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UNITED STATES

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

JORDAN: FY 1985 COMMODITY IMPORT PROGRAM

AID GRANT NO. 278-K-643

UNCLASSIFIED

SEPTEMBER 1985

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CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: Grant No. 278-K-643	2. Country: Jordan
3. Category: Commodity Standard Financing Procedure	4. Date: August 1985
5. To: M. Peter McPherson, Administrator	6. OYB Change Number: Not Applicable
7. From: Charles W. Greenleaf, Assistant Administrator	8. OYB Increase: None. To be taken from: ESF
9. Approval Requested for Commitment of $ 50,000,000	10. Appropriation Budget Plan Code 72-115/71037 NEF5-85-33278-KG-32 571-62-278-00-59-51
11. Type Funding: ☐ Loan ☒ Grant	12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None
13. Estimated Delivery Period: 9/85 - 9/88	14. Transaction Eligibility Date: Authorization Date

15. Commodities Financed

Items appearing in the A.I.D. Commodity Eligibility Listing that will be eligible for financing under this grant.

16. Permitted Source		17. Estimated Source	
U.S. only	50,000,000	U.S.	50,000,000
Limited F.W.	-	Industrialized Countries	-
Free World	-	Local	-
Cash	-	Other	-

18. Summary Description

Within the guidelines of the recent Congressional supplemental legislation of $250 million, this grant represents U.S. assistance being made available to provide a portion of the foreign exchange required to help sustain Jordan's import needs and to foster a higher rate of economic growth.

The economy is under increasing pressure as financial constraints inhibit growth and development. The financial economic factors which are underlying the economic recession include: the leveling off in worker remittances; uncertainty in traditional export markets; a sharp decline in Arab

19. Clearances (cont.)

ANE/MENA:BHawley 9/4/85 SER/COM:MMcDaniel 9/5/85
ANE/PD/MEDNE:MKSinding 9/3/85 DAA/ANE:RHBell RB
NEA/ARN:JBruns (info)

ANE/PD/MEDNE:JMCarroll:jmc:08/30/85:632-7327:Doc 3936F

19. Clearances	Date
AA/PPC:RDerham	9/13/85
GC:HFry	9/12/85
M/FM:CChristensen ESD for	9/16/85
ANE/DP:BSidman (draft)	9/4/85
GC/ANE:EJohnson (draft)	9/5/85
ANE/PD:PPToom (draft)	9/5/85
ANE/PD:RVenezia (draft)	9/6/85

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: MPL Date: Sept 14

Title: M. Peter McPherson, Administrator, A.I.D.

AID 1120-1 (5-82)

CLASSIFICATION:

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18. Summary Description (continued)

assistance; and significantly higher and increasing debt service payments.

To help relieve the balance of payments and financial constraints now limiting Jordan's economic growth, USAID/Amman has proposed this $160 million CIP to be obligated over a three year period. A CIP program of this magnitude could, through indirect as well as direct effects, lead to an import level 7-8% higher than would otherwise be obtained by 1987, and provide a strong impetus to sustained economic growth. Higher rates of economic growth are essential if jobs are to be found for Jordan's expanding labor force, now increasing at a yearly rate of over 6% with expectations that under the existing situation jobs will be found for only half of these new entrants.

The proposed FY 1985 CIP will assist Jordan with its development efforts by financing private and public sector imports of raw materials, semi-finished products, machinery, equipment, and spare parts, as well as other essential commodities and related services.

The conditions precedent, covenants, and general terms specified in Section III of the PAAD will be included in the grant agreement.

I hereby approve a CIP grant in the amount of one hundred sixty million dollars ($160,000,000) to be obligated and disbursed in tranches at the discretion of the Executive Branch. Fifty million of this amount is hereby approved for commitment, and commitment of the balance of $110,000,000 is subject to the availability of funds, in accordance with the A.I.D. OYB/allotment process and amendments of the PAAD facesheet. Authority is hereby delegated to AA/ANE, with M/FM clearance, to amend the PAAD facesheet adding an additional $50,000,000 within the next six months, and a final $60,000,000 prior to the end of FY 1987, within disbursement limitations delineated by Congress.

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

ASSISTANT ADMINISTRATOR

SEP 16 1985

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/PPC, Richard Derham

FROM: AA/ANE, Charles W. Greenleaf, Jr.

SUBJECT: Jordan - FY 1985 Commodity Import Program (CIP) Grant 278-K-643

PROBLEM: Your approval is required for the authorization of the $160 million ESF supplemental funding for the FY 1985 Commodity Import Program for Jordan.

BACKGROUND: On August 15, 1985, the President signed the Supplemental Appropriation Act for Fiscal Year 1985. The legislation provides that the U.S. make available $250 million additional assistance to the Hashemite Kingdom of Jordan, of which $90 million was earmarked for project assistance and $160 million for a Commodity Import Program (CIP). This assistance is above and beyond the $20 million current Economic Support Fund (ESF) program for Fiscal Year 1985. It is tranched to allow the Congress to receive periodic updates on Jordan's participation in the Middle East peace process.

Jordan's economic growth has been closely associated with its balance of payments and import capacity. Following a sharp deterioration in foreign exchange earnings and the resulting decline in import capacity, economic growth dropped to 4.5% for 1981-84 in contrast to 11.7% for 1975-81. Some estimate 1984 growth at only 2%. Unemployment, which has been quite low, looms as a potentially serious problem with a worst case scenario portrayed by the IBRD of a projected possible unemployment rate of 30% by 1990. Other analysts also forecast a sharp increase in the level of unemployment but estimate that the unemployment rate by 1990 will be closer to 12-15%.

DISCUSSION: To help Jordan improve its balance of payments and fiscal deficits which now limit the country's economic growth, the Mission proposes authorization of this $160 million CIP to be obligated over a three year period. A CIP of this magnitude could, through indirect as well as direct effects, lead to an import level 7-8% higher than would otherwise be obtained by 1987, and provide a strong impetus to sustained economic growth. Higher rates of economic growth are essential if jobs are to be found for Jordan's expanding labor force, now

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increasing at a rate of over 6% per annum with expectations that under the existing situation, jobs will be found in the economy of Jordan for only half of these new entrants. The GOJ has undertaken a series of economic and fiscal reforms to reduce expenditures and unnecessary imports. The Mission and the GOJ currently are involved in a series of high level policy discussions to outline what economic policy measures should be pursued over the next several years. The ANPAC requested and the Mission agreed to provide AID/W with an elaborated framework of the nature of these discussions and the strategy the Mission intends to follow in this area.

CIP assistance will be available for both the public and the private sectors. Local banks will implement the portion of the CIP aimed at the local private sector, and public stock and joint venture companies which will utilize the procedures developed for the private sector. For reporting purposes, statistics will be maintained and reported separately. The GOJ has indicated its intent to promote and facilitate maximum use of the private sector CIP component, allocated through the banking system, and has initially targeted at least 50% for this element.

The public sector CIP will be administered on a government-to-government basis, with the Ministry of Planning acting as the coordinating body and the Ministry of Supply, Trade and Industry handling day to day implementation on the Jordanian side. The GOJ will allocate CIP funds to various economic sectors and agencies requiring foreign exchange for purchases from the United States, in accordance with agreed GOJ and CIP program priorities.

Congress has mandated that a certain percentage of A.I.D.'s worldwide Commodity Import Programs be made available for U.S. agricultural exports (15% for FY 1985 and 18% for FY 1986 and 1987). At the present time A.I.D. is substantially exceeding these requirements and does not foresee any negative impact resulting from usage of the Jordan CIP exclusively for non-agricultural commodities. In the event that the global situation changes, AID/W will advise the Mission of any required action.

The Asia Near East Project Advisory Committee (ANPAC) reviewed this PAAD on August 22, 1985 and recommended approval of $160 million in FY 1985, with $50 million to be obligated during September 1985. The ANPAC further recommended that you delegate authority to the AA/ANE to approve two amendments to the CIP PAAD facesheet, one in FY 1986 for $50 million, and the other in FY 1987 for the remaining $60 million, subject to AID/W review of the policy environment and the CIP operations.

<u>CONGRESSIONAL NOTIFICATION</u>: Because this program originated with the Supplemental Appropriation Act of Fiscal Year 1985, no Congressional Notification is necessary.

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WAIVERS: No waivers are necessary to implement this CIP Grant.

RECOMMENDATION: That you sign the attached PAAD, thereby approving a $160 million FY 1985 Commodity Import Program for Jordan, including approval of $50 million for immediate obligation. The PAAD also delegates authority to the AA/ANE to approve amendments to the PAAD facesheet to allow subsequent obligations of the remaining $110 million ($50 million in FY 1986 and $60 million in FY 1987), subject to the availability of funds

Attachment: Program Assistance Approval Document (PAAD)

Clearance:
GC:HFry [signature] Date 9/12/85

ANE/PD/MEDNE:JCarroll:srb:09/06/85:X27327

I. BACKGROUND AND CIP JUSTIFICATION

A. Overview

1. Introduction and Summary

The proposed Commodity Import Program (CIP) of $160 million over three years is part of a supplemental assistance program to be added to the $20 million current Economic Support Fund (ESF) program for FY 85, FY 86, and FY 87. Authorization of the total $160 million is proposed at this time with obligations as follows: FY 85 - $50 million; FY 86 - $50 million; and FY 87 - $60 million. There are both political and economic objectives for the proposed supplemental package. The program will help meet Jordan's current economic needs and to provide tangible support for King Hussein's intensified peace efforts. In presenting President Reagan's request to Congress for the $250 million supplemental program the purpose was described as follows.

> "Despite its prudent economic policies, Jordan has legitimate economic needs that deserve attention, and the King's clear movement toward peace negotiations with Israel this year carries real risks, including economic risks. It is important to show support for the King's efforts and, as Jordan enters a period of intensified peace efforts, it is in everyone's interests that Jordan have as solid a foundation at home as possible".

The economic objective of the U.S. CIP assistance is to provide a portion of the foreign exchange required to help sustain Jordan's import needs and to foster a higher rate of economic growth than would otherwise occur without the program. Jordan is a small economy without extensive natural resource wealth. Historically economic growth has been closely associated with the balance of payments and import capacity. Following a sharp deterioration in foreign exchange earnings and the resulting decline in import capacity, economic growth dropped to 4.5% for 1981-84 in contrast to 11.7% for 1975-81. Some estimate 1984 growth at only 2%. Unemployment, which has been quite low, looms as a potentially serious problem with a worst case scenario portrayed by the IBRD of a projected possible unemployment rate of 30% by 1990. Other analysts also forecast a sharp increase in the level of unemployment but estimate that the unemployment rate by 1990 will be closer to 12-15%.

The economy is under increasing pressure as financial constraints inhibit growth and development. The financial economic factors which are underlying the economic recession include: the leveling off in worker remittances; uncertainty in traditional export markets such as Iraq and a sharp decline in Arab assistance which stands at $500 million in 1984 compared to $1.2 billion in 1981; and significantly higher and increasing debt service payments with debt service ratio estimated at 23 to 31% (excluding military debt). Reserves have been declining despite an increased reliance on foreign borrowing and at the end of April 1985 Central Bank reserves of $515 million represented only 2 1/2 months of import requirements.

To help relieve the balance of payments and financial constraints now limiting Jordan's economic growth, the Mission proposes authorization of a $160 million CIP to be obligated over a 3 year period. A CIP of this magnitude could, through indirect as well as direct effects, lead to an import level 7-8% higher than would otherwise be obtained by 1987, and provide a strong impetus to sustained economic growth. Higher rates of economic growth are essential if jobs are to be found for Jordan's expanding labor force, now increasing at a rate of over 6% per annum with expectations that under the existing situation jobs will be found in the economy of Jordan for only half of these new entrants.

2. Economic Growth

Jordan's real rate of income growth has declined to near zero on a per capita basis. That is, given Jordan's rate of population increase and the recent slow down in real GDP growth i.e., 5.7, 5.5 and 4.0% in 1982, 1983 and 1984 respectively, per capita income growth in real terms now approaches zero. Moreover, according to one reliable GOJ source, the official estimate of real GDP increase in 1984 has been reduced to 2% from the 4% level previously estimated. This implies that for 1984 per capita growth rates may have actually been negative in real terms. Given the country's narrow export base, the reduced rate of increase in wage earner remittances, and a rising foreign debt repayment burden, balance of payments and existing budgetary constraints would in all likelihood preclude a return to previous high rates of growth within the near-to-intermediate term future. The political implications of continued stagnation are compounded by an emerging employment crisis. Due to a very high rate of population growth (3.5% per annum), the high proportion of working age people within the population, coupled with an increasing rate of participation, Jordan's labor force will increase at a rate of more than 6% per annum during the next five years. If present trends continue and without allowing for a possible end to the net migration of workers to the Gulf States, jobs will be found for less than half of the new labor market entrants, leading to a significant increase in the structural

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unemployment rate (projected at 30% by 1990 by the IBRD). The proposed CIP, geared primarily to capital, intermediate and raw material imports in the public and private sectors, could provide the import funding needed to help move the economy towards higher real rates of growth which, at least, keep pace with increasing population and related growth in the labor force. Thus the CIP should contribute significantly to stabilization of the economy and a return to the economy's normal growth path.

3. Sectoral Economic Activity

GDP results for 1984 obscure an uneven record within the overall economy. Industrial output, benefiting from a revival of the Iraqi market for light manufactures (as well as fruit and vegetable products), increased by 14.6%. Even after excluding phosphate production (which accounts for 17.8% of output and expanded by 31% in 1984), industrial output rose by 10.8%. On the other hand, construction activity declined for the second straight year, and agricultural output, badly affected by a severe drought which reduced wheat output to its lowest level in many years, declined. The services sector, which accounts for some 61% of economic activity, showed little if any growth. Government spending increased by only 1% in real terms.

Following are indicators of economic activity. Results for 1984 are compared with 1975-81, the period of rapid growth before the end of the oil boom, and with the period 1981-83. All data are expressed in real terms.

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ECONOMIC INDICATORS, 1975-84 (A)
(Percent Rates of Increase)

	1975-81	1981-83	1983-84	
A. DOMESTIC ACTIVITY:				
1. GDP	11.7(G)	5.6(G)	4.0(H)	
2. Industrial production:	16.6(G)	7.3(G)	14.6	
Phosphates	21.1	5.7	30.9	
Processed foodstuffs	10.7	- 6.0	13.2	
Manufactured products	16.5	- 1.1	10.5	
3. Construction (B)	23.8	10.3	-2.2	
4. Government expenditures	9.1	-1.4	1.2	
current	8.8	4.4	2.0	
Capital	9.5	-4.7	-4.7	
5. Other services (C)	10.4	6.1	N.A.	
B. FOREIGN TRADE (D):				
1. Domestic Exports (E)	25.9	-6.0	54.0	
Phosphates (27)	17.6	-6.2	27.4	
Fertilizer (17)	(I)	(I)	101.1	
Agricultural Products (16)		20.3	1.3	8.1
Manufactures (33) (F)	46.2	-22.0	67.2	
2. Imports, C.I.F.	27.1	- 0.8	-8.2	
C. MONETARY AND CREDIT				
M1	21.0	11.0	1.0	
M2	26.5	17.0	8.8	
Credit to PR. Sector	29.8	0.3	16.2	

Notes:

(A) Nominal Data deflated by the official cost of living index to arrive at real values.
(B) Building permits, area basis
(C) Government services excluded; derived from GDP by industrial origin.
(D) Growth rates based on current dollar values.
(E) Shares of 1984 total exports shown in parentheses.
(F) Not including fertilizer.
(G) Growth rates determined by least squares method. All other growth
rates determined by comparing terminal years.
(H) Estimated
(I) No exports before 1982.

Sources: Central Bank statistical bulletin, Feb. 1985. Official estimates for 1984 GDP.

4. Fiscal and Monetary Development

The GOJ has continued to pursue a conservative budgetary policy, coupling relative austerity with regard to spending with only a moderate effort on taxes. Expenditures have been well contained since the boom years of 1975-81. Development spending under the second five year plan for 1981-85 amounted to only 64% of the originally planned amount. The 1985 budget calls for only a 0.8% rise in current spending with total expenditures to rise by 8.7% (in nominal terms). While tax revenues have continued to rise by a fairly impressive overall rate, the gain has come largely from import taxes. Direct taxes have just kept up with GDP growth.

The basic budget deficit, after Arab support grants, has been edging upward in recent years, and in 1984 it reached 11.5% of GDP. About two thirds of the deficit is covered by foreign borrowing, thus minimizing the inflationary impact but adding to the country's foreign debt burden. Price inflation, as measured by the cost of living index, amounted to only 4.4% in the 12 months ended in February 1985, somewhat less than the rate experienced in recent years.

5. Balance of Payments

The 1984 balance of payments results cannot be fully understood from the available data because complete results are available, on a provisional basis, for Jan-June 1984 only. The results contained one major paradox, i.e., a worsening overall situation despite improved fundamentals. The current account deficit, on which full-year data is mostly available, narrowed from $389 million in 1983 to about $270 million in 1984, notwithstanding a further decline in Arab support payments. Yet the overall balance, as measured by the change in gold and foreign exchange reserves, went from a positive $30 million in 1983 to a negative $453 million (including the valuation adjustment) in 1984. The capital account and errors and omissions categories were in deficit for only the second time in the past ten years.

A. Current account: Exports increased by 30% over 1983, with domestic exports up 54%. The improvement was widespread and not concentrated solely in the areas of major investments in recent years, i.e., phosphates, potash, and fertilizer. Exports to Iraq increased by 146% to reach $176 million. Imports, meanwhile, declined by 8.2% in dollar terms, reflecting both the slower rate of economic activity and GOJ efforts to reduce the trade deficit. The latter declined by nearly $400 million to $1,732 million. Wage earner remittances increased by 11.4%, to $1,235 million, somewhat surprising in view of widespread reports of increased numbers of workers returning from the Gulf States.

The higher remittance figure may well represent a tendency on the part of these workers to bring relatively large sums with them when returning for good. Arab support grants declined from $711 million in 1983 to an estimated $500 million in 1984, far below the peak levels of over one billion dollars reached in 1981 and 1982.

Capital account: Long-term capital inflow declined from a net $426 million in 1983 to an estimated net $143 million in 1984. The GOJ again (as in 1982 and 1983) borrowed $200 million on European capital markets, but the Government repaid $190 million of past bank loans during the year. With all other items reasonably well accounted for, the short-term capital errors and omissions, and valuation adjustment categories, calculated as a residual, appear to have been in deficit by a combined $326 million. Roughly $190 million of this amount can be ascribed to an arrangement between the Central Bank of Jordan and Iraq involving export financing, to Jordanian exporters, to be liquidated by oil shipments from Iraq to Jordan.

C. Reserves: Reserves received a boost early in 1985 from an SDR (Special Drawing Rights) 57 million ($56 million) credit extended by the IMF under its compensatory financing facility. Nonetheless, Central Bank reserves fell by $317 million, during Jan-March 1985, and were reliably reported to have fallen further in April. Having lost nearly half of its official reserves in the first quarter of 1985, the GOJ borrow at mid-year another $215 million from foreign banks. Arab Bank, Jordan's largest commercial Bank, provided a $70 million bridging loan pending receipt of this foreign credit.

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BALANCE OF PAYMENTS SUMMARY
(U.S. DOLS MILLIONS)

	1981	1982	1983	1984 (est.)	
Current Account	- 41	- 336	- 389	- 270	
Exports, F.O.B.	734	750	580	756	
Imports, F.O.B.	2,827	-2,891	-2,709	2,786	
Balance of Trade	-2,093	-2,141	-2,129	2,030	
Wage Earner REM., NET	874	906	909	975	
(Inflow)	(1,031)	(1,083)	(1,110)	(1,235)	
(Outflow)	(- 157)	(- 177)	(- 201)	(- 260)	
Unrequited Transfers	(1,303)	1,059	812	(600)	
(Of which Arab)	(1,195)	(1,032)	(711)	(500)	
Other Services, NET	- 125	- 160	19	- 113	
Capital Account	213	322	432	- 183	
Direct Inv., net	67	90	24	30	
L-T Capital, net	67	263	402	113	
S-T Capital, net	79	- 31	6	- 326	(A)
Errors and omissions	- 122	- 150	- 13		(B)
Valuation ADJ.	- 144	- 64	- 69		(B)
Change in Reserves (Minus = Inc.)	94	228	39	453	
Central Bank	74	218	37	337	
Commercial Banks	20	10	2	116	
Reserves, End-Year	1,444	1,216	1,177	724	
Central Bank	1,279	1,061	1,024	687	
Commercial Banks	165	155	153	37	

1984 data re partly estimated and Dinar amounts have been converted to Dollars at the average exchange rate for the years indicated.

Notes: (A) Including errors and omissions and valuation adjustment.
(B) Included in short-term capital.

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6. Employment and the Labor Force

Jordan's labor force was estimated at 581,000 in 1983, of which 428,000 were Jordanians and the remainder mainly from other Arab countries. About 42% of the Jordanians in the labor force were employed in the government sector (civilian and military), 14% each in the industrial and construction sectors, 10% in agriculture, and the remaining 20% in various service sectors. The Ministry of Labor issued a directive in 1984 requiring new industries to increase their employment of Jordanians from a minimum of 40% to 60% of their work force.

The number of Jordanians working abroad was estimated at 315,000 in 1983, of which 160,000 work in Saudi Arabia and 112,000 in other Arab countries. Estimates of recent movements of Jordanian workers to and from these countries are not available.

Data on wage increases in the private sector in the past two years are also not available. A government committee that was formed in the early 1980s to recommend wage guidelines for the private sector stopped functioning in 1983 as inflationary pressures in the economy diminished. With respect to the government sector, employees (both civilian and military) were given wage increases in March 1985 ranging from 10% for higher-salaried to 25% for lower-salaried employees. These were the first across-the-board wage increases granted to government employees since 1981. However, annual merit increases of 2 to 3% have been provided regularly.

7. Import Capacity and Growth

In Jordan, economic growth has been closely associated with the balance of payments and import capacity. A sizeable proportion of personal consumption, including some 44% of net agricultural goods, consists of imported goods. In the case of intermediate and raw material imports, there appears to be strong relationship both to growth in GDP and Jordan exports. This is due to the relatively high import content in domestically manufactured goods and non-mining exports. As to producer goods, lead times between imports of capital goods and ensuing output increases vary according to the gestation period of individual projects. Clearly, the relationship between capital intermediate imports and industrial output in Jordan is very strong. The following data illustrate the relationship between import growth and economic growth during the high growth years, 1975-1981, and the subsequent slow growth period beginning in 1981.

IMPORTS AND ECONOMIC GROWTH A/

(Percent rates of increase) B/

	1975-81	1981-84
A. Imports/GDP		
1. Total Imports	16.7	3.8
2. GDP	11.7	4.5
B. Imports/Industrial Production		
1. Imports of capital goods and raw materials C/	14.0	3.0 D/
2. Industrial production	17.1	4.1 D/

Notes:
(A) Both imports and GDP in real terms
(B) Growth rates determined by least squares method
(C) Adjusted to exclude imports of aircraft
(D) 1981-83: Detailed 1984 import data not yet available

To enable consideration of the potential impact of a dols 160 million CIP for Jordan, there follows a tentative balance-of-payments projection for the years 1985 through 1987, along with estimated results for 1984. Imports are shown on a CIF rather than an FOB basis and the other services category adjusted accordingly. The 1985-87 projections represent an "as is" scenario without allowance for increased A.I.D levels. Reserves are assumed to remain unchanged; short-term capital outflow (or errors and omissions) is estimated at Dols. 100 million for each year, far less than the apparent short-term outflows in 1984; and GOJ bank borrowings are projected at the $200 million level that has prevailed in recent years. Imports are the residual item given these assumptions.

BALANCE OF PAYMENTS, 1984-1987
(U.S. DOLS MILLIONS)

		1984 (EST)	1985 (PROJ)	1986 (PROJ)	198 (PRO
A.	CURRENT ACCOUNT	- 270	- 239	- 163	- 1
	1. EXPORTS, F.O.B.	756	815	920	9
	2. IMPORTS, C.I.F.	-2,786	-2,865	-2,960	-3,0
	3. BALANCE OF TRADE	-2,030	-2,050	-2,040	-2,1
	4. WAGE EARNER REMITTANCES, NET	975	1,011	1,062	1,1
	(INFLOW)	(1,235)	(1,297)	(1,362)	(1,4
	(OUTFLOW)	(- 260)	(- 286)	(300)	(- 3
	5. UNREQUITED TRANSFERS	600	600	600	6
	(OF WHICH: ARAB SUPPORT)	(500)	(550)	(550)	(5
	6. OTHER SERVICES, NET	185	200	215	2
B.	CAPITAL ACCOUNT	- 183/A/	183	178	1
	1. DIRECT INVESTMENT	30	30	30	
	2. OTHER LONG-TERM CAPITAL, NET	113	253	248	2
	3. SHORT-TERM CAPITAL	- 326/A/	- 100	- 100	- 1
C.	IMF POSITION /B/	-	56	- 15	- 1
D.	ERRORS AND OMISSIONS	(C)	(C)	(C)	(C)
E.	VALUATION ADJUSTMENT	(C)	(C)	(C)	(C)
F.	CHANGE IN RESERVES (MINUS = INCREASE)	453	-0-	-0-	-0-
G.	RESERVES, END-YEAR	724	724	724	72
	1. CENTRAL BANK (official reserves)	687			
	2. COMMERCIAL BANKS	37			

NOTES:
(A) INCLUDES ERRORS/OMISSIONS/VALUATION ADJUSTMENT
(B) COMPENSATORY ACCOUNT DRAWING IN 1985, REPAYMENT THEREAFTER.
(C) INCLUDED IN SHORT-TERM CAPITAL CATEGORY

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8. Economic Impact of CIP Program

The "as is" scenario provides for increases in imports (in constant dollar terms) of 4.0% in 1985 and 3 to 4% in 1986 and 1987. Import prices on the whole have not risen in recent years, but if they should do so, real increases would of course be still less than indicated. Import increases of this magnitude may be sufficient to keep the economy reasonably stable, but they do not permit a large increase in growth.

Given lead times between ordering and goods delivery, a CIP program for Jordan, approved in 1985, could not result in goods deliveries this year. However, substantial goods arrivals could begin in 1986. Based on the above projections and assuming CIP goods arrivals of $50 million in 1986 and $60 million in 1987, imports would rise by 1.7% (in 1986) and 2.0% (in 1987) more than they would in the absence of a CIP program, other things remaining equal. But since growth would be stimulated, other things would not remain equal. The capital goods imports involved in a CIP program would lead, through output and productivity improvements to increased exports of manufactured goods (which amounted to $226 million in 1984), and the announcement effect of a $160 million multiyear CIP program could well lead to renewed foreign investor interest in Jordan. Thus the CIP program itself would also improve the country's debt carrying capacity through improvements in the debt service ratio. However it is important to recognize that the actual composition of imports will affect the specified relationships between imports, production and exports.

Considering only the indirect effects of a CIP program discussed above (not including other possible indirect effects, or short-term capital flows which are essentially unpredictable), we would tentatively estimate the overall favorable impact of a $160 million CIP program approved for 1985 to 1987 to be at least $80 million in 1986 and $100 million in 1987, as follows:

(U.S. DOLLARS MILLIONS)

	1986	1987
CIP Imports	50	60
Additional exports of manufactured goods	20	25
Additional private direct foreign investment	10	15
Net impact	80	100

Assuming all of the improvements were applied to imports (as opposed to another expenditure category), the percentage increase in imports would be raised to 6.1% in 1986 and 7.2% in 1987, as follows. (This is one way of aggregating and estimating the possible impact of the CIP).

IMPORTS, 1986-87

	U.S. Dols Millions 1986	1987	Percent Increases 1986	1987
"As is" situation	2,960	3,072	3.3	3.8
Increment arising from CIP	80	100	2.8	3.4
Total Imports	3,040	3,172	6.1	7.2

The increase in imports as the CIP program reached its full impact would therefore approach 7.5 to 8%, about half the rate of import growth that spurred the high rate of economic growth during 1975-1981 but almost twice the rate of recent years. Year-to-year increases in imports would continue into 1988 at a reduced rate, but imports should continue to grow more rapidly than under the "as is" case owing to further favorable effects from the overall economic expansion.

Of course, the magnitude of secondary benefits will also depend on continuation of appropriate GOJ policies as well as external circumstances. USAID is now preparing a project to assist the Ministry of Trade and Industry in taking the measures needed to improve Jordan's private sector production and investment climate, with an emphasis on export promotion. With consultant help, USAID is also developing an urban development strategy, with the emphasis on employment generation. In yet another area that could well benefit from an improving economy, USAID is in the early stages of a project to promote the tourist industry.

In summary, a major CIP program would help Jordan to break through its present and prospective balance-of-payments constraint, returning the country to a higher growth path. Such a program, we believe, will relieve the balance of payments constraint on the economy and stimulate economic activity that helps absorb the virtual flood of new labor force entrants in the next several years.

9. Government of Jordan (GOJ) Economic Management

Jordan has consistently been regarded by the IMF, IBRD, A.I.D. and others as having demonstrated prudent economic management with the result that for an extended period of over a decade the overall performance of the economy has been very solid. This is particularly notable because Jordan has limited natural resources, limited agricultural potential, severe water availability constraints, and the regional political environment has been most difficult at times. Until about three years ago, economic growth was rapid, with substantial increases in real income and was financially economically stable. The change that has occurred in the last three years is in large part the result of external factors: a less buoyant world economy and slumping demand in traditional trading partners, declining level of demand for migrant labor from the Gulf States, and a sharp cut in assistance from Arab Donors under the Baghdad Pact. (Most recently, Kuwait announced in July of 1985 that it will no longer make any payments under the Baghdad agreement.)

In response to these reduced resources,Jordanian authorities introduced a number of policy measures to help balance the economy. While the government's efforts focused in large part on the reduction in government budgets, under newly appointed Prime Minister Rifai there has been an increased emphasis on stimulating the private sector and on reducing investment licensing and other constraints which tend to encumber or restrict the private sector. Some of the policy measures include:

- Total government expenditures have remained essentially unchanged over the past two years 1983-84, and domestic revenue have been expanded at a rate exceeding the nominal growth of GDP.

- In constraining government budgets, the foreign exchange expenditures of the government were held down but no restrictions were imposed on the availability of foreign exchange to the private sector. Priority in government budgets for foreign exchange expenditure has been given to activities with a identified source of foreign exchange, such as donor financed development projects.

- Jordan has traditionally pursued liberal and market oriented policies both in the domestic economy and in international trade.

- Licensing procedures in the Ministry of Trade and Industry for private investments have been reduced to a few days, in contrast to procedures which until recently took several days or weeks.

- While the IMF report of June 1985 mentioned the need to review credit and interest rate policies, some measures have already been enacted; in July 1985 the effective interest rate for lending was increased to 10.5%, 9%, plus a commission rate of 1.5%. Thus, while the IMF criticism of interest ceiling is still valid, the rate change is consistent with their recommendation.

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Under the direction of the new Prime Minister there is active consideration of ways to stimulate private sector productive investment (i.e., tax holidays and various incentive mechanisms are being discussed within the government).

10. Economic Policy Consultations

The CIP program includes the stipulation that there will be consultations between the GOJ and USAID on economic performance and macroeconomic policy issues at least twice a year. Sessions will be held 3 months after the agreement is signed and subsequently at roughly 6 months intervals. As background for these reviews, during the process of negotiating the CIP PAAD, the Ministry of Planning agreed to draft a paper on the Current Economic Program and Policies of the Jordanian Government for Dealing with the Current Economic Developments. The USAID will also continue its discussion with non-governmental economists within Jordan, and those from international organizations such as the IMF and IBRD to stay current on economic developments and be prepared to carry out an effective dialogue with government officials on important economic issues. Hence there will be extensive donor consultation on economic policies and performance. Illustrative topics which may be discussed with GOJ and form part of a policy dialogue agenda include: fiscal and monetary incentives to encourage foreign exchange earning/saving industries and enterprises; labor force planning with emphasis on market demand; measures designed to improve efficiency pricing and policies which encourage greater international marketing efforts.

Additionally, the Mission will continues its ongoing program-related policy dialogue discussions carried out in the context of developing, negotiating and implementing various A.I.D. projects. With the recognized prudent management by the GOJ, most discussions relate to policy changes on the margin rather than dramatic change of macroeconomic policies. A recent effort in this regard is the policy discussions that have occurred national marketing efforts.

Additionally, the Mission will continues its ongoing program-related policy dialogue discussions carried out in the context of developing, negotiating and implementing various A.I.D.at very senior levels in the Ministry of Planning and the Ministry of Agriculture during the Highland Agriculture Development Project negotiations. For example, there were discussions about credit and agricultural interest rates, marketing, and agricultural pricing policies. USAID envisions expanding the scope of such discussions, particularly at the sector level, while recognizing that GOJ policies are basically correct.

11. Qualifications on the Economic Impact of CIP

The foregoing economic analysis of the proposed CIP program for Jordan was developed along the lines of the aggregate external gap modeling technique. The analysis is designed to demonstrate the potential importance of a CIP program of the proposed order of magnitude. The specific conclusions about the potential impact of the program are a function of the implicit and explicit assumptions necessary to carry out this analysis. Ultimately the quantitative impact of the program will depend on the specific commodity composition achieved in implementing the program. For example if raw materials are imported and processed for an export market, the impact will be almost immediate. On the other hand, in the case of specialized capital equipment for a development project which has unique technical specifications requiring long lead times for production, the impact will be slower and spread over a longer period. Even under the most optimistic scenario there will be a substantial lead time before commodities begin to arrive and the impact of the program is experienced. Accordingly, this analysis should be considered hypothetical and not interpreted as an attempt to predict the specific rate of disbursements in the CIP program. An in-house evaluation of CIP impact on the economy will be conducted in 1987 or 1988 and focus on the level of imports and their composition. The evaluation will consider the increase in imports made possible through CIP financing as well as the relative U.S. market share in total imports. Moreover, the evaluation will consider the types of imports financed and their contribution to domestic investment and productivity.

12. Banking System

Jordan has a well developed financial infrastructure. There are a total of 18 commercial banks, both foreign and domestic, currently doing business in Jordan. Eight other banks maintain representatives here. In addition, there are five specialized credit institutions which include the Industrial Development Bank and the Housing Bank; both have joint government/private ownership. Over 70 licensed money changers are authorized to deal in foreign exchange at free market rates. A complete list of commercial banks and specialized credit institutions is provided in Annex G.

The Central Bank of Jordan (CBJ) has primary regulatory responsibility for the banking system. This includes establishing interest rate ceilings for local currency loans and deposits at the commercial banks and specialized credit institutions. Interest rates on time deposits held in commercial banks currently go up to a maximum of 8.5%. Lending

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rates for commercial banks are capped at 8.75% plus a commission of 1.75% for a total of 10.5%. Banks which were interviewed during the preparation of this PAAD estimated their total cost of funds to be slightly more than 9%. (The interest rate structure for loan and deposit rates is presented in Annex H). Given Jordan's low inflation rate, estimated at approximately 4% for 1984, real interest rates are positive.

Interest rates on foreign currency borrowing and lending are not controlled. Jordanians are limited to U.S. $100,000 equivalent in foreign currency holdings unless an exception is granted by the CBJ. The Jordanian Dinar (JD) is freely convertible and is fixed each day by the CBJ within a narrow band against the SDR.

The CBJ has established the reserve requirement at 9% for demand deposits and at 6% for savings deposits. The CBJ operates a discount facility which extends advances to banks, currently at a rate of 6.25%. The CBJ also provides a "swap" facility which assists banks in meeting JD liquidity requirements. Jordan has a well developed interbank market for overnight funds. As evidenced by the following table the growth rates for commercial bank loans and deposits have been declining over the past 4 years. Detailed information is provided in Annex I.

TABLE 1
LOANS AND DEPOSITS OF COMMERCIAL BANKS
IN THOUSAND OF JDs

	Loans	% Chg.	Deposits	% Chg.
1980	563,856	-	808,478	-
1981	721,317	27.9%	977,648	20.9%
1982	887,171	22.9%	1,169,974	19.6%
1983	1,030,171	16.1%	11,397,821	19.5%
1984	1,184,825	15.0%	1,603,087	14.7%

In the 1983-84 period, the rate of monetary expansion in Jordan has shown a steady decline. The major factor contributing to the monetary expansion was the growth of credit to the private sector. (See table 2 below). Within private credit, the largest element was for the construction sector.

TABLE 2

Changes in Money Supply and Factors Affecting Money Supply (M.1.)
(in thousands of JDs)

	1980	1981	1982	1983	1984
Net change from previous period in:					
Currency held by the Public	76,238	60,681	57,671	46,068	14,475
Demand Deposits	45,881	46,204	28,176	35,846	-5,501
Money Supply	122,199	106,885	85,847	81,914	8,974
Change in Factors Affecting Money Supply:					
Foreign Assets (net)	110,058	14,312	-61,835	38,344	-63,459
Credit to Private Sector	96,646	149,472	151,859	150,291	160,640
Credit to Municipalities and Public Corps.	9,091	24,916	44,620	34,226	16,510
Govt. bills and bonds	24,024	25,330	45,775	29,628	17,504
Advances to Govt.	25,460	14,160	19,500	21,922	15,097
Govt. and Semi-Govt. Deposits (increase -)	-30,469	-17,903	14,629	-35,614	8,113
Quasi-Money(increase-)	-89,548	-88,228	-137,620	-129,896	-133,351
Capital & Reserves (increase -)	-8,843	-14,936	-43,468	-11,181	-18,561
Other Factors (increase-)	-14,294	- 258	52,377	-15,806	6,661

The CBJ appears to have followed a moderately expansionary policy during this period. The authorities have generally encouraged the commercial banks to expand their use of central bank advances. There have also been reductions in commercial bank reserve requirements, a lowering of central bank interest rates, and a raising of the effective maximum lending rates permitted commercial banks. As a result of these policies private credit growth has been quite high relative to the growth of real GDP.

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B. Relation of CIP and CCC

Jordan will receive a $31.0 million Commodity Credit Corporation (CCC) credit in 1985 as a partial year program. It is anticipated that higher CCC levels will be programmed in subsequent years to cover full year requirements. This will be used for the purchase of wheat and corn from the U.S. It is not anticipated that CIP funds will be used to finance commodities eligible under the CCC. However, the CIP and CCC are both intended to help Jordan minimize negative economic effects resulting from a serious constraint on foreign exchange availabilities.

C. CIP Impact on U.S. Balance of Payments

The long term impact on the U.S. balance of payments will be favorable. The grant will be spent on U.S. goods and services. It will permit U.S. suppliers and exporters to reestablish relations in Jordan which have been badly disrupted in the last few years because of the higher cost of U.S. goods caused by the strong dollar and the recent curtailment of imports caused by the deteriorating economy of the country. When the private sector's import requirements are advertised by A.I.D. in the United States new relationships will be established. Past experience indicates that follow-up orders for machinery and parts will result in additional U.S. exports on a commercial basis.

II. CIP IMPLEMENTATION

A. Introduction/Analysis of Trade

There are a number of constraints in designing a CIP for Jordan. The high cost of U.S. products brought on by the strong U.S. dollar, long delivery times, high transportation costs and ready availability of government underwritten supplier credits from other countries all limit demand for U.S. products.

As the following table demonstrates, Jordan's import bill has gone down for the past three years and the U.S. share of total imports has also fallen. Nevertheless, total U.S. exports amounted to approximately $310 million of non-military goods to Jordan in 1984.

TABLE 3
NON MILITARY IMPORTS
In Thousands of JD

(1 JD = $ 2.6)

YEAR	TOTAL IMPORTS	IMPORTS FROM US	US/TOTAL
1980	715,977	61,587	8.6%
1981	1,047,504	166,674	15.9%
1982	1,142,493	144,341	12.6%
1983	1,103,310	131,047	11.9%
1984	1,071,340	119,263	11.1%

Annex D provides a breakdown of major items imported from the U.S. in 1983, the most recent year for which complete data is available. The following table lists those A.I.D. eligible items where the U.S. has provided over 20 of the total imported amount.

Major Imports from the U.S. in 1983
TABLE 4
Value in U.S. Dollars
(Excludes imports of maize, wheat and barley)

DESCRIPTION	VALUE OF TOTAL	VALUE FROM US	US/TOTAL
Varnishes of coal, tar, tanning materials for finishing leather, etc.	1,371.232	326,353	23.8%
Other gauze, plates and nets	1,390,810	285,116	20.5%
Titanium oxides	1,536,542	565,447	36.8%
Pulp from fibrous material	2,472,935	1,140,023	46.1%
Seeds and fruits for sowing	3,881,389	947,058	24.4%
Parts for measuring checking, analyzing or automatic control instruments	5,228,025	3,298,884	63.1%

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Parts and accessories for other than motor vehicles	5,240,544	1,184,363	22.6%
Oil cakes of vegetable oils	14,543,302	7,766,123	53.4%
Trailers	1,533,235	1,367,646	89.2%
Parts and accessories for flying machines	61,540,610	53,677,298	87.7%
Water pumps	2,376,439	520,440	21.9%
Centrifuges	2,839,405	627,508	22.1%
Electrical measuring checking analyzing or automatically controlling instruments	4,431,515	2,734,245	61.7%
Parts for excavating, leveling boring or extracting machinery	9,146,516	2,341,508	25.6%
Excavating, levelling, boring or extracting machinery	27,276,979	5,455,395	20.0%
Air conditioning machines*	5,327,777	2,615,938	49.1%
TOTALS	98,385,983	74,440,304	

* Eligible only if for industrial, institutional or educational use.

The foregoing table highlights those areas where the U.S. is assumed to have a comparative advantage. Unfortunately, adequate data on the breakdown of imports for the public vs. the private sector do not exist.

Jordan is not typical of most countries in which A.I.D. operates a CIP because there are no official measures rationing foreign exchange for the private sector. Jordan's currency is freely convertible at official exchange rates. The rates are pegged within a narrow band to the SDR and adjusted daily. Private sector importers can readily obtain permission from the Central Bank to open letters of credit to foreign suppliers through the commercial banking system. An import license can be obtained quickly and easily at a cost of 4% of the value of the letter of credit. (This fee is not charged on importations of some priority items such as irrigation equipment and on purchases by the public sector). Approximately 60-70% of all imported goods (public and private sector) are not subject to duties.

The lack of formal rationing of foreign exchange to the private sector does not mean there is no shortage of foreign exchange. There are tight controls on the public sector budgets and meaningful efforts to reduce expenditures to levels more consistent with revenue generation. Preference for foreign exchange expenditure is given to items where sources of funding, donor assistance or loan financing, are already identified. In addition there has been a significant drawdown in foreign exchange reserves and the GOJ has had to step up its international borrowing to lessen the reduction in reserves. Jordan's public and publicly guaranteed (non-military) external debt increased by 50% over the 1983-84 period to SDR 2.5 billion, equivalent to 50% of GNP.

In Jordan there is not always a clear dividing line between the public and private sectors. Some entities, such as government agencies and fully owned government corporations, are obviously public sector even though most government-owned corporations are profit-oriented. On the other hand many enterprises are 100% privately owned, such as proprietorships, partnerships and shareholding companies. There is, however, a range of enterprises which fall between these two clear cases. Public stock companies have varying degrees of government equity which in some cases exceeds 90%. Government ownership may be spread through a number of Government sponsored, profit- oriented investment institutions such as the Pension Fund, Social Security Corporation, Housing Bank and the Postal Savings Fund. These companies are profit oriented, i.e., they operate very much like private sector companies even though they may have Government representation on the Board. The government also has partial ownership in a number of joints ventures such as Arab Potash Company.

The CIP will provide financing for both the public and the private sectors. However, without incentives for private sector participation, the ready availability of foreign exchange combined with the relatively non-competitive position of U.S. goods provide a heavy bias in favor of the public sector element of the CIP. Nonetheless, to the extent demand exists or can be generated, the CIP will target private sector enterprises and profit oriented companies. The private sector element of the CIP will cover private entrepreneurs and firms and public stock companies with private majority ownership. Joint venture companies will also be covered under the private sector element of the CIP, even if they have partial GOJ ownership. The GOJ has indicated its intent to promote and facilitate maximum use of the private sector CIP component, and has initially targeted at least 50% for this element. However, for reporting purposes, a clear delineation will be maintained between private entrepreneurs and firms, on the one hand, and public stock companies, on the other

For the purpose of this CIP, unless A.I.D. otherwise agrees, public sector procedures will apply to all government entities including companies that are wholly owned by the government. Private sector procedures will apply to companies with partial or full private sector ownership. While this will permit them to use less rigid private sector procurement procedures it will also put them in a position of competing for CIP resources rather than having a guaranteed allocation.

Priority CIP uses will be consistent with the overall purpose of the program which is to stimulate economic growth. Economic growth in Jordan has been closely associated with balance of payments and import capacities and it is clear that the direct relationship between imports and production output is strong. The focus on productive imports leads to an emphasis in the CIP on capital goods and equipment, essential development equipment in short supply, and raw materials or intermediate goods which will receive further processing and produce value added increments to Jordan's GNP.

B. Private Sector CIP

The private sector element will provide financing to private Jordanian entrepreneurs and firms to import eligible goods from the U.S. The program will be implemented by local banks. To maximize private sector use of CIP funds and counterpart generations the government has proposed opening the CIP to all commercial banks with the Central Bank playing a coordinating role. The specific rules and procedures of the program will be set forth in an Operating Circular which will be negotiated and signed by USAID, the GOJ and the participating commercial banks. A draft Operating Circular is attached as Annex B. The Circular will be modified, as needed, after negotiations with the government and commercial banks.

The basic elements of the private sector CIP are as follows:

Eligible Importers:

All private sector individuals and firms, plus public stock companies and joint venture companies.

Eligible Commodities:

All items which appear on the "A.I.D. Commodity Eligible Listing", 1984 Edition.

Transaction Size: $10,000 minimum, no maximum.

Repayment Terms:

- All repayments shall be made in local currency at the highest rate established by the Central Bank on the date the Letter of Credit is opened.
- Down payment amount shall be not less than 10% of the Letter of Credit value.
- The balance shall be repayable over a period of up to: 5 years for capital goods; 18 months for intermediate goods; and 12 months for raw materials.
- Interest shall be determined by the participating bank within a range to be established by the Operating Circular.

The Central Bank's interest rate schedule allows commercial banks to charge 8.75% interest and a commission of an additional 1.75%. Thus the total cost to borrowers is 10.5%. (The reason for the commission amount appears to be the high cost of funds to the banks coupled with an old Turkish law still on the books which limits interest to no more than 9%.) Interest rates for time deposits are as high as 8.5%. Several banks which were interviewed put their average cost of funds, including overhead, at 9-9.2%.

Under the private sector CIP the interest rate charged to importers will be determined on a case-by-case basis within a range to be established during negotiation of the Operating Circular. The maximum would be the Central Bank ceiling rate for commercial bank lending, the minimum may be the discount rate, currently set at 6.25%. Given Jordan's inflation rate of approximately 4% over the last year, real interest rates will

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be possible anywhere within the range. Banks will have the flexibility to establish interest rates which are attractive to potential users of the program.

Primary implementation responsibility for the private sector CIP will rest with the Central Bank and participating commercial banks. They will be responsible for ensuring:

- Transactions comply with the provisions of the Operating Circular.

- Importers have followed A.I.D. Regulation One negotiated procurement procedures which require "good commercial practice" and that a "reasonable" number of offers be solicited and considered. On transactions over $1 million in value, USAID/Jordan may require that importers follow formal A.I.D. regulation procurement procedures.

- Commodities are eligible for A.I.D. financing in accordance with the most recent "A.I.D. Commodity Eligibility List".
- Importers are credit worthy.

Initially all transactions approved shall be forwarded for USAID review and concurrence. As banks gain experience with the Operating Circular and A.I.D. regulations, USAID will consider granting autonomous approval limits on a case-by-case basis.

After USAID approval, the participating bank will open an irrevocable Letter of Credit through its correspondent U.S. Letter of Commitment Bank in favor of the named U.S. supplier. The participating bank will be responsible for collecting a down payment in the amount of 10% of the Letter of Credit and the balance, in accordance with the terms set forth in the Operating Circular.

Counterpart funds collected from the importers, including interest as appropriate, will be transferred to a Special Account at the Central Bank of Jordan on a quarterly basis. The participating bank will be indebted to the Central Bank for the Letter of Credit amount, upon opening the Letter of Credit. Thus the bank assumes the full credit risk for each transaction.

The participating banks will require a fee for administering the program. The amount of the fee will be agreed upon during negotiations on the Operating Circular. Operationally, the cleanest method of covering the bank's administrative costs would be to allow them to retain some portion of the interest collected from the importers.

The incentive for banks to participate in this program ε .d to utilize the funds provided thereunder will be threefold. First, the banks will earn their usual Letter of Credit fees on business generated under the program. Second, banks will have some level of short term interest free deposits, based on the gap between when funds are paid by importers and when the bank makes its quarterly settlement to the Special Account at the Central Bank. Finally, the bank will be entitled to keep some portion of the interest collected from clients as an administrative fee and for assuming the credit risk for the transaction. The bank fee will be calculated as a percent of the interest actually collected. This gives the bank the flexibility to lower interest rates to move the money, but an incentive to keep rates up since this will affect fee income. For example, on a $100,000 letter of credit for raw materials, the bank would collect 10% up front and finance the balance of $90,000 for one year at a rate which they will determine, say 8.5%. At the end of the year the bank would collect $90,000 in principal and $7,650 in interest. If it were agreed during negotiation of the Operating Circular that banks would be allowed to retain 20% of interest collected as a banking fee, then the bank's total liability to the Central Bank would be $96,120 and the balance of $1,530 would be retained by the participating bank as fee income.

In normal commercial lending, banks try to earn between 200 to 250 basis points. Given the high cost of funds and the Central Bank's interest rate ceiling of 10.5%, this spread is probably not attained very often. Thin spread, in turn, fosters conservative bank lending practices. The administrative fee to the bank is intended to encourage a more aggressive lending policy with respect to A.I.D. funds.

The private sector CIP program outlined above is designed to provide incentives to both the participating banks and importers to utilize the program. The positive list for eligible commodities has been defined as broadly as possible and there is no upward limit on transaction size. It is anticipated that each participating bank will receive an initial allocation of funds under the program. Banks which are successful in moving the money will be eligible to receive additional amounts. Those that fail to utilize the money in a reasonable time frame will lose it.

Should adjustments to program guidelines or operating procedures become necessary during implementation, the Operating Circular will be amended.

C. Public Sector CIP

The public sector CIP will be administered on a government-to-government basis, with the Ministry of Planning acting as the coordinating body and the Ministry of Supply, Trade and Industry handling day to day implementation on the Jordanian side. The Ministry of Planning, in collaboration with the Ministries of Trade and Industry and Finance, will allocate CIP funds to both the public and private sectors in Jordan. In the case of the public sector, the government will allocate CIP funds to various economic sectors and agencies requiring foreign exchange for purchases from the United States. The receiving Ministry or agency will sub-allocate its share to central organizations, authorities, public stock companies (with government participation of 100%), and individual industries or groups under the Ministry's umbrella, in accordance with agreed GOJ and CIP program priorities.

GOJ procurement practices, traditionally followed for procurements financed with GOJ-owned foreign exchange or by other donors do not completely parallel A.I.D. procedures which promote competition and establish formal contract terms acceptable to both A.I.D. and the U.S. business community. Therefore, USAID will conduct programs to brief public sector organizations receiving their first CIP allocations and alert them to A.I.D. regulations. This will facilitate the smooth and effective operation of the CIP, although it may be time consuming at the outset. However, subsequent use of CIP funds by the same organizations will move more rapidly due to greater familiarity with A.I.D. procedures.

It is planned that public sector non-revenue generating importers will be required to deposit from their budgets the local currency equivalent of the Letter of Credit dollar amount at an exchange rate determined on the day of the opening of the Letter of Credit and that public sector companies will receive terms similar to the private sector, i.e., a 10% payment will be due at the opening of the Letter of Credit and the remainder plus interest will become due at predetermined intervals over a period of months depending on the type of commodity and nature of the public sector importer. (The credit terms will be subject to agreement between the GOJ and USAID.)

Upon GOJ request, USAID will consider on a case-by-case basis "set aside" relief for non-revenue producing governmental agencies that, because of a shortage of working capital, cannot comply with counterpart local currency payment requirements for the public sector. Flexibility with regard to negotiated procurements may prove necessary to accelerate use of the CIP.

A.I.D. Regulation 1 prescribes formal competitive procurement for public sector entities, unless USAID agrees in writing that negotiated procurement is authorized. Public sector importers receiving CIP funds will be expected to submit detailed specifications of the commodities they intend to buy to USAID for forwarding to AID/W's Commodity Management Office (SER/COM). SER/COM will review the specifications for compliance with U.S. standards and to insure that they are not restrictive. Any proposed changes in the specifications necessary for adequate competition will be submitted to the purchasers through USAID for approval. After specifications are approved, SER/COM will arrange for the procurement to be published in the "AID-financed Export Opportunities Bulletin" and in some cases the "Commerce Business Daily". SER/COM will prepare the tender documents and distribute them to interested exporters. The public tender opening will be at the importers' premises in the presence of a USAID official. USAID will be advised of all award decisions and give the purchasers a "no objection letter" if the award is in accordance with A.I.D. regulations. Upon receipt of the "no objection letter" the purchaser can open a Letter of Credit in favor of the selected supplier through his bank. The Letter of Credit will be confirmed by any of the letter of commitment banks in the United States as designated by the GOJ.

The GOJ will assure that CIP financed imports will clear customs promptly and in any case no later than 90 days. They will further assure that such imports are utilized within one year from date of customs clearance. USAID will monitor usage.

D. BUDGET

Obligation Schedule for CIP Funds
in Millions of U.S. Dollars

	1985	1986	1987	Total
Public Sector	25	25	30	80
Private Sector	25	25	30	80
TOTAL	50	50	60	160

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The CIP budget anticipates that 50% of the funds, or $80 million, will be reserved, for procurements under private sector procurement mechanisms. However, for reasons discussed above, it is unclear what the private sector demand for funds will be. Demand, which is difficult to predict, will depend on a variety of factors, such as the strength of the dollar vs. the JD and the economic rate of growth in Jordan. Therefore, only $25 million will initially be committed under the private sector element of the CIP. Commitment of the remaining $55 million for private sector users will depend on success in moving the first tranche. USAID and the GOJ will meet regularly to review progress under the CIP. If money is not utilized by the private sector in a reasonable amount of time, it will be transferred to finance import requirements at the public sector.

E. Special Account

As a condition to initial disbursement of both the private and public sector elements of the CIP, the GOJ will establish a special account for generated counterpart funds in the Central Bank of Jordan and establish procedures for its operation, monitoring and reporting thereon to A.I.D. A.I.D. may, depending on Jordan capability, contract with an IQC to assist in the establishment of the Special Account.

All transactions financed by the CIP will generate counterpart local currency to be placed in the Special Account, with the exception of "Set Asides" mutually agreed to by the GOJ and A.I.D. which will be exempt from payment of counterpart. It is planned that the 10% deposit to the special Account with deferred payment procedures will be made at the time of opening the Letters of Credit. With Jordan public sector revenue generating organizations, the full deposit will be made when the commodities enter Jordan. In cases where interest is charged for defered payments that portion of the interest accruing to the GOJ will be placed in the Special Account. It is planned that the exchange rate applicable shall be the highest rate prevailing and declared for foreign exchange currency by the Central Bank of Jordan, at the time of opening the Letter of Credit.

Local currency in the Special Account will be used to finance Development activities mutually agreed by the GOJ and A.I.D. and to meet part of A.I.D.'s local currency requirements in Jordan.

Special Account operations shall be a subject for discussions at the semi-annual meetings between the GOJ and A.I.D., as well as the implementation evaluation planned for late FY 86.

F. A.I.D. Monitoring

USAID/Jordan will establish a procurement unit to administer A.I.D.'s field management responsibilities under the CIP. The unit will initially have one USDH commodity specialist and two Jordanian professionals. The A.I.D. controller and Regional Legal Advisor are staffed to provide necessary support to CIP execution, including annual accounting and end-use verification. The Regional Economist will be the primary officer responsible for monitoring the economic policy aspects of the program. The Mission will meet formally with the GOJ semi-annually to review all aspects of the program.

The AID/Washington Office of Commodity Management (SER/COM) will provide necessary backstopping in areas including public sector competitive procurement, commodity eligibility, transportation, specifications etc. The AID/Washington Office of Financial Management will provide support on financial and disbursement matters. ANE/PD will monitor overall implementation and provide backstopping assistance, as needed.

G. Evaluation

A.I.D. plans a formal evaluation of CIP implementation in the fourth quarter of FY 86. The evaluation will review effectiveness of the private and public sector elements, types of commodities being procured, and identify any problem in CIP implementation. The evaluation will recommend program modifications, as needed. The evaluation will be completed before proceeding with the planned FY 87 obligation of $60 million. AID/W representatives will be encouraged to participate in this evaluation.

Additionally the USAID plans to collect information and, to the extent possible, evaluate the macroeconomic effect of the CIP, taking into account such variables as types of commodities procured. Preliminary results of this analysis are expected in late FY 87.

III. LEGAL PROVISIONS

A. Local Currency Special Account

In accordance with Section 609 of the Foreign Assistance Act of 1961, as amended, the Government of Jordan will be asked to establish a Special Account at the Central Bank of Jordan and to deposit therein currency of the Government of Jordan in the amounts equal to proceeds accruing to the government, or any agency thereof, as a result of the sale or importation of eligible items.

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Funds in the Special Account will be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee.

B. Conditions Precedent

1. Conditions to Initial Disbursement: Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in satisfactory form and substance: (a) a statement that the person or persons named in Sec. 8.2 of the Grant Agreement have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person, (b) Evidence that a Special Account has been set up in the Central Bank for local currency generated by the importation or sale of eligible items.

2. Conditions Precedent to Disbursement of Funds for the Private Sector: Prior to any disbursement by the private sector under the grant an Operating Circular describing the specific rules and procedures of the program will be signed by the GOJ, USAID and the participating banks.

3. Notification: When A.I.D. has determined that the conditions precedent specified in Sections 3.1 and 3.2 have been met, A.I.D. will promptly notify the Grantee.

C. Covenants

Periodically, but no less than three months after the Project Agreement is signed and thereafter twice annually, the Grantee and A.I.D. will meet to discuss the status of the economy, associated economic issues, implementation of the CIP, and the relationship of the CIP to these concerns.

D. General Terms

1. Unless A.I.D. otherwise agrees in writing, any set-asides or extraordinary allocation of funds shall be agreed to by A.I.D. and the Grantees authorized representative and set forth in Implementation Letters.

2. Unless A.I.D. otherwise agrees in writing, commodities and related services financed under the grant shall have their source and origin in the United States.

3. Unless A.I.D. otherwise agrees in writing, the terminal date for disbursement shall be thirty-six (36) months after the Conditions Precedent have been met.

4. The grant shall be subject to such other terms and conditions as A.I.D. may deem advisable.

E. 50-50 Shipping

The 50/50 shipping requirement as spelled out in Section 201.15 of A.I.D. Regulation 1, the attached draft implementation letter No. 1, and the draft Operating Circular, will apply for both the public and private sector elements of the CIP project. Experience in other countries has shown that public sector importers in most cases have taken advantage of A.I.D. financing of freight on U.S. flag vessels rather than use host country foreign exchange to pay for freight charges. Some private sector companies also prefer to open only one Letter of Credit for the import transaction rather than be faced with coordinating two Letters of Credit (one for the A.I.D.-financed FAS/FOB price for the shipment and the other for freight charges on non-U.S. vessels opened with GOJ foreign exchange).

The Waterman Steamship Company is the only U.S. flag carrier which calls on Aqaba once or twice a month. They use lash vessels which drop off the loaded barges without having to tie up at pier and pick up the empty barges at their next voyage. The port of Aqaba at present is not congested, and the Waterman operating mode should assure that no demurrage charges will accrue even at busier times for the port. Additionally Alia Airport, outside Amman, is well equipped to handle air freight.

USAID will discuss the quarterly reporting requirement of the arrival of A.I.D. financed shipments with the government and will assist initially in completing the reports.

ANNEX A

AID GRANT NO. 278-K-643

DRAFT GRANT AGREEMENT

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AID GRANT NO. 278-K-643

GRANT AGREEMENT

BETWEEN THE

UNITED STATES OF AMERICA

AND THE

HASHEMITE KINGDOM OF JORDAN

FOR

COMMODITY IMPORTS

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A.I.D. Grant No. 278-K-643

COMMODITY IMPORT GRANT AGREEMENT

Dated: , 1985

Between

The Hashemite Kingdom of Jordan (Grantee), acting through the Ministry of Planning

and

The United States of America, acting through the Agency for International Development ("A.I.D.")

ARTICLE 1: THE GRANT:

Subject to the availability of funds, the United States of America under the Foreign Assistance Act of 1961, as amended, will make available to the Grantee, over the life of this program, a grant in an amount not to exceed $160,000,000 to finance the foreign exchange costs of commodities and commodity related services ("Eligible Items") necessary to assist the Grantee to meet a foreign exchange need, achieve development objectives and improve the standard of living. The amount to the granted to the Grantee under the terms of this Agreement will not exceed ________________ ("Grant") for a Commodity Import Program ("CIP").

ARTICLE 2: THE PROGRAM

Section 2.1. Definition of Program. The Program, which is further described in Annex I, will consist of mutually agreed upon allocations of Grant funds for capital goods, intermediate goods, industrial raw materials, commodity related services, and other eligible items, as set forth in the A.I.D. Commodity Eligibility Listing, to the public and private sectors of the Jordanian economy.

Within the limits of the above definition of the Program, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2., without formal amendment of this Agreement.

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ARTICLE 3: CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.1. Conditions Precedent to Initial Disbursement.

Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as the parties may otherwise agree in writing, furnish to A.I.D., in satisfactory form and substance: (a) a statement that the person or persons named in Sec. 8.2 have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person, (b) Evidence that a special account has been set up in the Central Bank for local currency generated by the importation or sale of eligible items.

Section 3.2 Conditions Precedent to Disbursement of Funds for the Private Sector:

Prior to any disbursement to the private sector under the grant, an Operating Circular describing the specific roles and procedures of the program will be signed by the GOJ, USAID and the participating banks.

Section 3.3. Notification

When A.I.D. has determined that the conditions precedent specified in Sections 3.1 and 3.2 have been met, A.I.D. will promptly notify the Grantee.

Section 3.4. Terminal Date for Conditions Precedent

The conditions specified in Section 3.1 must be met within one hundred twenty (120) days from the date of this Agreement, or such later date as the Parties may agree in writing.

ARTICLE 4: PROCUREMENT, ELIGIBILITY, AND UTILIZATION OF COMMODITIES

Section 4.1. A.I.D. Regulation 1

This Grant and the procurement and utilization of commodities and commodity- related services financed under it are subject to the terms and conditions of A.I.D. Regulation 1 as from time to time amended and in effect. If any provision of A.I.D. Regulation 1 is inconsistent with a provision of this Agreement, the provision of this Agreement shall govern.

Section 4.2. Eligible Items

(a) The commodities eligible for financing under this Grant shall be those mutually agreed upon by the Parties and specified in Implementation Letters and Commodity Procurement Instructions issued to Grantee in accordance with Section 8.1 of this Agreement. Commodity-related services as defined in A.I.D. Regulation 1 are eligible for financing under this Grant. Eligible Items will be subject to the requirements and Special Provisions of Parts I, II and III of the A.I.D. Commodity Eligibility Listing which will be transmitted with the first Implementation Letter. Other commodities or services shall become eligible for financing only with the written agreement of the two Parties. Any specific commodity or commodity-related service may be excluded from financing under this Agreement if such financing would be inconsistent with the purposes of the Grant or of the Foreign Assistance Act of 1961, as amended.

(b) The Parties reserve the right in exceptional situations to delete commodity categories or items within commodity categories described in Schedule B codes on the Commodity Eligibility Listing. Such right will be exercised at a point in time no later than commodity prevalidation by A.I.D. (Form 11 approval) or, if no commodity prevalidation is required, no later than the date of which an irrevocable Letter of Credit is confirmed by a U.S. bank in favor of the supplier.

(c) If no prevalidation is required and payment is not by Letter of Credit, this right will be exercised no later than the date on which A.I.D. expends funds made available to the Grantee under this Agreement for the financing of the commodity. In any event, the Grantee will be notified through the A.I.D. Mission in the Hashemite Kingdom of Jordan of any decision by A.I.D. to exercise its right pursuant to a determination that financing the commodity would adversely affect A.I.D. or foreign policy objectives of the United States or could jeopardize the safety or health of people in Jordan.

Section 4.3. Procurement Source

All Eligible Items shall have their source and origin in the United States of America (Code 000 of the A.I.D. Geographic Code Book) except as A.I.D. may specify in Implementation Letters or Commodity Procurement Instructions, or as it may otherwise agree in writing.

Section 4.4. Eligibility Date

No commodities, commodity-related or other services may be financed under this Grant if they were procured pursuant to orders or to contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

Section 4.5. Procurement for Public Sector

(a) With respect to procurement under this Grant by or for the Grantee, its departments and instrumentalities, the provisions of Section 201.22 of A.I.D. Regulation 1 regarding formal competitive bid procedures will apply, except as the Parties may otherwise agree in writing.

(b) Grantee will undertake to assure that public sector end-users under this Grant establish adequate logistic management facilities and that adequate funds are available to pay banking charges, customs, duties and other commodity-related charges in connection with commodities imported by public sector end-users.

Section 4.6 Procurement for Private Sector

Private sector procurement under $1,000,000 may be conducted in accordance with negotiated procurement procedures as set forth in Section 201.23 of A.I.D. Regulation 1. Procurements over $1,000,000 must be referred to A.I.D. for a determination as to whether negotiated or formal A.I.D. Regulation 1 procedures shall apply. However, the importer may elect to procure through the formal competitive procedures of Section 201.22 of A.I.D. Regulation 1 whether required or not.

Section 4.7 Special Procurement Rules

(a) None of the proceeds of this Grant may be used to finance the purchase, sale, long-term lease, exchange or guaranty of a sale of motor vehicles unless such motor vehicles are manufactured in the United States, except as the Parties may otherwise agree in writing.

(b) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(c) All international air shipments financed under this Grant will be on carriers holding U.S. certification to perform the service, unless shipment would, in the judgment of the Grantee, be delayed an unreasonable time awaiting a U.S.-flag carrier either at point of origin or transshipment. The Grantee must certify to this fact in the vouchers or other documents retained as part of the Grant records.

Section 4.8 <u>Financing Physical Facilities</u>

Not more than $1,000,000 from the proceeds of this Grant shall be used for the purchase of commodities or commodity-related services for use in the construction, expansion, equipping, or alteration of any physical facility or related physical facilities without prior A.I.D. approval, additional to the approvals required by A.I.D. Regulation 1, except as the Parties may otherwise agree in writing. "Related physical facilities" shall mean those facilities which, taking into account such factors as functional interdependence, geographic proximity, and ownership, constitute a single enterprise in the judgment of A.I.D.

Section 4.9 <u>Utilization of Commodities</u>

(a) Grantee will assure that commodities financed under this Grant will be effectively used for the purposes for which the assistance is made available. To this end, the Grantee will use its best efforts to assure that the following procedures are followed:

(i) accurate arrival and clearance records are maintained by customs authorities; commodity imports are promptly processed through customs at ports of entry; such commodities are removed from customs and/or bonded warehouses within ninety (90) calendar days from the date the commodities are unloaded from the vessel at the port of entry, unless the importer is hindered by force majeure or A.I.D. otherwise agrees in writing;

(ii) proper surveillance and supervision are maintained to reduce breakage and pilferage in ports resulting from careless or deliberately improper cargo handling practices, as specified in details in Implementation Letters; and

(iii) the commodities are consumed or used by the importer not later than one (1) year from the date the commodities are cleared from the port of arrival in Jordan or fifteen (15) months from arrival in Jordan whichever occurs first, unless a longer period can be justified to the satisfaction of both Parties by reason of force majeure or special market conditions or other circumstances.

(b) Grantee will assure that commodities financed under this Grant may be reexported only after processing or incorporation into finished goods, unless specifically authorized by agreement of both Parties.

(c) Grantee shall use its best efforts to prevent the use of commodities financed under this Agreement to promote or assist any project or activity associated with or financed by any country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such projected use, except with the prior written consent of both Parties.

Section 4.10 Minimum Size of Transactions

With the exception of spare parts no foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than Ten Thousand Dollars $10,000, except as A.I.D. may otherwise agree in writing.

ARTICLE 5: DISBURSEMENT

Section 5.1. Letters of Commitment to Banks

After satisfaction of the Conditions Precedent, the Grantee shall obtain disbursements of funds under this Grant by submitting Financing Requests to A.I.D. for the issuance of Letters of Commitment for specified amounts to one or more banking institutions in the United States designated by Grantee and satisfactory to A.I.D. Such letters will commit A.I.D. to reimburse the bank or banks on behalf of the Grantee for payments made by the banks to suppliers or contractors, under Letters of Credit or otherwise, pursuant to such documentation requirements as A.I.D. may prescribe. Banking charges incurred in connection with Letters of Commitment and disbursements shall be for the account of Grantee and financed by this Grant.

Section 5.2. Other Forms of Disbursement Authorizations

Disbursements of the Grant may also be made through such other means as the parties may agree to in writing.

Section 5.3. Terminal Date for Requests for Disbursement Authorizations

No Letter of Commitment or other disbursement authorization will be issued in response to a request received after thirty (30) months from the date the Grantee satisfies the Conditions Precedent in Section 3.1, except as the Parties may otherwise agree in writing.

Section 5.4. Terminal Date for Disbursement

No disbursement of Grant funds shall be made against documentation received by A.I.D. or any bank described in Section 5.1. after thirty-six (36) months from the date the Grantee satisfies the Condition Precedent in Section 3.1, except as the Parties may otherwise agree in writing.

Section 5.5. Date of Disbursement

Disbursement by A.I.D. shall be deemed to occur on the date on which A.I.D. makes a disbursement to the Grantee, or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment or other form of disbursement authorization.

Section 5.6. Documentation Requirements

A.I.D. Regulation 1 specifies in detail the documents required to substantiate disbursements under this Agreement by Letter of Commitment or other method of financing. The document number shown on the Letter of Commitment or other disbursing authorization document shall be the number reflected on all disbursement documents submitted to A.I.D. In addition to the above, the Grantee shall advise importers to maintain records adequate to establish that commodities financed hereunder have been utilized in accordance with Section 4.9 of this Agreement. Additional documentation requirements may be set forth in Implementation Letters.

ARTICLE 6: GENERAL COVENANTS

Section 6.1. Taxation

This Agreement documentation and the grant funds will be free from any taxation or fees imposed under laws in effect in Hashemite Kingdom of Jordan. No grant amounts shall be used to pay taxes or other fees related to the importation of commodities funded under this Agreement.

Section 6.2. Follow-up

In addition to the requirements in A.I.D. Regulation 1, the Grantee will:

(a) advise entities financed under this Grant to maintain books and records relating to this Grant as may be prescribed in Implementation Letters. Such books and records shall be maintained and made available to both Parties or their authorized representatives for such periods and at such times as may reasonably be required, during three years after the date of last disbursement under this Grant; and

(b) advise those entities to permit both Parties or their authorized representatives at reasonable times during that three-year period to check on commodities financed under this Grant.

Section 6.3. Completeness of Information

The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement; and

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.

Section 6.4. Other Payments

Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, customs duties or similar payments legally established in the country of the Grantee. A.I.D. shall take appropriate action to protect against improper payments by suppliers in connection with this Grant.

Section 6.5. Periodic Discussions

Periodically, but no less than twice annually, the Grantee and A.I.D. will meet to discuss the status of the Commodity Impor

Program and associated economic performance and issues. The first meeting is to occur no later than 3 months after the Grant Agreement is signed.

Section 6.6. Special Account

(a) Grantee will establish a Special Account in the Central Bank of Jordan and deposit therein currency of the Government of the Hashemite Kingdom of Jordan in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the sale or importation of the Eligible Items, except as the Parties may otherwise agree in writing. Funds in the Special Account may be used for such purposes as are described in the Memorandum of Understanding Regarding the Special Account, provided that such portion of the funds in the Special Account as may be designated by the Parties shall be made available to A.I.D. to meet A.I.D.'s local currency requirements in Jordan.

(b) Deposits to the Special Account in local currency will be made in cash in accordance with the terms of purchase or deferred payment procedures, as applicable.

(c) Grantee shall make such deposits at the highest rate of exchange prevailing and declared for foreign exchange currency by the Central Bank of the Hashemite Kingdom of Jordan.

(d) Any unencumbered balances of funds which remain in the Special Account upon termination of assistance hereunder shall be used for such purposes as may, subject to applicable law, be agreed to between Grantee and A.I.D.

Section 6.7. Set Asides

Unless the Parties otherwise agree in writing, any set asides or extraordinary allocations of funds shall be mutually agreed to by the Parties and set forth in Implementation Letters. The Parties may also agree in such Implementation Letters as to which set asides will not result in the accrual of proceeds to the Grantee and hence not require the deposit of counterpart funds into the Special Account.

Section 6.8. Allocation of Resources for Development

Unless otherwise agreed to in writing, the Grantee will submit to A.I.D., during the implementation of this Agreement, a list of allocations of Grant funds, satisfactory to A.I.D., which support the development objectives of the Government of Jordan, as set forth in Annex 1.

ARTICLE 7: TERMINATION; REMEDIES

Section 7.1. Termination

This Agreement may be terminated by mutual agreement of the Parties at any time. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice.

Section 7.2. Suspension:

If at any time:

(a) Grantee shall fail to comply with provisions of this Agreement; or

(b) Any representation or warranty made by or on behalf of Grantee with respect to obtaining this Grant or made or required to be made under this Agreement is incorrect in any material respect; or

(c) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purposes of the Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

(d) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(e) A default shall have occurred under any other agreement between Grantee or any of its agencies and the Government of the United States or any of its agencies; then, in addition to remedies provided in A.I.D. Regulation 1, A.I.D. may:

   (1) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through irrevocable commitments to third parties or otherwise, or to the extent that A.I.D. has not made direct reimbursement to the Grantee thereunder, giving prompt notice to Grantee thereafter;

   (2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

   (3) at A.I.D.'s expense, direct that title to goods financed under the Grant be vested in A.I.D. if the goods are in a deliverable state and have not been off-loaded in ports of entry of the Hashemite Kingdom of Jordan.

Section 7.3. Cancellation by A.I.D.

If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section 7.2., the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Grant that is not then disbursed or irrevocably committed to third parties.

Section 7.4. Refunds

(a) In addition to any refund otherwise required by A.I.D. pursuant to A.I.D. Regulation 1, if A.I.D. determines that any disbursement is not made or used in accordance with this Agreement, or is in violation of United States law, A.I.D. may require the Grantee to refund the amount of such disbursement in U.S. dollars to A.I.D. within thirty (30) days after receipt of request therefore. Refunds paid by the Grantee to A.I.D. resulting from violations of the terms of this Agreement shall be considered as a reduction in the amount of A.I.D.'s obligation under the Agreement and shall be available for reuse under the Agreement if authorized by A.I.D. in writing.

(b) The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

Section 7.5. Nonwaiver of Remedies

No delay in exercising or omitting to exercise, any right, power, or remedy accruing to A.I.D. under this Agreement will be construed as a waiver of such rights, powers or remedies.

ARTICLE 8: MISCELLANEOUS

Section 8.1. Implementation Letters

From time to time, for the information and guidance of both parties, A.I.D. will issue Implementation Letters and Commodity Procurement Instructions describing the procedures applicable to the implementation of the Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters will not be used to amend or modify the text of this Agreement.

Section 8.2. Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding the office of, or acting as Ministry of Planning and A.I.D. will be represented by the individual holding the office of, or acting as, Director USAID, Amman, Jordan each of whom, by written notice, may designate additional representatives. The names of the representative of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 8.3. Communications

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

To the Grantee:

Mail Address:

Cable Address:

To A.I.D.:

Mail Address: United States Agency for International Development

Cable Address:

All such communications will be in English unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon giving the notice.

Section 8.4. Information and Marking

The Grantee will give appropriate publicity to the Grant as a program to which the United States has contributed. Goods financed by A.I.D. will be marked as described in Implementation Letters.

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

HASHEMITE KINGDOM OF JORDAN

BY:______________________

NAME:______________________

TITLE: Minister of Planning

UNITED STATES OF AMERICA

BY:______________________

NAME:______________________

TITLE: Ambassador

UNITED STATES OF AMERICA

BY:______________________

NAME:______________________

TITLE: Director, USAID/JORDAN

PROGRAM DESCRIPTION

The Program represents a new initiative to finance the foreign exchange costs of commodities to assist the GOJ to meet foreign exchange needs for essential imports of both the public and private sectors of the economy. The counterpart local exchange will be used for developmental purposes.

In an effort to enhance the contributions of the private sector in the expansion of the economy it is proposed that fifty percent of the available funds initially be made available to the private sector.

First indications are that demand for the grant funds by the public sector will exceed the available amounts. It is less clear whether the private sector will have a demand for commodities of U.S. origin in the amount provided by the initial distribution; however, the inclusion of companies partially owned by the GOJ to participate in the private sector CIP elements, is expected to increase demand on private sector CIP resources. Nevertheless USAID and the GOJ will review the requirements of the two sectors one half year after the conditions precedent are met, and will adjust the division of the funds as necessary. If private sector demand exceeds the available dolla amount made available to it, its allocation would be increased in recognition of the GOJ desire for more private sector activity for development. Such a revision will not require an amendment of the Grant Agreement.

Note: The description will be expanded, as appropriate, for inclusion in the Program Agreement.

ANNEX B

DRAFT OPERATING CIRCULAR FOR PRIVATE SECTOR

OPERATING CIRCULAR

COMMODITY IMPORT PROGRAM - PRIVATE SECTOR

A.I.D. GRANT NO. 278-K-643

1. The private sector element of the Commodity Import Program, hereafter referred to as the program, provides funds to the private sector in Jordan to import capital goods, intermediate commodities and raw materials from the U.S.A. The rules and procedures set forth in this operating circular shall be valid with respect to all transactions for the private sector financed under the program.

2. Primary implementation responsibility for implementing this program will rest with the participating Banks listed below 1/. Each of these banks will receive an initial allocation of A.I.D. funds through a letter of commitment in favor of the participating bank's named U.S. correspondent.

3. Jordanian private sector entrepreneurs and firms shall be eligible to participate under this program. This includes public stock companies and joint ventures licensed to conduct business in Jordan.

4. Funds advanced under this program shall not be used to finance luxury goods, consumer goods, complete projects or goods which are intended for re-export in essentially the same condition as they were imported. USAID/Jordan shall furnish the participating banks with a list of the U.S. commodities which are eligible to be imported under this program. The participating banks shall not open any letters of credit for the importation of goods under this program which do not appear on this list.

5. Private sector importers desiring to use this program shall make application at any one of the participating banks. Alternatively, a potential client may apply through any other commercial bank. In this case the completed application will be forwarded by the client's bank to one of the participating banks. Each application must include:

   a. A completed transaction form (attachment A).

   b. Evidence that the importer has followed A.I.D. Regulation 1 negotiated procurement procedures. This will include a reasonable number of offers from U.S. suppliers.

   c. A summary of offers and the importer's recommendation.

1/ The coordinating liaison role of the Central Bank in the private sector element of the CIP will be detailed in the final of the Operating Circular.

For transactions in excess of U.S. $1 million, USAID/Jordan may require that A.I.D. Regulation 1 formal procurement procedures be followed. Participating banks should consult USAID/Jordan as far in advance as possible on these transactions. If formal tender procedures are required USAID/Jordan will provide guidance to importers and the participating bank.

6. Participating banks will forward all approved transactions to USAID/Jordan for final review. Upon issuance of a USAID concurrence letter, an administrative reservation of funds will be made and a transaction number assigned. The importer shall have 3 months from the date of the concurrence letter to get a letter of credit issued to the named U.S. supplier. Extension of this time limit may be considered on a case-by-case basis provided that the client's written request is forwarded to USAID, through the participating bank, at least 15 days prior to the expiration date.

7. The participating bank may not issue letters of credit to any party other than the one named in the proforma invoice, nor is the bank authorized to amend any letter of credit in a manner contrary to the contents of the proforma invoice. All letters of credit must reference the A.I.D. transaction number. Credits opened for the importation of raw materials and intermediate goods shall be valid for a period not to exceed six (6) months, whereas credit opened for the importation of capital goods shall be valid for a period of time not to exceed one (1) year.

8. The minimum transaction size shall be $10,000, except for spare parts for which there is no minimum, unless USAID/Jordan otherwise agrees in writing.

9. The participating banks shall collect a downpayment in local currency from the importer equal to 10% of the value of the letter of credit. The balance of the letter of credit amount shall be paid by the importer to the bank in local currency as follows:

   a. during a maximum period of 12 months for raw materials.
   b. during a maximum period of 18 months for intermediate goods.
   c. during a maximum period of 5 years for capital goods.

The local currency amount of all repayments for a specific transaction shall be calculated at the highest JD/$ exchange rate prevailing and declared by the competent authorities in Jordan, on the day the letter of credit is opened.

10. The participating bank shall charge interest on the outstanding balance of each letter of credit calculated from the date of payment by A.I.D. to the U.S. supplier. The interest rate charged shall be determined by the participating bank within the following constraints:

minimum: Central Bank Discount Rate, currently 6.25%
maximum: Central Bank ceiling for commercial bank lending, currently 10.5%.

The participating banks shall request the U.S. correspondent letter of commitment bank to advise them without delay of the date that payment is effected to the U.S. supplier in order to specify the dates of which the interest and installments shall fall due. The participating banks shall be entitled to collect normal fees and commissions, i.e., letter of credit fees, on transactions financed under this program.

11. The participating bank shall be indebted to the Central Bank of Jordan for the local currency equivalent of the face amount of each Letter of Credit opened under this program calculated at the highest JD/$ rate of exchange prevailing and declared by the competent authorities of Jordan on the date the letter of credit was issued.

The participating banks shall pay into the special account at the Central Bank of Jordan all payments of principal, actually collected or due, for transactions financed under this program on a quarterly basis on the following dates:

a. January 1
a. April 1
b. July 1
c. October 1

In addition, the bank shall pay into the special account on the same dates 80% of all interest payments actually collected with respect to transactions financed under this program. The remaining 20% of the interest amount collected shall be retained by the participating banks as an administrative fee for implementing the program.

10:2

12. USAID/Jorden will furnish to the Ministry of Planning or its designee on a monthly basis a report showing all proposed private sector transactions concurred in by U.S.A.I.D. The report will be prepared not later than the 10th of the following month.

13. All participating banks shall meet the following reporting requirements:

a. A copy of all Letters of Credit issued under the program shall be forwarded to USAID/Jordan.
b. A copy of all amendments to Letters of Credit issued under the program, i.e., those that deal with value, quantity, terms etc., shall be forwarded to USAID/Jordan.
c. A detailed monthly statement showing all new Letters of Credit opened or new amendments issued during the month shall be submitted to the Ministry of Planning, with a copy to USAID/Jordan, not later than the 15th day of the following month.
d. A quarterly statement showing all principal and interest collected for each transaction financed under the program shall be submitted to the Central Bank of Jordan in conjunction with deposits made in the Special Account. Copies shall be sent to the Ministry of Planning and USAID/Jordan.

14. The participating bank which opens credits under this program shall be responsible for executing the rules and regulations contained in this operating circular. In the event of a violation of any of the rules of the circular, or applicable A.I.D. regulations, on the part of the importer, the Ministry of Planning and USAID/Jordan may jointly agree to:

a. Prohibit the importer from participating under the program for a specified period of time, and/or
b. require the importer to reimburse A.I.D. in U.S. dollars for the amount of funds advanced under the program.

<u>Signatures</u>:

________________________ A.I.D.
________________________ Ministry of Planning
________________________ Participating Banks
____
____

ANNEX C

DRAFT PROJECT IMPLEMENTATION LETTER 1 AND

PROCUREMENT INSTRUCTION

Excellency:

Subject: A.I.D. Commodity Import Program
Grant Agreement No. 278-K-643
Implementation Letter Number 1

This letter sets forth the procedures for utilizing the U.S. dollar proceeds of the subject Grant and provides information to assist you in implementing the Grant. Except as A.I.D. may otherwise agree in writing, the Grant and the procurement and utilization of eligible commodities and commodity-related services financed under it are subject to the terms and conditions of the subject Grant Agreement and A.I.D. Regulation 1, in effect and as from time-to- time mended, and made a part thereof. If any provision of A.I.D. Regulation 1 is inconsistent with the Agreement, the provisions of the Agreement shall govern. Nothing in this Implementation Letter or its attachments modifies the Agreement. This Implementation Letter and the attachments may be supplemented or modified as necessary by subsequent Implementation Letters. Among other things, Ministry of Planning and USAID shall work jointly towards establishing a time-limit schedule for various procedures related to the implementation of the CIP.

The Grant shall finance commodities and commodity-related services as defined by A.I.D. Regulation 1, needed to assist the Government of Jordan (Grantee) in correcting distortions in the balance of payments, achieving development objectives, and improving the standard of living. Except as the parties may otherwise agree in writing, pursuant to Annex I of the Agreement, Grant funds shall be allocated for the Program, including commodity-related and other services, as follows:

Public Sector* - Fifty Percent (50%)
Private Sector** - Fifty Percent (50%)

* Includes Government corporations and authorities with 100% ownership by the GOJ.

** Includes public stock companies and joint venture companies regardless of ownership.

The Grant shall not finance commodities and commodity-related services for use by the military or police forces.

His Excellency
Dr. Abdalla Nsour
Minister of Planning
Amman

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PART ONE:

CONDITIONS PRECEDENT TO DISBURSEMENT
SECTION 3.1 AND 3.2 OF THE AGREEMENT

Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in satisfactory form and substance: (a) a statement that the person or persons named in Sec. 8.2 of the Grant Agreement have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person, (b) Evidence that a special account has been set up in the Central Bank for local currency generated by the importation or sale of eligible items.

Prior to the disbursement of any funds or the issuance of any commitment documents under the $25 million Private Sector element of the CIP, the GOJ is to issue an Operating Circular, to be made available to all potentially eligible banks and borrowers, which describes the terms and conditions of the program. Terms of the Operating Circular shall be negotiated and jointly agree to by the GOJ the banks and USAID. The Grantee shall be advised by separate Implementation Letter when this condition precedent has been met.

PART TWO

PUBLIC AND PRIVATE SECTOR PROGRAM

I. ALLOCATION OF PUBLIC SECTOR FUNDS

USAID and the GOJ will jointly develop procedures under which the public sector importer/buyer will assure that the procurement package is appropriate.

II. PROCUREMENT - PROCEDURES:

A. The Commodity Procurement Instruction (CPI) No. 1 (Attachment A) lists the categories of items eligible for financing under the Agreement and specifies the contract to maintain accounting control of Letters of Credit issued under Letter of Commitment so as to readily reveal the balance available at all times.

B. The U.S. Department of Commerce, Schedule B, sets forth the commodity identification codes which shall be used on all pertinent bank documentation.

C. The latest version of the Schedule B shall be made available upon request for interested Government of Jordan agencies, banks and Chambers of Commerce.

D. Cable communication may be used at the importer's option in Letter of Credit operations. The approved applicant bank may either cable details of the importer's Letter of Credit to be issued, advised, or confirmed by the U.S. L/COM bank, or cable the Letter of Credit application to the U.S. L/COM bank. In either case the U.S. L/COM bank shall issue, advise or confirm the Letter of Credit. The U.S. L/COM bank's banking charge may be financed under the Grant.

E. A.I.D. Regulation 1, Section 201.15 (50/50 shipping) requires that at least 50% of the total freight tonnage on dry bulk carriers, dry cargo liners, and tankers shall be transported on privately owned U.S. flag commercial vessels. This requirement shall be applied separately to cargoes transported in dry bulk carriers, in dry liners and in tankers. Moreover, at least 50% of the gross freight revenue generated by all shipments on dry cargo liners shall be paid to or for the benefit of privately owned U.S. flag commercial vessels. Responsibility for compliance rests solely with the Grantee. AID/Washington will monitor compliance.

F. Determination of non-availability of U.S. tramp or tanker vessels in connection with charter approvals will be made by AID/Washington on a case-by-case basis.

G. All international air shipments financed under this Grant will be on carriers holding U.S. certification to perform the service, unless such service is not available. Criteria for determining when service by U.S.flag carriers is unavailable are provided in A.I.D. Regulation 1, Section 201.3.

H. Air and sea charters for movement of A.I.D. financed cargo, whether or not financed by A.I.D., must have prior approval of AID/Washington. Requests for charter approvals should be submitted by airmail or telegram to the Transportation Support Division, Office of Commodity Management, Agency for International Development, Washington, D.C. 20523.

I. In accordance with A.I.D. Regulation 1, commodities otherwise eligible for financing under the Grant cannot be so financed whenever shipped on transportation media owned, operated, or under the control of any of the following countries: Albania, Bulgaria, Cambodia, People's Republic of China, Cuba, Czechoslovakia, Estonia, German Democratic Republic, Hungary, North Korea, Laos, Latvia, Lithuania, Mongolia, Poland, Rumania, Vietnam, and the Union of Soviet Socialist Republics (USSR).

J. No item financed under the Grant may be used in the construction, operation or maintenance of, or the supply of fuel for any nuclear plant.

K. In accordance with Section 201.22 A.I.D. Regulation 1, Public Sector Procurement, except as stated below, or agreed to by A.I.D. in writing, shall utilize formal competitive bid procedures.

Exceptions to the formal competitive bid procedures must be approved by A.I.D. in writing, and are as follows:

(1) Public sector organizations which are purchasing for resale or processing as the supplier's regularly authorized exclusive dealer/distributor and are precluded from buying another supplier by agreement; (2) public sector organizations purchasing for resale a registered brand name commodity from an exclusive supplier or purchasing raw materials or components for processing; and (3) Proprietary and sole source. When formal competitive bid procedures

are not used, informal or negotiated procurement procedures of Section 210.23, A.I.D. Regulation 1, shall apply. Individual purchase proposals must be submitted to A.I.D. in advance of purchase to permit sufficient review and advertisement, if required, of each purchase from potential suppliers.

L. Private Sector: Private sector procurement under $1,000,000 may be conducted in accordance with negotiated procurement procedures as set forth in Section 201.23 of A.I.D. Regulation 1. Importers using negotiated procedures shall follow good commercial practice which requires that a reasonable number of offers be solicited and considered. Procurements over $1,000,000 must be referred to A.I.D. for a determination as to whether negotiated or formal A.I.D. Regulation 1 procedures shall apply. However, the importer may elect to procure through the formal competitive procedures of section 201.22 of A.I.D. Regulation 1 whether required or not.

To provide U.S. suppliers an opportunity to participate in furnishing commodities which may be purchased on a negotiated basis, A.I.D. will publish a list of commodities which may be expected to be imported, and the names and addresses of the importers which have traditionally purchased those commodities.

Solicitation of offers from more than one supplier is not required if: (1) the importer is purchasing for resale or processing, as the suppliers regularly authorized distributor or dealer, a commodity which under the terms of the distributership or dealer agreement, the importer is precluded from buying from another supplier, or (2) the importer is purchasing for resale a registered brand name commodity from a supplier who is the exclusive distributor of that commodity to the area of the importer.

III. DISBURSEMENT:

A. PROCEDURES AND DOCUMENTATION:

Requests for issuance of Letters of Commitment or for other forms of disbursement under the Agreement shall be submitted on the Financing

Request (FR) Form A.I.D. 1130-2 (See Attachment B). The full identification number shown on the L/COM-issued by A.I.D. must be shown on all subsequent correspondence and payment documents in connection therewith including the Supplier's Certificate (Form A.I.D. 282), submitted to A.I.D. or a U.S. banking institution. Actions to be taken by the Grantee after L/COMs are issued, and the documentation required by A.I.D. as a basis for disbursing the Grant funds are described in A.I.D. Regulation 1, Sub-part F.

B. SPECIAL PROCEDURES - FERTILIZER:

Due to the special nature of fertilizer supply and demand within the United States, A.I.D. has found it advisable to pay suppliers of fertilizer and related services directly. Thus, when contracts for fertilizers are executed after the required competitive biddings, A.I.D. shall issue L/COMs to the suppliers and pay them directly when the goods are shipped.

C. TERMINAL DATES:

Terminal dates for the issuance of Letters of Credit, completion of shipments and final disbursements to suppliers are set forth in CPI (Attachment A).

D. ELIGIBILITY DATE:

In accordance with Section 4.4 of the Agreement, the eligibility date for transactions financed under the Grant is ------------. Except as A.I.D. may otherwise agree in writing, no goods or services may be financed under the Grant for which any order or contract was firmly placed or entered into prior to the eligibility date.

IV. COMMISSIONS, FEES AND OTHER PAYMENTS:

Expressly excluded from financing under the Agreement are commissions, fees or other side payments made to or for the benefit of importers, representatives of importers, purchasing agents or any third party in connection with a sale by a supplier to his dealer, distributor or established agent in Jordan. See A.I.D. Regulation 1, Section 201.65.

V. RECORDS:

In accordance with Section 6.2 of the Agreement and Section 201.41 of A.I.D. Regulation 1, the Government of Jordan shall establish and maintain or assure that public and private sector importers establish and maintain accurate records concerning arrivals, customs clearance and disposition (utilization) of all commodities financed with funds provided by the Grant. These records and supporting documentation shall be kept available for A.I.D.'s review for three (3) years from the date of the last disbursement by A.I.D. under the Grant. At a minimum, the records should include the following:

A. Indicate whether the eligible items financed by A.I.D. have in fact been received in Jordan in the quantity and conditions for which payment was made.

B. Indicate possible refunds due A.I.D. resulting from importers claims for shortages and damages.

C. Provide means for determining whether eligible items clear through customs promptly.

D. Provide a means of identifying the importer or first purchaser or transferee if importer is the Grantee or the Guarantor of the eligible items.

E. Provide a means of determining the use to which the eligible items have been put.

VI. REPORTING;

According to Sections 5.6 and 6.2 of the Agreement the Grantee shall provide the following reports and documents:

A. A quarterly Grant Progress Report. See Attachment C.

B. Periodic reports on the arrival of commodities financed by the Grant. USAID/Jordan will periodically transmit copies of bills of lading to the Ministry of Planning's arrival representative identifying shipments of A.I.D.- financed commodities arriving in Jordan. The Ministry in turn, will provide USAID with the following arrival accounting information on the commodities involved: ship name; dates ship arrived and unloaded; quantity off-loaded (metric tons); date shipment cleared customs; and acceptance by the importer.

VII. PERIODIC DISCUSSIONS (SECTION 6.5):

Periodically, and not less than twice annually, the Grantee and A.I.D. will continue to meet to discuss economic issues of relevance to the purpose to be achieved with resources provided under the Grant. Among other things, those discussions will include further consideration of the terms and conditions to be supplied to organizations utilizing resources provided by the Grant.

VIII. SPECIAL ACCOUNT (SECTION 6.6):

A. Grantee will establish a Special Account in the Central Bank of Jordan and deposit therein currency of the Government of Jordan in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the sale or importation of the Eligible Items, except as the parties may otherwise agree in writing. Funds in the Special Account may be used for such purposes as are described in the Memorandum of Understanding regarding the Special Account, provided that such portion of the funds in the Special Account as may be designated by agreement of both parties shall be made available to A.I.D. to meet part of its local currency requirements in Jordan.

A separate Implementation Letter will describe the accounting system for the Special Account established pursuant to Section 6.6 of the Grant Agreement.

B. Deposits to the Special Account in local currency will be made in cash in accordance with deferred payment procedures. For public non-revenue generating organizations, the full deposit will be made when the commodities enter Jordan. The Grantee shall make such deposits at the highest rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of the Hashemite Kingdom of Jordan.

C. Any unencumbered balances of funds which remain in the Special Account upon termination of assistance hereunder shall be disbursed for such purposes as may be agreed to between the Grantee and A.I.D.

IX. SET ASIDES (SECTION 6.7):

Unless the Parties otherwise agree in writing, any set asides or extraordinary allocations of funds shall be mutually agreed to by the Parties and set forth in implementation letters. The Parties may also agree in such implementation letters as to which set asides will not result in the accrual of proceeds to the Grantee and hence not require the deposit of counterpart funds into the Special Account.

X. INFORMATION:

In accordance with Section 8.4 of the Agreement, the Grantee is required to provide appropriate publicity as to the purchases, imports and utilization of imports financed under the Grant as a United States program.

XI. MARKING:

The Grantee is required to assure that importers advise all suppliers of the marking requirements of A.I.D. Regulation 1, Section 201.31 (d).

XII. ADDITIONAL REPRESENTATIVES:

In accordance with Section 8.2 of the Grant Agreement, I hereby designate the person holding or acting in the office of the ---------- -------------------- as an additional representative under the Agreement. The individual holding or acting in such office shall have authority to issue Implementation Letters and CPIs and revisions thereto. The individual currently holding the

office of -------------
---------------------------------. His specimen signature is enclosed as Attachment B to this Implementation Letter.

I trust that you or any of your representatives will feel free to contact me or the ----------------------------- concerning any problem or question relative to the implementation of the Grant, or this Implementation Letter and Attachments.

Sincerely yours

ANNEX C

ATTACHMENT

COMMODITY PROCUREMENT INSTRUCTION

(CPI)

SPECIAL PROVISIONS APPLICATION TO
ALL LETTERS OF COMMITMENT TO U.S.
BANKS UNDER A.I.D. CIP GRANT NO. 278-K-643
PART I

a. This Letter of Commitment is available for financing of the U.S. dollar cost of:

1. Eligible commodities as set forth in the "A.I.D. Commodity Eligible Listing", published January 1, 1983.

2. Ocean transportation (including air freight) supplied by flag carriers falling within A.I.D. Geographic Code 000.

3. Marine (including was risk) insurance procured from firms located within A.I.D. Geographic Code 000.

4. Eligible incident services as defined in Section 201.12 of A.I.D. Regulation 1, as amended.

5. Banking charges of the bank to which this Letter of Commitment is addressed.

B. Eligible Source:

1. The authorized area of source for procurement hereunder is limited to the United States, A.I.D. Geographic Code 000, as defined in Section 201.11 (b) of A.I.D. Regulation 1, as amended.

2. All Letters of Credit issued, advised or confirmed hereunder must apprise the supplier of the authorized area of source of procurement as set forth in paragraph B (1) above.

C. Minimum Size of Transportation:

Except when authorized by A.I.D. in writing, no letter of credit issued, advised or confirmed hereunder for any eligible commodities shall be in an amount less than ten thousand United States dollars $10,000 except for spare parts.

D. Eligibility Date:

1. No Letter of Commitment shall be issued in response to a request received after --------------.

2. No Letter of Credit may be issued, advised or confirmed hereunder after ------------ unless the U.S. banking institution shall have received advice from the approved applicant that the underlying contract was entered into on or before the terminal contracting date. The foregoing also applies to any other arrangements for effecting payments hereunder.

3. Documents submitted for reimbursement hereunder must evidence shipment not earlier than -------- and not later than ------.

E. The supplier's invoice required under Section 201.52 of A.I.D. Regulation 1 shall in addition to other required information, contain a statement by the supplier to the effect that he has airmailed to the USAID Controller, one copy of the ocean or charter party bill of lading, supplier's invoice and packing list pursuant to Section 201.31 (f) of A.I.D. Regulation 1.

F. Responsibility of the U.S. banking institution with respect to Appendix A hereto:

1. The U.S. bank may issue, advise or confirm any letter of credit hereunder provided that the Commodity description includes a Schedule B number which is not indicated as "Ineligible" or "Eligible only from U.S. stockpile" in Section 1 of Appendix A.

2. With respect to Part Ii of Appendix A (A.I.D. Commodity Related Special Provisions), the U.S. bank shall be responsible only for obtaining the additional documentation required for reimbursement wherever specified.

3. Reporting to A.I.D.

a. As of close to business the last day of each month prior to the expiration date therefore, a report is to be furnished to A.I.D., giving the following information concerning this Letter of Commitment:

(1) Letter of Commitment serial number.

(2) Dollar value of Letter of Commitment as issued or amended.

(3) Total value of Letter of Credit advised, issued, or confirmed, including amendments as to value, to date.

(4) Total amount disbursed as to the end of the month.

The status data to be furnished should, to the extent possible without delaying issuance of the report, include adjustments which have been recorded for unused balances in expired and cancelled Letters of Credit and refunded amounts which A.I.D. has authorized for reinstatements to the commitment document.

This information is to be furnished to A.I.D. as soon as possible, hopefully within five days, after the end of each month. These reports, which may be prepared in a format most convenient to the bank, are to be forwarded to:

(a) Chief, Project Accounting and Finance Divisions M/SER/FM, PAFD Agency for International Development, Washington, D.C. 20523.

(b) USAID Controller, ---------------.

(b) An additional requirement hereunder is that, as of 30 days after the expiration date of this Letter of Commitment, you furnish to A.I.D. a report of your total expenditures hereunder. This report need state only the total dollar amount of disbursements made by you during the effective period of this document, and the amount reimbursed to you by A.I.D. It should be forwarded to:

(1) Chief, Project Accounting Finance Divisions, PAFD, M/SER/FM A.I.D., Washington, D.C. 20523, as soon as practicable after the expiration date of the 30-day period.

(2) USAID Controller, -------------------.

G. When submitting documentation for reimbursement hereunder the Voucher SF 1034 must cite the transaction to:

H. The U.S. Bank shall mail one copy of each Letter of Credit and amendment upon issuance hereunder to the following address:

Office of Commodity Management
Department of State/AID
Washington, D.C. 20523

No Letter of Credit issued, advised or confirmed hereunder shall contain a restriction which could have the effect of furthering or supporting a restrictive trade practice or boycott if that restriction is required to be reported to the Office of Export Administration, U.S. Department of Commerce, Washington, D.C. in accordance with the provisions set forth in 15 Code of Federal Regulation, Section 369.

GRANT PROGRESS REPORT

CIP GRANT NO. 278-K-643

(A) The fundamental requirement of the Grant Progress Report is the presentation of a planned program against which actual progress can be measured. To accomplish this, reports shall show availability and utilization of funds, free balances, any obligations against free balances.

(B) The first report covering the period of ----- to -------, is to be dispatched to USAID/Jordan not later than ------. Subsequent reports covering quarterly periods thereafter are to be dispatched within fifteen (15) days after the end of the quarter until procurement under the Grant is completed. An original and three (3) copies of each report in English are to be submitted.

(C) If necessary to elaborate, a narrative on the progress of the utilization to the Grant should be included. The narrative should report on any unusual circumstances adversely affecting the utilization to the Grant and steps taken or planned to overcome those circumstances, or provide an explanation for any substantial change to the procurement plan.

ANNEX D

U.S. SHARES IN KEY COMMODITY AREAS, 1983

U.S.$ Thousands

	U.S.	WORLD	% U.S.
A. Food stuffs			
Wheat & Wheat Flour	77,301	90,443	85.5
Barley	2,636	3,104	84.9
Maize	10,744	22,455	39.1
Other Cereal Products	509	13,953	3.6
Sub total, Cereal Products	91,190	134,955	
Oil Cake, Oil Products			
Extraction of drug oils	9,229	15,406	53.4
Maize oil	595	3,203	18.6
Soya Oil	129	2,580	5.1
B. Raw Materials			
Lubricating Oils & Grease	1,684	16,576	10.2
Titanium Oxides	599	1,627	36.8
Acidic acid for ind. use	473	768	61.6
Wood pulp	1,208	2,619	46.1
Chemical fertilizers	23	7,512	0.3
	3,989	29,102	
C. Chemicals			
Antibiotics	397	4,019	9.9
Other Medications	1,793	24,635	7.3
Varnishes	436	2,597	16.8
Chemicals	735	10,409	7.1
	3,831	41,640	
D. Clothing & Foot Ware	2,288	84,883	2.7

	U.S.$ Thousands		
	U.S.	WORLD	% U.S.
E. Capital goods			
Hand tools	1,041	9,877	10.5
Metal fittings	533	6,388	8.3
Air Conditioners	2,773	6,771	44.2
Refrigerators & Freezers	1,061	8,985	11.8
Centrifuges	666	3,008	22.1
Excavating, drilling, boring & extracting machinery and parts	8,272	38,582	21.4
Agricultural machinery and parts	369	8,282	4.5
Textile machinery	322	4,783	6.7
Machine tools & Parts	148	7,578	2.0
Electric Typewriters & Parts	56	1,255	4.5
Punch Card machinery & Parts	689	800	86.1
Taps, valves, etc.	512	9,974	5.8
Machinery & Parts, non-electrical generators, motors, connecters	1,184	17,502	6.8
Electrical apparatus for making & breaking circuits, etc.	2,499	44,342	5.6
Electric wires & cables	761	30,377	2.5
Iron & steel goods	3,816	111,961	2.4
Road motor vehicles and parts	4,099	182,731	2.2
(Trucks)	(2,089)	(49,403)	(4.2)

ANNEX E

STATUTORY CHECKLIST

I. COUNTRY CHECKLIST

II. STANDARD ITEM CHECKLIST

III. NON-PROJECT ASSISTANCE CHECKLIST

I. 5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1985 Continuing Resolution Section 528. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? — NO

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? — NO

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — NO

S?+X

4. FAA Sec. 620(a), 620(f), 620D; FY 1985. Is recipient country a communist country? Will assistance be provided to Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver.

NO

5. FAA Sec. 620(j) Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

NO

6. FAA Sec 620(l). Has the country failed to enter into an agreement with OPIC?

NO

7. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?
(b) If so, has any deduction required by the Fishermen's Protective Act been made?

NO

8. FAA Sec. 620(q), FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any A.I.D. loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?

NO

9. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken

YES

into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

10. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered resumption?

NO

11. FY Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

Jordan has paid all of its outstanding UN obligations

12. FAA Sec, 620A; FY 1985 Continuing Resolution Sec. 521. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

NO

13. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

NO

14. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — **NO**

15. ISDCA of 981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) — **NO**

16. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion? — **N/A**

17. FY 1985 continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? — **NO**

B. <u>FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY</u>

1. <u>Development Assistance Country Criteria</u>

a. <u>FAA Sec. 116</u>. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

N/A

2. <u>Economic Support Fund Country Criteria</u>

a. <u>FAA Sec. 502B.</u> Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

NO

II. 5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

   Procurement of commodities a services under the grant wil be according to established A.I.D. Reg. 1 procedures.

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

   The grant authorized procure ment from U.S. only, except A.I.D. may otherwise agree.

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

   Jordan does not discriminate against U.S. marine insuranc companies.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of an agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

   No such procurement is contemplated.

5. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?

It is not so excluded. A.I.D Reg. 1, which is to be incorporated in the grant agreement covers this requirement.

6. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

N/A

7. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N/A

8. FY - 1985 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States.

YES

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interests?	**No such contract is contemplated.**
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	**N/A**
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?	**N/A**

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	**N/A**
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	**N/A**
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	**N/A**

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1985 Continuing Resolution Sec. 527: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilizations as a method of family planning, or to coerce or provide financing incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? — YES

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? — YES

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — YES

d. FAA Sec. 662. For CIA activities? — YES

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — YES

f. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — YES

g. FY 1985 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? — YES

h. <u>FY 1985 Continuing Resolution, Sec. 506.</u> To carry out provisions of FAA Section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — **YES**

i. <u>FY 1985 Continuing Resolution, Sec. 510.</u> To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — **YES**

j. <u>FY 1985 Continuing Resolution, Sec. 511.</u> Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — **NO**

k. <u>FY 1985 Continuing Resolution, Sec. 515.</u> To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — **YES**

III. NON-PROJECT ASSISTANCE CHECKLIST

The criteria listed in part A are applicable generally to FAA funds, and should be used irrespective of the Program's funding source. In part B a distinction is made between the criteria applicable to Economic Support Fund Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 85 Continuing Resolution Sec. 525: FAA Sec. 653(B); 634A

(a) Describe how Committees on appropriations of Senate and House have been or will be notified concerning the non-project assistance.

Because this program originated with the Supplemental Appropriation Act of FY 1985, no Congressional Notification is necessary.

(b) Is assistance within (Operational year budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10)?

NO

2. FAA Sec. 611(a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative actio is required to implement the program other than the customary ratification of th signed grant agreement.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organization? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

The program is not susceptib to execution as part of a regional multilateral progra Assistance is not expected t encourage regional developme programs.

4. FAA Sec. 601(a). Information and conclusions whether assistance will encourage efforts of the country to:

(a) increase the flow of international trade;

This program will increase the flow of international trade by providing necessary foreign exchange for importing goods.

(b) foster private initiative and competition;

The program is designed to foster private initiative and competition to the maximum extent possible.

(c) encourage development and use of cooperatives, credit unions, and savings and loan associations;

No perceptible impact on such activities is attibutable to this program.

(d) discourage monopolistic practices;

No perceptible reduction of such practices is attibutable to this program.

(e) improve technical efficiency of industry, agriculture and commerce; and

Imports of raw materials and spare parts significantly enhance the technical efficiency of industry, agriculture and commerce.

(f) strengthen free labor unions.

No perceptible impact.

5. FAA Sec. 601 (b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs including use of private trade channels and the services of U.S. private enterprise.

To the extent that trade patterns between Jordan and the U.S. are expected to grow and expand, we foresee this program as having a positive effect.

6. FAA Sec. 612(b), Sec. 636(h); FY 85 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized in loan of dollars.

Program essentially provides foreign exchange assistance for commodity imports.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

NO

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund Assistance

(a) FAA Sec. 531. Will this assistance promote economic or political stability?

It will promote economic stability by providing vital foreign exchange required for Jordan's development.

To the extent possible, does it reflect the policy directions of Section 102?

Yes, the program reflects the policy direction of Section 102 to the extent possible.

2. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Special Account (counterpart) arrangements are presently being set up and will be operating prior to any disbursement of funds under this program.

ANNEX F

INTERVIEWS WITH POTENTIAL IMPORTERS AND GOVERNMENT AGENCIES

I. PUBLIC SECTOR

1. Ministry of Trade and Industry

Dr. Akram Jamil Karmoul - Mustafa Zahran

The Ministry set up a committee to ascertain the need of public sector and parastatal imports from the U.S. This list will contain a broad outline of the commodities and will be submitted to the Prime Minister for approval. The approved items will be submitted to USAID for comment/approval. It has as yet not been decided which government ministry will administer the CIP.

2. Jordan Potash Company

Ali Yousef Ensour, Managing Director

The Jordan Potash Company was very enthusiastic about the possible availability of CIP funds. Their plant and equipment to a large extent is of American origin and necessary spare parts cost about $10 million per year. Additionally, they need to expand their truck fleet and would like to again purchase Mack Trucks which gave them good service.

3. Natural Resources Authority

Dr. Ramadan

The authority is anxious to purchase testing and measuring instruments for their shale oil project. They are also in urgent need of a narrow-hole drill which is only available from the U.S.

4. Alia Airlines

Ali Ghandour, General Manager

Alia has two priority requirements for which Mr. Ghandour intends to use CIP funds. One is for simulators for cabin crew training for emergencies. We understand the building for housing these units is already completed. The second is for equipment and supplies for a hospital facility at the new airport. They are also be interested in additional security equipment. Mr. Ghandour is also anxious to provide seed money (local exchange) for a STOL Turbo prop privately-owned airline to connect Amman with Aqaba, Petra and the Jordan Valley. Another urgent need for which Alia would provide seed money is for a hovercraft, car ferry to connect Aqaba with some port in the Sinai. This would cut the travel time to Cairo in half.

5. Agricultural Credit Corporation

Burhan Sharabi, Deputy Director

The Agricultural Credit Corporation does not purchase pumps and irrigation equipment on its own account, but depends on private sector distributors of such equipment to import it. The corporation purchases it from the importers and makes it available to farmers or cooperatives on seasonal (one year), short term (2 years), medium term (2-10 years) and long term (for fruit trees) credit terms. In 1983, two hundred twenty three pumps and accessories for deep well pumps and irrigation equipment was procured on this basis for three agricultural districts, and sixty more in 1984. Mr. Sharabi was of the opinion that some of these private sector companies would be anxious to take advantage of the availability of CIP funds. Subsequently, we were told that U.S. equipment was too expensive for this purpose (See Najib Baki below).

II. PRIVATE SECTOR

1. Chamber of Commerce

Hamdi Tabbaa, Chairman

Mr. Tabbaa is convinced that the availability of CIP funds will be of great interest to the Chamber's members. He particularly mentioned companies importing for the agricultural, the transportation and the construction sectors. While the latter is currently very depressed, he believes much equipment is needed for infrastructure projects which can not be delayed. Mr. Tabbaa was concerned that the Chamber was not consulted by the Government task force which is collecting information about commodities which will be eligible for financing with CIP funds.

While the majority of the Chamber's members are private sector companies, parastatals such as the Jordan Potash Company and Alia are members.

2. <u>Engineering Trading Company (ETCO)</u>

Nabil Audi, Deputy Director

ETCO is the distributor of GROVE cranes and American Curtis cherry pickers. Their business of imports from the U.S. was very active until two years ago, but the depressed situation in the construction sector and the high value of the dollar have practically dried up demand for U.S. made construction equipment. Construction companies which have a contract but can not count on a subsequent one will only buy the cheapest equipment available on a world wide basis which can be amortized during the contract in hand.

3. <u>Mamdouh Abu Hassan, Consultant</u>

Mr. Abu Hassan does not represent individual U.S. Companies on an exclusive basis but is consulted by many interested in the Jordanian market. Specifically, companies depend on his advice as to whether to participate in Jordanian tenders. He told us that in the last couple of years he dissuaded most of his clients from spending money on the preparation of BID documents as he considered an award for U.S. equipment to have only an outside chance. He thought, however, that the Jordan Potash Company, the refinery, the Fertilizer Company and especially the Phosphate Company would be eager to take advantage of the availability of CIP funds to pay for imports from the U.S.

4. <u>Jordan Tractor Company</u>

<u>Mr. Jaafar Shami, Chairman</u>
<u>Faik Daher Khatib, Deputy General Manager</u>

The Jordan Tractor Company is part of the Jallad & Fils group which is the exclusive distributor for the Caterpillar Tractor Company in Jordan, Lebanon and Syria. Stocks of Caterpillar equipment which previously were kept in Lebanon and Syria are now kept in Jordan. In addition to caterpillar they are the distributor of MARION and of the John Deere agricultural tractors. They are very interested in using CIP funds for purchases of Caterpillar equipment for stock, provided they are accorded five year credit terms and the exchange rate is fixed at the time of opening of a letter of credit. They are aware of the prohibition of reexport of CIP-financed equipment to their other markets. Recently they sold nineteen caterpillar bulldozers and shovels to the

Phosphate Company and expect to have a good chance for further sales. They expect also to have an excellent chance for the sale of Marion draglines to the same company. John Deere farm tractors of less than 100 HP, which are almost exclusively needed in Jordan, are not manufactured in the U.S. and the market for larger units which are available in U.S. is very small.

5. National Cash Register Corporation

Donald Pengilley, Resident Manager

NCR's business in Jordan has been good in spite the general slowdown in the economy. NCR, however, is the only U.S. company in Amman with complete service and advisory facilities.

When NCR purchases for stock in its own name for private sector customers they have to get an import license from the Ministry of Trade and Industry which costs 4% of the purchase price. After that they have to get an exchange permit from the Central Bank which charges 0.25% Ad valorem. When NCR purchases computers and other items for delivery to the Government the sale is exempted from the import license fee. NCR advised that they would take advantage of the CIP funds to purchase for stock if the payment of local currency to the bank opening the Letter of Credit would be stretched out over a period of three years.

6. Near East Engineering Company

Munir H. Atallah, Managing Director

This company is the Jordan distributor for Mack Trucks and P & H cranes from the U.S. Sales of both companies' products have declined in the last two years. The Company claims to be the only one in Jordan with full service and repair facilities for trucks and cranes. We were told that both lines are popular in Jordan and that their customers would buy their products if they were no more than 10% more expensive than equipment of their competitors from other countries. They believe that they will be able to use CIP funds for additional sales if extended credit terms are available. We were also told that the Potash Company needs more trucks and, being satisfied with the Mack Trucks performance, would like to standardize.

7. Najib Baki & Sons

Amin Ayyad, Manager

This Company was recommended to us by the Agricultural Credit Corporation as a major importer of pumps and irrigation equipment from which it is purchasing such items for its borrowers. The company is the local distributor of the Worthington Pump Company of the United States. In 1983, it imported JD 2 million worth of pumps, but none since then. They claim that pumps from Cyprus and Turkey are so much cheaper that the U.S. product can no longer be sold. Baki does not believe that availability of CIP funds will change this situation for them as they have been offered generous credit terms from suppliers in other countries. Volvo's local dealer, for instance, offers two year no interest payment terms. Ayyad does not even foresee use of CIP funds for spare parts since import duty for spares amounts to 47 1/2 % and his customers will rather buy new pumps then having them repaired at high cost.

8. Electro Mechanical Contracting Company

Engineer Abbas Nabulsi, Chairman

Mr. Nabulsi is chairman of this company and of three others of which one is the Jordan Air conditioning Company. This company is in negotiations with American Companies of central air conditioning units - DUNHAM Bush and York - to manufacture units in Jordan under license. Imported units are charged 80% import duty on the C and F value and freight costs per unit amount to 30-40% of the value of the unit. Nabulsi, therefore, foresees good business in manufacturing air conditioning in Jordan for local need and export to the Gulf Countries. A building to house this manufacturing operation is already erected and Nabulsi sees the CIP availability as helpful in arranging import of JD 2 million worth of machinery and components per year from the U.S.

Another of his companies the Jordan Metal Works, needs galvanizing equipment valued at JD 5 million which he believes can best be procured from the U.S. The Electro Mechanical Contracting Company is bidding for the construction of several storage tanks for the refinery. If it wins the award it will import very large welding units which Nabulsi again believes must be bought from the U.S.

9. Amman Chamber of Industry

Isam Bedeir, General Director

The Chamber of Industry was only interested to be briefed about the mechanics of the CIP. They refused to express any opinion as to whether this project would be of interest to the Chamber's members.

III. BANKS

1. National City Bank

Jim Wilson, Deputy Manager
Zeinab Hashem, Resident Vice President

The operation of the private sector CIP was explained to Mr. Wilson and associates with special emphasis on the bank's obligation to collect the local currency equivalent of the CIP dollars from clients at predetermined periods and to deposit the funds in a special account of the Central Bank. They expressed an interest in participating in the implementation of the private sector CIP if they were authorized to retain 2 1/2% for administrative fees including assumption of credit risk out of the 8.5% interest which they have to collected from their customers.

2. Chase Manhattan Bank N.A.

Khalil Nasr, Second Vice President

Discussions with Chase followed the same line as those with NCB. They too expressed interest in participation in private sector CIP implementation at the same 2.5% for fee and assumption of credit risk.

3. Manufacturers Hanover Trust Company

Hussein B. El-Tawil, Representative

The Manufacturers Hanover Trust Company only has a representative office in Jordan and as such will not be able to participate in the private sector CIP business. They will however endeavor to persuade the GOJ to select their head office in New York as one of the L/COM Banks for public sector transactions.

4. Arab Bank

Abdul Magid Shoman, Chairman

Arab Bank estimated that 80% of potential importers with access to CIP funds would use their bank for their transactions. As the major commercial bank in Jordan they will attempt to capture their share of both public and private sector CIP transactions especially since their branch in New York, under A.I.D. regulations can become a L/COM bank for the public and private sector transactions.

5. National Bank

Abdul Haddad, Director of Research

Mr. Haddad provided an overview of the banking system in Jordan and supplied recent Central Bank data on the economy. He distinguished between two separate types of parastatal entities which may use the CIP:

a. Government Companies - which are wholly owned and operated by the GOJ.

b. Public Corporations - stock companies which are partially owned by the Government and typically have GOJ representation on the board of directors.

ANNEX G

JORDAN BANKING SYSTEM

COMMERCIAL BANKS

National Banks

Arab Banks Ltd.
Jordan National Bank
Bank of Jordan
Cairo-Amman Bank
Jordan-Kuwait Bank
Jordan and Gulf Bank
Petra Bank
Syrian-Jordan Bank
Jordan Islamic Bank

Foreign Banks

British Bank of the Middle East
Arab Land Bank
Rafidain Bank
Grindleys Bank
Bank Al-Mashrek
City Bank
Bank of Credit and Commerce International
The Chase Manhattan Bank

Specialized Credit Institutions:

Public Ownership

Agricultural Credit Corporation

Cities and Villages Development Banks

Jordan Co-operative Organization

Joint Ownership

Industrial Development Bank

Housing Bank

ANNEX H

TERM STRUCTURE OF LENDING RATES

PERIOD	CENTRAL BANK Advances To Banks	COMMERCIAL BANKS Overdrafts	Loans
1980	6.5 - 7.5	9.00	9.00
1981	6.5 - 7.5	9.00	9.00
1982	6.5 - 7.5	9.00	9.00
1983	6.17 - 7.42	8.81	8.81
1984	6.0 - 7.25	8.75	8.75

ANNEX H

TERM STRUCTURE OF DEPOSIT RATES

PERIOD	COMMERCIAL BANK			
	Demand	Savings	Subject to notice	Time
1980	2.00	5.50	6.25	6.40
1981	2.00	5.50	6.25	6.50
1982	2.50	5.50	6.25	6.50
1983	4.00	5.88	6.25	6.50
1984	4.00	6.33	6.25	6.50-8.50

ANNEX I

SECTORAL DISTRIBUTION OF OUTSTANDING COMMERCIAL BANKS CREDIT

IN THOUSANDS OF JDs

SECTOR	1980	1981	1982	1983	1984
Total	563,856	721,317	887,171	1,030,322	1,184,825
Municipalities and Public Corporations	31,851	45,000	64,499	65,434	85,064
Agriculture	17,205	19,386	24,630	25,626	25,659
Mining	4,357	6,827	14,069	20,542	27,416
Industry	68,718	82,437	98,532	118,428	142,372
General Commerce & Trade	166,956	225,791	284,944	276,650	296,097
Construction	180,758	201,036	216,753	271,345	324,055
Transportation	14,479	23,286	32,887	50,483	58,482
Tourism, Hotels and restaurants	11,843	15,810	20,485	25,683	23,716
Financial Institutions	8,699	9,359	19,602	25,637	29,592
Professional and Private Individuals	38,717	60,834	69,596	108,096	121,459
Other	20,273	31,471	41,174	42,998	50,913

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ANNEX I

DEPOSITS OF COMMERCIAL BANKS BY TYPE OF DEPOSITS
IN THOUSANDS OF JDs

TYPE OF DEPOSITS	1980	1981	1982	1983	1984
TOTAL DEPOSITS	808.478	977.648	1,16[illegible],479	1,397,821	1,603,087
Demand	288,100	316,510	354,501	387,763	409,635
Time (Due on Fixed Dates)	297,110	372,880	491,822	676,068	824,567
Time (Subject to Notice)	94,208	127,113	134,738	118,060	133,745
Savings	129,060	161,145	188,418	215,930	235,140

Feb. 28, 1986

TO: ANE/DAA; R. Bell

THRU: ANE/PD; P. Bloom

FROM: ANE/PD/MEDNE; S. Freundlich

SUBJECT: JORDAN CIP; possible procurement of Dragline Equipment for Phosphate Mining

Per your request I discussed, with both the desk and PPC, the situation related to possible use of CIP funding for Jordanian procurement of DRAGLINE EQUIPMENT FOR PHOSPHATE MINES. The present status is as follows;

1. Both the EXIM Bank and the British gov't have been advised that USAID/Jordan considers the CIP as an acceptable source of financing for a possible Jordanian procurement of such equipment from US suppliers.

2. The British gov't has been advised that only a US source procurment would qualify for financing under the terms of the CIP. British firms are not eligible.

3. The Mission has advised the GOJ that CIP would be available if US bidder is selected to supply subject equipment.

4. At least two bids are being considered by the GOJ for the subject equipment (one a US firm and the other a British firm). The GOJ is presently considering which bid to accept. I understand that the British firm would have to manufacture the equipment from scratch, while it would be an "off-shelf" procurment from the US firm.

5. The British are very actively seeking to win the bid and are presently considering offering "concessional terms" to finance the procurement.

6. The EXIM Bank is NOT interested in providing a mixed-credit package of financing at this time.

I will stay in touch with the situation and will keep you advised as appropriate.

CLEARNCE:
ANE/PD/MEDNE; MSINDING

INFORMATION:
ANE/MENA; JWILSON
PPC/DC; PBALDWIN

FILE

CIP Jordan K643