedule Jordan's commercial debt. Jordan is also exploring debt buy backs with its commercial bank creditors. Such action will considerably narrow the external financing gap for Jordan over the coming decade.

At the project level, a number of small activities are planned or underway by other donors which touch on USAID's trade and investment program. The IBRD is supporting the GOJ's primary export promotion institution, the Jordan Export Development and Commercial Centers Corporation, through a project designed to improve the capacity of Jordanian exporters to penetrate new export markets. The Swiss have provided the equivalent of $5 million in financing for this project. UNCTAD has been working on an Arabic adaptation of its computerized customs management program which is expected to be employed by the Jordanian Customs Department. The World Intellectual Property Organization (WIPO) is assisting Jordan with the revision of copyright and patent legislation.

In summary, the adherence to the IMF Standby Agreement and the successful outcome of Paris Club debt rescheduling are essential for the effective implementation of a USAID supported Sector Policy Reform Program. Other donor projects, particularly IBRD related trade issues, have been taken into consideration in the development of the policy agenda for the proposed program.

V. SPR TECHNICAL SUPPORT, PROJECT No. 278-0289

A. ASSISTANCE MODES

One million dollars will be obligated to assist the GOJ in implementing the policy reform measures described in Section IV.A. The purpose of the SPR Program Technical Support Project is to help the GOJ carry out the policy reforms and to provide experts, as needed, to monitor and evaluate the program. This will consist primarily of short and medium term experts and consultants to work with key GOJ officials at the relevant ministries to provide advice and counsel, design implementation plans and offer ongoing specialized expertise to implement identified reform measures. Commodities considered essential to implement the reforms, or deemed to be necessary to achieve the objectives of the reform measures, will be procured under this SPR program-related project.

1. Proposed Technical Assistance for the Policy Reforms

Short and medium term experts and consultants under direct contracts with USAID will assist the GOJ implement the reforms called for by the Sector Policy Reform Program. The USAID/Jordan Mission will discuss any possible technical assistance with the appropriate Ministry (including, for all purposes hereof other GOJ departments and organizations), and either seek such Ministry's approval to a scope of work for such assistance earlier approved by A.I.D, or receive such Ministry's written request for assistance and agree to such request, before contracting for such assistance. The Mission will plan and implement the appropriate contracting procedures required for the procurement of any assistance determined by the Mission to be required for the implementation of the reform measures. Annex B describes the technical assistance that may be required to implement the SPR Program. The following examples illustrate the kinds of technical assistance that might be provided.

The SPR Program calls for actions to streamline customs procedures that directly effect exporters who depend on imported inputs for their export production. The project would provide the Custom's Department with experts to help revise the procedures; computerize operations; and introduce and standardize the harmonized coding system for calculating duties and taxes and clearing goods.

The SPR agenda (described in section IV.A of this PAAD/PP) calls for the review of outdated laws and regulations such as the Companies Law, regulations governing the registration of companies, Encouragement of Investment Law, and Foreign Investment Law that need to be amended to encourage and stimulate investments in productive sectors or provide adequate incentives

for exports. Legal experts will assist the MOIT, MOF and other appropriate Ministries carry out a review of the most relevant laws and offer recommendations for revision.

Jordan's financial system and institutions are not meeting the financial/capital needs of industry. For example, the Amman Financial Market is still a fledgling institution and some of its functions, such as the issuance of new shares, are done by a committee using an obscure mechanism which traditionally results in under-valuation.

To compete successfully in the regional and international market places, Jordan must have ready access to the latest technology and know-how. However, the transfer of technology is constrained by the limited protection of intellectual property rights in Jordan. The Sector Policy Reform Agenda calls for the GOJ to review existing laws and enforcement mechanisms and to assess the benefits of signing international agreements protecting intellectual property. The SPR Technical Support Project will provide the experts to assist the GOJ review this issue.

The reforms in the Policy Reform Agenda are the current, and most critical ones that have been identified through a number of studies and assessments carried out by USAID, the World Bank, and Foreign Investment Advisory Service (FIAS). Nevertheless, other constraints will need further investigation and analysis. Some funds may be set aside under the SPR Program to carry out studies and assessments to assist the GOJ formulate a second generation of policy reforms.

2. Commodities:

In addition to funding the required technical assistance, the program will also fund selected commodities needed to implement the reforms. The Mission, based on expert advice and agreement with the appropriate Ministry, will procure such commodities and monitor their installation and use.

3. Technical Assistance for Monitoring Reforms and Evaluation Impact:

Monitoring the GOJ's progress toward implementing the reforms actions called for in the Program may require expertise not available within the USAID/Jordan Mission. Therefore, the Mission may acquire technical assistance in the form of experts to periodically assess the GOJ's progress in implementing the reform actions. The Mission will use the experts' assessment as the basis for performance reviews with the GOJ to determine if cash transfer funds should be disbursed. Moreover, the Mission may acquire technical assistance to evaluate the impact and extent of Program reform actions. Technical assistance for monitoring and evaluation may include procurement of commodities

needed for that assistance. No prior approval by the GOJ shall be needed by the Mission to acquire technical assistance for monitoring and evaluation. Technical assistance for monitoring and evaluation shall be broadly construed and shall be understood to include, among other things, audits as well as studies and proposals for additional, follow on or other reform programs or measures which A.I.D. may deem appropriate.

B. PROCUREMENT AND FINANCIAL PLAN

1. Procurement Plan

The Mission will finance the major portion of the technical assistance (TA) through either: (1) a direct contract with a U.S. firm capable of responding quickly to varied requests for technical assistance (a model for this approach may be the centrally funded Trade and Investment Enterprise Support (TIES) project); or, (2) an IQC firm with clear experience in trade and investment areas, or (3) buy-in to an existing A.I.D. Washington contract. The Mission may allocate funds to directly contract some short-term TA separately, particularly at the early part of the program to ensure rapid delivery of technical assistance.

Commodities will be procured after consultation with appropriate technical experts to develop equipment specifications and delivery terms. The equipment proposed under this project are likely to be highly specialized and, therefore, negotiation on technical specifications with potential vendors will be essential. Requests for Proposals (RFP) will be issued and a committee consisting of representatives from USAID and the relevant GOJ's counterpart agency will evaluate the proposals and make award recommendation based on evaluation criteria embodied in the RFP.

There will be a number of contracts over the life of this Project for short and medium term U.S. technical experts and commodities. Most will be for technical assistance which may involve a prime contract over $500,000. This contract, if not awarded to a Gray Amendment entity, will include a condition that not less than 10% of the dollar value be subcontracted to Gray amendment entities. Small value contracts under $100,000 are anticipated at the initial stages of the project to ensure rapid delivery of technical assistance to assist the GOJ implement policy reforms for the second tranche. These services may be procured in their entirety through a Grey Amendment entity.

Some technical services and commodities may be procured locally.

2. Illustrative Cost Estimate for the Technical Support:

The actual requirements for technical assistance and commodities will be determined once the Sector Policy Reform Agenda has been finalized and negotiations with the GOJ completed and the Program Agreement signed. However, an illustrative budget, based on the Mission's initial assessment of technical assistance requirements has been prepared. The SPR Technical Support Project budget for the technical assistance and commodities totals $1 million, as shown in Table 5. The budget is an illustrative cost estimate and is not intended to be binding. A.I.D. may change the components and amounts of such estimate without the prior approval of the GOJ provided: i) the total amount of the SPR Technical Support Project does not exceed, as a result of any change(s), $1 million, and ii) the technical assistance and commodities to be acquired under any changed estimate is consistent with the description of the SPR Technical Support Project.

3. Management of the SPR Program Technical Support Project:

a. USAID will provide the overall management of the technical support under the program. The Mission's Trade, Investment and Production (TIP) Office will be responsible, after discussions with the appropriate Ministry, for developing the scopes of work for specified technical assistance, implementing the contracting procedures, and the supervision of any follow-up or coordination to bring the consultant(s) to Jordan. At the time of defining any commodities to be procured, the TIP Office will make a determination of the appropriate contracting procedures to be followed.

USAID will coordinate the activities of the technical support under the program with the appropriate designated GOJ counterpart. Prior to proceeding with commitments to provide technical support related to specific reform actions, USAID will first obtain either (a) a request for assistance from the relevant GOJ entity which USAID subsequently approves, or (b) the approval by the relevant government entity to a scope of work for such assistance earlier approved by USAID. For these purposes a request for assistance from the GOJ or approval of a scope of work by the GOJ shall be made by an appropriate counterpart designated by the GOJ.

b. GOJ: In order to facilitate the effective provision of technical assistance, the GOJ will be responsible to designate an official counterpart in the appropriate ministry or other government entity for both the policy reform and the technical support components of the program.

The designated official counterpart will coordinate the

TABLE: 5 Illustrative Cost Estimate for Technical Assistance and Commodities under the Technical Support Project

PROJECT ELEMENT		Person Weeks	Estimated Cost $
1. TECHNICAL ASSISTANCE			
a.	Establish a "one-stop-shop" to coordinate post-registration approvals for firms	3	$30,000
b.	Application of the Harmonized System in clearing goods from customs	8	80,000
c.	Assessment of the feasibility & desirability of joining the GATT	2	20,000
d.	Development of an investment promotion strategy for Jordan	8	80,000
e.	Computerization of Customs Department	24	240,000
f.	Assessment of Encouragement of Investment Law in Jordan	8	80,000
g.	Intellectual Property and Copyright Laws	3	30,000
h.	Analysis of Companies Law	4	40,000
i.	Procedures for underwriting of new shares	6	60,000
TOTAL TECHNICAL ASSISTANCE			660,000
2. COMMODITIES			200,000
3. MONITORING			70,000
4. EVALUATION			10,000
5. AUDIT			20,000
6. CONTINGENCY			40,000
TOTAL PROGRAM TECHNICAL SUPPORT			$1,000,000

Ministry's requests for technical assistance, monitor the performance in achieving the reform measures, provide periodic reporting on the status of implementing the reforms and progress of any technical support provided to that Ministry, and assist in evaluating the impact of the reform. Initially, the GOJ will be asked to designate counterparts from the Department of Customs of the Ministry of Finance, the Department of Income Tax of the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Culture, and the Amman Financial Market. However, upon USAID's request, the GOJ may be asked to designate other counterparts as additional representatives for the purpose of making requests for assistance or approving scopes of work, if deemed necessary as a result of reorganization of the GOJ or a change in the SPR Program involving new entities.

C. PROJECT ANALYSES

HB 3, 3E sets forth the contents which should be used for a PP and annexes that are normally required. The following are not set forth in this PP for the SPR Technical Support Project: logical framework matrix; social soundness analysis; and women in development analysis. A logical framework matrix for the project is not necessary since the project purpose is simply to support the implementation and monitoring of the SPR Program. Hence, the policy reform agenda actions are the outputs of the project, and Annex A provides a breakdown of the policy reforms and the expected timeframe for implementation.

The social soundness and women-in-development analyses are not supplied because they are not relevant to the projectized assistance being made available for the Sector Policy Reform Program, which seeks to effect macroeconomic change through reforms designed to reduce key constraints to Jordanian export trade and foreign direct investment in support of Jordanian export expansion. A social soundness analysis is geared to assessing the impact of new practices or institutions on the project target population (e.g., participants and beneficiaries). A women-in-development analysis seeks to make a similar assessment of the project population in terms of gender. Both of these analyses assume the existence of a project target population which is smaller than the general population. In the SPR Technical Support Project, the target population is the general Jordanian population and thus such analyses are not relevant.

An Environmental Examination (EE) was done for the Sector Policy Reform Program, and an EE was done for the SPR Technical Support Project. The EE for the Sector Policy Reform Program was approved by the Mission on June 29, 1993 and by the NE Bureau Environmental Officer on July 7, 1993 (Annex C). The EE resulted in a categorical exclusion. The EE, while done for a program providing cash transfers of $30 million, covers this identical

program of $29 million. The EE for the SPR Technical Support Project was approved by the Mission on May 20, 1993, and by the NE Bureau Environmental Officer on the same day (Also Annex C). While that EE was done for three-element, $12 million technical support project, it covers this project of $1 million.

A consolidated Program/Project Statutory Checklist is included with this document as Annex H.

VI. PROGRAM FINANCIAL PLAN AND COST ESTIMATES

Thirty million dollars will be obligated in FY 93. As described in section IV.B, the $29 million cash transfer will be disbursed in three tranches over an anticipated eighteen month period from

TABLE 6: Projected Expenditures by Fiscal Year
(US $000)

	FY 93	FY 94	FY 95	TOTAL
SPR Program Cash Transfer	5,000	14,000	10,000	29,000
SPR Technical Support Project				
Technical Assistance		510	150	660
Commodities		200		200
Monitoring		35	35	70
Evaluation		10		10
Audit			20	20
Contingency			40	40
TOTAL		755	245	1,000

the date the program agreement is signed. One million Dollars

will be used, as required, to finance projectized technical support to implement the reforms. The projected expenditures for the SPR Program Cash transfer and the Technical Support Project are shown in Table 6 by Fiscal Year (FY). The methods of financing for the SPR Program and Technical Support Project are summarized in Table 7.

A. SPECIAL ACCOUNT FOR DOLLARS

The Fiscal Year 1991 Appropriations Act (section 575(b) which, by CR, was made applicable to FY 92) specifies that countries receiving cash transfer assistance must establish a separate account for the dollar proceeds. USAID will deposit the appropriate number of dollars into an interest bearing Dollar Special Account opened in a U.S. bank designated by the Central Bank of Jordan (CBJ).

This Dollar Special Account will be used solely for the receipt of appropriated dollars for this cash transfer program from

TABLE 7: Methods of Implementation/Financing

Method of Implementation		Method of Financing	Estimated Amount
SPR Program		Cash Transfer	$29,000,000
SPR Technical Support Project			
	Technical Assistance	A.I.D. Direct Contract, IQC, or Buy-in	$800,000
	Commodities	A.I.D. Direct Procurement	$200,000

A.I.D. in accordance to policy guidance on ESF Cash Transfer Assistance in Handbook 1 and A.I.D.-issued guidance for Dollar Special Accounts in STATE 194322 dated June 17, 1990 (Annex G). The proceeds will not be commingled with other funds from any other source. Any interest earned on such account shall be treated as grant proceeds received under the terms of the Sector Policy Reform Program agreement. Likewise, any redeposits due to

ineligible use of funds from the Dollar Special Account will be used in a similar manner.

The GOJ has adequate procedures in place for managing payments from the Dollar Special Account for debt owed to the U.S. Government. These procedures require the GOJ to maintain records to indicate the amount of debt paid, date of payment, recipient of the debt payment, description of the debt, and evidence of payment. The GOJ will submit to USAID a monthly report for the dollar account showing deposits, withdrawals, and balances of such account. The Grant Agreement and Implementation Letters will contain detailed provisions for accounting and reporting of the grant proceeds in conformance with the Dollar Special Account guidance issued in STATE 194322, dated 06/17/90.

Although the CBJ is not the implementing agency, it will manage, on behalf of the GOJ, the Dollar Special Account that will be established for the purpose of this program. The CBJ is capable of managing the Dollar Special Account in accordance with A.I.D. requirements. This judgement is based on the Mission's previous experience with CBJ's excellent performance in managing USAID special accounts under the Commodity Import (CIP), PL480 and Section 416(b) programs. It conformed fully to A.I.D. requirements and provided the appropriate reports in a timely manner. The CBJ has the required management system and technical skills to manage the Dollar Special Account.

The procedures for using the funds in the Special Account will be similar to those currently in use for paying principal and interest on U.S. Government loans. A.I.D./Washington will provide the Mission with a Notice of Payment Due (NPD) and USAID/Amman will send the NPD to the MOP with a copy to the MOF. The MOF, after receiving an official request from the MOP, will request the CBJ to advise the U.S. bank to make payment to A.I.D./Washington from the Special Account. The U.S. Bank will make the disbursement to an account designated by USAID. The U.S. bank will be required to provide the Mission with monthly statements showing all transactions.

B. USES OF DOLLARS

The GOJ must use the dollars to service or amortize official, non-military debt owed to the U.S. The alternative of attributing the funds toward the financing of US imports was considered and rejected. Monitoring attribution of the funds for US imports would impose a serious monitoring burden on both the Government of Jordan and the USAID/Mission. Also, the Government of Jordan gives priority to debt servicing over other possible uses of the funds. By agreeing to use the funds for debt servicing strengthens our negotiating position vis a vis the policy reforms. Lastly, given the substantial amount of outstanding debt that Jordan owes the US, it is more beneficial

to the U.S. to use the funds to service US debt rather than attribute the funds toward U.S. imports. Therefore, the program agreement will stipulate that, except as the Parties may otherwise agree in writing, the funds may only be used for the purpose of repaying non-military, official debt owed to the United States. The debt is in three major categories: loans for the Commodity Credit Corporation (CCC), both PL 480 and GSM; USAID loans; and A.I.D. housing guaranty loans. Table 8 provides an estimate of the debt payments due over the next two years.

TABLE 8: Estimated Principal and Interest Owed to U.S. for 1994 and 1995

(Thousand dollars)

		1994	1995
A.I.D. Loans		15,000	21,000
Commercial Credit Corporation	- PL 480	3,500	3,600
	- GSM	36,000	32,000
Housing Investment Guarantees		1,400	3,800
TOTAL		55,900	60,400

No local currency will be generated by this program.

Prior to each tranche, including the initial disbursement, the GOJ will submit to USAID a schedule delineating the type and amount of debt to be paid from the disbursement.

VII. MONITORING AND EVALUATION

A. PROGRAM IMPLEMENTATION AND MONITORING

The TIP Office in USAID will be responsible for overall monitoring of program implementation. Assigned TIP staff will

work closely with the Regional Legal Advisor (RLA) on reviewing maintenance of covenants and the Controller's staff on tracking dollar disbursements.

The TIP Office will monitor and assess the reform actions taken by the GOJ in conjunction with the SPR Program for the purpose of disbursement. USAID will review the detailed status of each reform action with the responsible GOJ agency or organization and prepare a report on the findings. The report will be used as the basis for performance reviews with the GOJ to determine if funds should be disbursed. To help in preparing such a report, the Mission may enter into a direct contract, funded from the SPR Technical Support Project, to provide a team of experts to assist the Mission in assessing the GOJ's progress in implementing some of the reforms. Seventy thousand dollars have been budgeted for monitoring activities.

The MOP will be responsible for overall coordination on behalf of the GOJ.

B. EVALUATION

The policy reforms are expected to reduce key constraints to Jordanian foreign direct investment and trade. Specifically, the reforms will 1) reduce many trade and investment operations and licensing constraints; 2) streamline the import and export processes, 3) develop a national investment promotion strategy; 4) improve the current export incentive system; 5) strengthen the laws encouraging investment, 6) revamp the foreign investment law, 7) improve the procedures for pricing of new shares; 8) reduce high export taxes and 9) strengthen the Intellectual Property Rights (IPR) laws and their enforcement.

Achievement of a policy reform will not in most cases result in an immediate impact, but will only change the conditions so that impacts can occur. For example, providing tax breaks to exporters should result in an increase in exports and exports should lead to greater economic growth. However, some time interval will be necessary to measure the actual impact. Virtually all the policy measures are expected to affect economic growth through a similarly indirect and lagged process.

Although a cost/benefit analysis is inappropriate, the Mission plans to evaluate the impact of the reforms in the fourth quarter of FY 1995. Ten thousand dollars have been budgeted for base-line data collection in preparation for an evaluation, if, at some later time, the Mission decides the evaluation will be cost-effective.

As the reforms are implemented, the growth indicators will include the GDP, exports, employment, domestic investments, foreign investment, per capital GDP, overall tax revenues,

technology transfer, productivity, and overall economic stability. The reforms should help Jordan maintain its low inflation and to lower unemployment, reduce the budget deficit as a percent of GDP, and the foreign deficit as a percent of GDP or exports. The reforms are expected to raise the quality of production and exports over time as reflected by increasing shares of the higher wage industries within the overall economic sectoral mix. At the same time, U.S. exports and foreign investment to Jordan should increase.

Future performance will be measured, as indicated in the performance monitoring plan section of the Program Performance Assessment System (PPAS), by monitoring percentage increase in exports, increase in the number of firms exporting, and the institution of the policy reforms and their impact in terms of facilitating trade and encouraging export. Also, performance could be measured by the broad economic trends in GDP growth, inflation, the trade deficit as a percent of exports or GDP, quantity and quality of employment, reduction of unemployment, the budget deficit as a percent of GDP, foreign debt, foreign direct investment and many other standard macro-economic, financial and trade indicators. The economic impact on the U.S. could be measured narrowly by changes in foreign direct investment and exports, and more broadly by Jordan's macro-economic success in weaning itself from future aid dependency.

C. AUDIT

The Dollar Special Account will be audited annually. Funds will be available for audit purposes of the Dollar Special Accounts from the technical support portion of the SPR Program.

Firms supplying technical assistance to implement the SPR Program will be audited according to USAID regulations. GOJ agencies receiving commodities will also be subject to normal audit requirements. Twenty thousand dollars have been budgeted for audit purposes.

VIII. CONDITIONS PRECEDENT AND GENERAL COVENANTS

Several conditions precedent (CP) and covenants are appropriate as part of the Grant Agreement to be negotiated with the GOJ for the consolidated program and technical support project. These CP's and covenants relate to the vital need for Jordan to continue to maintain the course of macro-economic reform as agreed with the IMF. If the macroeconomic reform process is interrupted or halted, the measures proposed in this document will be of little effect. Therefore, the following draft CP's and covenants will be negotiated with the GOJ:

A. CONDITIONS PRECEDENT TO DISBURSEMENT

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 GOJ 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 the agreement [i.e., the grant agreement] has been duly authorized and/or ratified by, and executed on behalf of, the GOJ, and that it constitutes a valid and legally binding obligation of the GOJ in accordance with all of its terms;

(b) a statement of the name of the following persons, together with a specimen signature of each person named in such statement:

(i) the name of the person holding or acting in the office of the GOJ;

(ii) the name(s) of additional representatives of the GOJ;

(iii) the names of the persons acting as designated counterparts from the Department of Customs of the Ministry of Finance, the Department of Income Tax of the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Planning, the Ministry of Culture, and the Amman Financial Market.

2. First Program Disbursement: Cash Transfer - First Tranche

Prior to the first cash transfer disbursement for the Sector Policy Reform Program under the Grant, the GOJ will, except as the parties may otherwise agree in writing, meet the CP set forth in 1 above and shall furnish to USAID, in form and substance satisfactory to USAID:

(a) evidence that the GOJ has established an interest bearing special account in a U.S. bank solely for the receipt of appropriated dollars for this cash transfer program from USAID and that the proceeds will not be commingled with other funds from any other source. The letter should also specify the name and address of the U.S. bank and the name and number of the special account.

(b) a schedule of projected payments of debt to be made from the first tranche, which should indicate the type(s) of debt, amount(s) and date(s) of expected payment(s), and the recipient(s) of the debt payment(s).

3. Subsequent disbursements:

Prior to second or later disbursement under the Grant, or prior to the issuance by USAID of documentation pursuant to which such disbursement will be made, the GOJ will meet the CP's in 1 and 2 above and, except as the Parties may otherwise agree in writing, furnish to USAID in form and substance satisfactory to USAID:

(a) the GOJ shall be determined by USAID to have made satisfactory progress in implementing the reform actions agreed to by the GOJ for the respective tranche as set forth in Annex A to this PAAD;

(b) the GOJ shall be determined by USAID to be in compliance with all of the terms, conditions, and covenants of the Grant Agreement, and

(c) the GOJ shall furnish to USAID the following, in form and substance satisfactory to USAID:

(i) a schedule of projected payments of debt to be made from the tranche, which should indicate the type(s) of debt, amount(s) and date(s) of expected payment(s), and the recipient(s) of the debt payment(s).

(ii) evidence that the GOJ is, at the time of each disbursement, in compliance with the terms of the current IMF Stand-By Arrangement or any subsequent IMF Arrangement(s) which may be agreed at such time.

(iii) evidence that the GOJ has, at the time of each disbursement, a foreign exchange regime which does not impede the competitiveness of Jordanian exports.

B. SPECIAL COVENANTS

1. Program-Related Policies or Actions.

The GOJ will not, without USAID's written statement of agreement or non-objection, adopt any policy or initiate any action which would have the effect of changing any of the policies adopted or actions taken by the GOJ in fulfillment of the Conditions Precedent to such disbursement.

2. Import and Export Measures.

The GOJ shall use its best efforts to take all appropriate measures to further encourage the free flow of exports and imports.

3. Reform Impact Information

In order for USAID to fully evaluate the GOJ's progress in fulfilling the objectives of the Sector Policy Reform Program, the GOJ shall make available to USAID during the term of the special Program covenants, upon USAID request, all information, or a copy of the documentation containing such information, relevant to the extent and impact of reform measures undertaken by the GOJ under the SPR Program and the Stand-By Agreement with the IMF.

4. Companies Law.

The GOJ shall review the Jordanian Companies Law with the view to simplifying the Law and removing existing restrictions that may impede registration of firms and management of companies.

5. New Designated Counterparts.

The GOJ, upon the request of USAID, shall designate counterparts who will be deemed additional representatives under the Grant Agreement for purposes of making requests for assistance or approving scopes of work, if such designation is deemed necessary or appropriate by USAID as a result of a reorganization of the GOJ affecting the entities previously identified (as a CP) or a change in the Sector Policy Reform Program involving new GOJ entities not yet named.

These special covenants (1-5) shall commence on the date of the program grant agreement and continue up to a date which is two years after the last disbursement for the SPR Program.

Annexes are in document PAADANX2.

ANNEX A Sector Policy Reform Program (MATRIX)

ANNEX B Proposed Technical Assistance To Implement Policy Reforms

ANNEX C Environmental Examination

ANNEX D GOJ Letter of Request for Program Assistance

ANNEX E A.I.D./Washington Guidance Cable

ANNEX F Gray Amendment Certification

ANNEX G Financial Management Guidance on Dollar Separate Accounts for ESF Cash Transfers. (State 194332)

ANNEX H Statutory Checklist