SURVEY OF INITIAL PROSPECTS FOR PRIVATIZATION IN THE

HASHEMITE KINGDOM OF JORDAN

REPORT BY

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HASHEMITE KINGDOM OF JORDAN

Executive Summary

This is a report on a ten-day mission to Jordan to review and assess the prospects for privatization in the country, with particular emphasis on the enterprises and activities that have been mentioned in the past year as likely candidates.

The Government of Jordan (GOJ) is committed to move forward with privatization and considerable work has been done in preparation. There are few legal impediments, and these are being dealt with by new legislation. There is a willingness to accept a degree of foreign ownership. There is seen to be a considerable advantage in freeing these enterprises from the necessity to adhere to the laws and regulations governing the civil service, particularly the rigid salary structure and the tendency toward excess personnel. The continuity of policy characteristic of the GOJ should assure that privatization will move forward, even though the strong support at the ministerial and top executive level is less apparent in the middle management levels of the bureaucracy and the enterprises. To better assure this, it is recommended that a small high level ministerial divestiture unit be established to prioritize, direct and energize the privatization process. It might also engage in a systematic review of all areas of GOJ participations in the economy, with the possibility of broadening the list of activities that might be privatized to include, for example, cement, potash and banking.

The depressed state of the economy resulting from the significant decline in oil prices over the past two years is a deterrent to the early sale of shares in the marketplace because of lower earnings as well as restricted availability of capital for investment. Much can be done, however, without waiting for recovery.

Considerable progress toward ultimate sale of shares has been made by Alia - The Royal Jordanian Airline, which is planning the refurbishing of its image and the elimination (refinancing) of its foreign debt (guaranteed by the GOJ) through sale and leaseback of its aircraft with the aim of increasing its capital and improving its capital structure. It is recommended that it move forward with this program even though the current depressed capital markets may preclude full privatization for the time being. The Company's strong leadership gives confidence that the process can be carried out. Limited technical advice to be provided by the Center for Privatization with USAID funding is proposed.

The Public Transportation Corporation, which operates the bus system, is another candidate. It appears that there is considerable opportunity for improvement of the service and increased profitability through privatizing and adapting to market needs. A four to six months USAID-financed study of the changes to be brought about in the process of privatization is proposed, which should define a program to be carried out promptly thereafter.

The Telecommunications Corporation is ready to make a serious study of the change and restructuring that should take place coincident with privatization, and technical assistance to identify the areas for change is recommended. Senior management has private sector experience and will provide leadership. Initial advisory services to be financed by USAID are recommended, and further advice may become appropriate.

Other enterprises or activities reviewed in less detail, including the Port of Aqaba, appear to offer less potential to have significant impact or presently appear inappropriate. In certain cases measures are being taken to clear the way for ultimate privatization transactions.

In considering the benefits of privatization and subjecting GOJ-owned activities to free market forces unhampered by strategic or political considerations, it is important to remember that in the final analysis such benefits are only achieved through transfer of actual control of enterprises out of the hands of government and into the hands of private sector owners or boards free to make choices without government interference. Anything less is really not privatization, and cannot be expected to bring about lasting changes.

HASHEMITE KINGDOM OF JORDAN

Reconnaisance Mission

A team from the Center for Privatization visited Jordan during the period July 8 - 18, 1986. The purpose was (1) to gain a general overview of the prospects for privatization in Jordan, and a feeling for the potential success of privatization of certain Government-owned entities already identified as early candidates or under consideration and (2) to make a more intensive study of the possible privatization of the Amman public transport system and outline a program for determining feasibility and (if appropriate) implementing recommended steps. Mr. Tomlinson is responsible for the sections of this report responsive to (1) above and Messrs. Shephard and Washington ("bus team") are responsible for the section on the public transport system. The team received full support from the Embassy and the USAID Mission and from the enterprises and Government Ministries concerned with the activities discussed herein. This excellent cooperation, made it possible for the team to learn a great deal in an admittedly short visit. In addition, the USAID Country Development Strategy Statement for Jordan, published in May 1986, being completely up-to-date and impressively thorough and perceptive, was very helpful to the team in getting "up to speed" and is recommended reading for anyone with a serious interest in the matters covered herein.

Assessment of Jordan's Potential for Privatization

The Government of Jordan's new five-year plan for 1986-1990 states a preference for market forces and private initiative and an intention to restrict the public sector to provision of infrastructure and the creation of "initial momentum" for large scale enterprises where private initiative is lacking. An important element in its strategy is privatization of Government activities and, as indicated herein, certain initial steps are being taken toward this end, particularly for Alia - The Royal Jordanian Airline, the Telecommunications Corporation and the Amman public transport system. The degree of commitment is strong; the program has the full support of the King and the Prime Minister. The Economic Advisor to the Prime Minister and the various Ministers and corporate chief executives involved with the major candidates are solidly behind the primary program. While efficiency and cost savings are seen as the primary benefits, there is in the middle management group a lack of consciousness that an element in present costs is the interest on and amortization of the Government debt attributable to the assets employed; they take pride in the present "profitability" of their activities while major sunk costs are ignored.

The high degree of political stability in Jordan under the leadership of King Hussein assures continuity of the privatization policy. To the extent that the reform of the enterprises represents a legal barrier, it may be readily changed and this in fact is being done in several cases in anticipation of privatization. There do not appear to be significant obstructions. If there is a limiting factor, it is the current depressed economic picture resulting primarily from the decline in oil prices. While the Jordanian economy has held up surprisingly well, contributions from the oil-producing Arab countries have dropped very significantly, and there has been some increase in unemployment resulting therefrom and from the return of Jordanian workers who had been employed in neighboring Arab countries. Despite the latter, remittances from expatriate workers have held up surprisingly well and continue to exceed US $1 billion annually.

The high degree of government ownership in natural resource based industry reflects the huge amounts of investment required in this sector and the fact that much has been paid for out of official donor funds. USAID estimates that close to 45% of the gross domestic product is accounted for by firms controlled (i.e. more than 50% owned) by the Government; such firms account for a similar proportion of employment.

The business climate in Jordan is relatively favorable, although the latest USAID Country Development Strategy Statement (May 1986) identifies a number of weaknesses to which attention needs to be directed.

The domestic financial markets are not well developed, although considerable attention is being paid to their possible improvement. Current studies are underway financed by the USAID Private Enterprise Bureau. Access to external capital markets is limited because of the general uncertainties regarding the Middle East. Capital would be particularly hard to raise currently for Jordanian enterprises because of the depressed economy in the region.

Privatization is a major agenda item enjoying significant emphasis in the USAID Mission in Jordan, with strong support from Ambassador Boeker.

While it can be said that everyone is in favor of privatization, there is little evidence of progress except perhaps within Alia. This appears to result from the lack of a defined focus of overall responsibility for carrying out the basic Government mandate. It would be very desirable that an individual (at Ministerial level) or a small committee (say the Minister of Finance and the Minister of Industry) be designated and empowered, working with the particular minister involved in any particular privatization, to formulate a basic strategy, define priorities, and establish time tables, provide impetus and direct the implementation of privatization. The Economic Advisor to the Prime Minister would appear well suited to serve as "Secretary" to provide the committee with continuity, interdepartmental communications and staff support. Regardless of who is designated, the important thing is to centralize the authority to make the decisions respecting privatization at a sufficiently high level that the power to get things done will be clear. Instituting such a body would do much to accelerate the process that is in fact going on, but without a sense of direction.

A committee so designated may wish to have the assistance of a technical advisor to develop the strategy framework for a privatization program, and perhaps advise with respect to its implementation. It is suggested that, if desired, USAID might provide such an advisor through the Center for Privatization. This might facilitate a broader review of privatization candidates including major economic activities such as cement production, potash mining and banking.

PUBLIC TRANSPORT CORPORATION (PTC)

The Company

The PTC is a company 100% owned by the GOJ with an estimated book value of not more than JD 7 million, say US $22 million. Half of this value is represented by its new HQ/Depot buildings. It has outstanding liabilities of some JD 2.5 million, incurred in respect of German MAN buses financed by GOJ and the Arab Bank. Taking into account capital repayments, interest and depreciation the PTC will in 1986 be just over JD 2 million in deficit. Leaving those aside it operates at about break-even.

The PTC has an effective fleet of 330 buses. 100 more buses are due for scrapping. Out of those 330 it puts out 290 in daily service, which implies adequate maintenance. PTC fares are fixed by government and increased with difficulty.

Effectively, in Amman City, there is a dominant fare of 70 fils (about US $0.20). Of the PTC routes (47 in the City and 14 outside) about one-third are very profitable, a third break-even and the remainder unprofitable. The last category comprises socially obligatory routes dictated to the PTC by one or another of the major agencies which have some say in how the PTC operates.

The consultants estimate that the PTC accounts for 17% of fare-paying transit passengers in Greater Amman. The rest are carried by 'servis' shared taxis and call-taxis many of which operate jitney style on prescribed routes.

PTC management consists of 3 senior executives, all of whom have good personal qualities but lack commercial transport experience. A privatized PTC might wish to replace or strengthen this management. PTC labor is poorly paid and without incentive. Control of the PTC is diffuse and inadequate, being split between 3 ministries, the police and the Municipality. The Ministry of Transport (MOT) wants to see a public transport system which privately and without subsidy meets the total travel demand with reasonable speed, frequency and comfort. This implies unified control under one ministry - the MOT.

The competition consists entirely of taxis for which data are poor. The fleet probably numbers about 15,000 five-seat vehicles. The taxifleet is not growing although licenses are available. The demand will grow once services are improved.

Private-car and truck movements considerably exceed bus and taxi movements and result in congestion at many points. Public transport supply and viability has to be improved side by side with decongestive measures.

A more complete description of the PTC situation, including statistical material is set forth in Appendix I.

Objectives of Privatization

The Minister of Transport openly declares the intention to privatize the PTC. His senior officials agree but want expert help to provide a comprehensive package of measures:

(a) to ensure that a private PTC does not simply drift into bankruptcy

(b) to improve the whole transport/traffic ambience.

As an earnest of firm intentions the MOT points to its refusal to allow the PTC to buy 150 new buses.

The Ministry's concern to study quickly but comprehensively the privatization of the PTC gives the opportunity for a major deregulatory and competitive constituency to be developed in detail in a highly visible arena.

A scope-of-work paper has been submitted (Appendix II) which outlines what the MOT considers to be minimum study requirements. Such a study is not required merely to privatize the PTC but it is necessary if a full program of improvements affecting the whole public transport sector is to be implemented.

The critical issues, as seen by the Jordanian MOT and the USAID mission/consultants, are illustrated in the scope of services set forth in Appendix II. The abolition of the PTC monopoly and a decision to let it sink or swim on commercial criteria and performance has obliged the Jordanians to consider the total demand/supply situation as regards public transportation in and around Amman. The PTC can be isolated and privatized but that action provides the opportunity to make many other improvements in the provision, operation and control of all transport modes. If properly handled the overall result should be not only a totally private supply but improved/upgraded transport in the Amman area.

The USAID mission in Jordan and CFP are anxious to assist in the rapid privatization of PTC. GOJ wants to study the PTC and related transport issues carefully to ensure success and overall improvement in mass-transit.

Recommendations

It is suggested that the study defined in Appendix II be undertaken subject to its acceptance as a pre-implementation exercise. The MOT also needs to confirm the availability of senior officials collaborating with outside experts in completing the study and in dealing with its associated policy implications.

Properly executed, this study and pre-implementation exercise will be a model for other countries with similar attitudes and problems. The privatization of one relatively small company, the PTC, is being used to develop and commit a whole series of improvements. It has been assumed that the existing consultant team will complete the follow-up work assisted by limited input from a Transport Economist and Traffic Engineer/Manager. The total time to completion would be of the order of four to six months and require a total technical advisory commitment of about 12 person-months at a cost in the neighborhood of $200,000. Upon its completion in early 1987 GOJ would be committed to complete privatization, de-regulation and the up-grading of services and equipment. Major traffic management measures would also be involved. There should not be any hidden financial commitment in this; the finance/leasing market in Jordan is large and sophisticated enough to support up-grading.

ALIA - THE ROYAL JORDANIAN AIRLINE CORPORATION

The Corporation

Alia, an autonomous government corporation, is without doubt the most highly visible company in Jordan and is widely recognized as a well-managed enterprise with a specially favored position in Jordan as (it was once described to me) a "son" of the King. Its Chairman and Chief Executive Officer, Mr. Ali Ghandour, a dynamic and innovative manager, is well known and highly regarded in international aviation circles.

Alia has been earmarked by the Government for privatization before year-end 1986. A number of measures have been or are being taken by management to prepare for this, and from a technical standpoint it may be considered feasible assuming a favorable report from experts (referred to below) on the proposed operating and earnings plan. This may hinge to a question of definition, i.e. whether an actual public sale of stock is required. Because of Alia's special standing, a large sale would have been quite possible two years ago, but present capital scarcity and economic uncertainty, coincident with continuing operating losses for the airline itself, suggest that a public sale of shares would be difficult prior to recovery.

It appears that revenues from operations have been sufficient to substantially cover airline operating costs, including depreciation. The operating loss was JD 3.6 million in 1984 and JD 3.0 million in 1985.* However, interest costs in the neighborhood of JD 20 million have been only partly covered by income from investments in other activities such as hotels, executive charter services, and maintenance and catering for other airlines. Equity in such investments on the Company's books at December 31, 1984 totalled JD 19.4 million, although

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* A Jordanian Dinar currently equals US $ 3.02

carried at somewhat higher figures on the balance sheet. Capitalization of Alia was (millions of dinars):

	12/31/1984	12/31/1985
Long term debt, includ. current portion	JD 174.6	JD 178.6
Equity of Government	20.8	22.6
TOTAL	JD 195.4	JD 201.2

Arrangements are currently being negotiated to sell and lease back the Company's aircraft on a basis expected to pay off all the present foreign long term debt (on the books at September 1, 1986 at US $ 471.7 million) and provide a cash infusion. Pro forma balance sheet and income statements to reflect this basic change are not available. A contract to acquire 12 new Airbus planes over the next five years will also be on a lease basis.

The Company's facilities at Queen Alia International Airport, Amman, for aircraft maintenance and for catering are up to date and well managed. A well thought out (and expensive) program to update, renew and change the airline's name recognition, image and decor is about to be implemented. A significant cut in personnel took place last winter and additional redundant personnel have been identified.

Privatization would not alter the airline's status as designated flag carrier for Jordan. It might, however, afford opportunities for regional or other cross-border ties or integration which could benefit Alia operations.

Objectives of Privatization

Among the goals to be achieved through privatization cited by the Government officials or by management are the following:

(a) Availability of capital from private sources and without GOJ guarantees (which have not in the past been invoked). GOJ is reluctant to provide additional capital.

(b) Freedom of action in route selection or expansion, meeting competition, etc.

(c) Ability to provide profit incentives to employees through stock ownership.

(d) Freedom from GOJ requirements: (1) to purchase fuel at a regulated price [currently $.89/gal. v. prevailing price of $.49/gal. in New York; at the height of the oil crisis this represented a subsidy and might again], and (2) to provide 25% discount for Government employees, 50% for ambassadors and retired army personnel and families and frequent free tickets.

(e) Improved quality of products (and of employees) because of more questions being asked by shareholders.

The only subsidy acknowledged by management to be available at present is free landing rights at Queen Alia International Airport, Amman, which is felt to be worth far less than the costs involved in (d) above. An additional cost in the past has been occasional the need to provide an aircraft on request for official Government use which has caused disruption because of the lack of any backup aircraft. Such requests are not expected in the future, whether or not privatization takes place, and the Company anticipates as a part of its airbus program to maintain a backup plane to assure its own schedule maintenance.

The foregoing concerns and possibilities are the classic potential of privatization and, even for a company as well managed as Alia, offer the expectation of improved performance and profitability.

Plans for Privatization

It is presently expected that the aim of privatization would be to reduce government ownership to 30% over time (referred to herein as "full" privatization), and to achieve this (at least in part) through sales of new stock, rather than a portion of the present GOJ equity holding, in order to significantly increase total equity beyond the potential addition through sale and leaseback of aircraft. It is contemplated that 10% would be sold (on an installment payment basis) to employees of the Company (at all levels) at a favorable price but with no right to sell for perhaps five years. GOJ and management are willing to see perhaps 20% sold to foreign buyers. Studies of the values of Alia assets are being made by the financial staff. Assuming that sales can be made (except to employees) at the equity book value of GOJ holdings (at 12/31/1985) amounting to JD 22.6 million, the range of possibilities may be roughly tabulated as follows (in millions of Jordan Dinars):

Holders	EFFECT OF FULL PRIVATIZATION Sale of Existing GOJ Equity	Sale of New Equity Shares
GOJ	JD 6.8	JD 22.6
Employees (at 1/2 price)	1.1	3.8
Foreigners	4.5	15.1
Domestic market and institutions	9.1	30.1
	--------	--------
	JD 21.5	JD 71.6
	=========	=========
Range of potential amounts of new capital for Alia	-0-	JD 49.0

In considering these figures, it must be emphasized that they are based on assumed book values. This is essentially unrealistic, since share prices actually obtainable in the market are generally much less dependent on asset values than on earnings and dividend growth expectations compared with alternative market investment opportunities.

In any event, the projection of new capital of nearly JD 50 million is very likely optimistic, particularly if so much of it is to be sought from within Jordan. The writer has made no study or investigation of the Jordan capital market or potential foreign interest, but a more modest goal appears appropriate under present economic circumstances.

Economic Factors

As indicated elsewhere, the economy of Jordan, which demonstrated impressive growth over the past decade, has been severely affected by declining oil prices and the collapse of the oil boom in adjacent countries. There has been a very significant drop in annual contributions to Jordan from oil-producing Arab countries, and their own problems have resulted in some loss of employment (although reportedly surprisingly little) of Jordanians in those countries which, at their peak, produced annual remittances to Jordan exceeding US$ 1.2 billion. The slowdown in the Arab World generally, together with the adverse effect on tourism of continuing unrest and terrorism, have likewise affected Alia's revenues. All these circumstances have, at least temporarily, reduced the level of confidence which only two years ago would have assured a highly successful sale of Alia stock in the domestic market and abroad as well.

Conclusions - Recommended Program

It is the writer's recommendation that Alia move forward with its privatization plan even though it may not be possible to carry out a public sale of shares under the present conditions. An initial program is outlined below.

Under most circumstances in less developed countries around the world, adoption of a plan contemplating future privatization, after immediate goals of improved performance are achieved under government control, tends to lead to abandonment of the desire to sell after the enterprise achieves profitability. The classic result is that it then sinks back into poor results under resumed restrictive government practices.

However, continuity of policy is a hallmark of the GOJ more than of almost any other country. Accordingly, since the basic national policy decision to privatize wherever appropriate has been made, it would seem appropriate for Alia to proceed as far as is practical at present, and take advantage of future improvement in conditions to complete any remaining steps. Much would be gained by naming a new board of directors consisting of private sector businessmen (not necessarily all Jordanians if one or more prestigious foreigners can bring to the board not so much international standing as particular skills or judgment of value to management) with perhaps only the single GOJ representative that is contemplated under full privatization, and allowing the management and board to begin to act independently in accordance with a publicly stated profit mandate and articulated goals generally corresponding to the kind of objectives listed above. If possible, it would seem desirable to have this new board in place prior to final approval of the sale and leaseback of aircraft, so that a matter so important to future operation will have their study and endorsement.

Sale of stock to employees in the absence of other sales can be risky, because there would be no easy benchmark against which to measure the value paid for and received. The writer believes, however, that a security could be designed (to be sold on an installment basis) that would give employees sufficient protection against failure to proceed further in the contemplated five-year holding period, but provide a conversion privilege related to ultimate public stock quotations which would offer real promise and encourage improved profit performance. Taking this step would be an important affirmation of intent to proceed with full privatization. Design and valuation of such security by a disinterested USAID or other foreign financial expert familiar with alternative employee stock ownership arrangements may be a useful way to approach this problem and achieve early employee participation.

If the decision is made by Alia that this is not the time for a public sale despite the very special appeal Alia should have to Jordanian and international investors, private offerings to selected domestic and foreign institutions or individuals should be considered on a basis which does not lead to early public stock price quotations. At the very least, there would be merit in a somewhat symbolic transaction involving sale of a block of Alia stock to the Pension Fund (with its proposed new investment structure) as another evidence of intention, to be followed in due course by redistribution to the public. Any isolated sale of a block to an entity other than a GOJ fund would probably be inappropriate, since it could lead to assertions of "Cronyism" in the absence of establishment of a fairly broadly accepted market price.

Technical Assistance

It is proposed that, as an initial step, the Center For Privatization provide the services of two highly qualified airline operating experts who could review the financial and operating results of Alia, both actual and adjusted to give effect to proposed operating and financing changes, and such other information as they deem relevant, and have an opportunity to interview Mr. Ali Ghandour, financial and operating management, to put them in a position to express an opinion as to the feasibility of proceeding with the outlined program, with any modifications they may suggest. Mrs. Judith Connor and Mr. William Kutzke have indicated their availability to carry out this assignment and Alia management has endorsed this choice. Since it is expected that much of the work would be done in Washington, the estimated cost is in the area of US $25,000 to $30,000. This study should be completed promptly and should provide a basis for the work described below.

In the event of a decision by the GOJ and Alia to proceed, the Center For privatization would be prepared to provide an individual with investment banking or other financial market expertise to survey the prospects for a successful sale of Alia stock under prevailing conditions and, if desired, a consultant to assist in design and valuation of a security to be offered to employees. Such limited advice preparatory to actual implementation of the privatization program would involve three to four person weeks of work at a cost in the neighborhood of US $25,000 to $30,000.

TELECOMMUNICATIONS CORPORATION

The Telecommunications Corporation, formerly a Government company but now a shareholding corporation (still 100% owned by the Government) has been publicly mentioned as a candidate for privatization for some time. While the writer has not had an opportunity to examine financial statements, there is no reason to believe that the Company could not be suitably adapted in such a way as to make it an attractive investment to the private sector. The Company's chief executive has significant private sector experience and is enthusiastic about the prospect of privatization. Several offers of consulting services to advise on the restructuring and privatization of the Company and its operations have been entertained, most recently from British Telecommunications, and some large fees have been mentioned.

A major institutional consulting contract may be unnecessary, or at least premature. At this stage the important thing is to define the areas where change of policy or restructuring appears appropriate to adapt to the private sector or take advantage of release from Government control. It is suggested that the Center for Privatization identify and provide, as short term advisor to the Ministry and the Director General (Mr. Mohammed Shahid Ismail) an experienced senior executive of an investor-owned national or regional telephone system. His assignment would be to make a sufficient survey of the operations of the company so that he could advise as to the changes or restructuring which should be undertaken in the process of privatization. This might include data collection and processing, computerization, determination of rate schedules, creation of profit centers, design of self-financing, redefinition of decision-making procedures, identification of any portion of the system (rural?) which should be segregated, salary or other personnel changes as the company is freed from civil service rules, potentially redundant personnel categories, etc. Experience with the process and mechanics of privatization does not appear to be nearly so important a prerequisite for such an advisor as does extensive operations experience managing a profitable private sector telephone system. This advice should lead to establishment of a detailed program for change with projection of the effect on financial and operating results and, assuming feasibility, a time schedule coordinated with steps implementing a change of ownership.

It is estimated that the foregoing could require two person-months, at a cost (to be funded by USAID) in the neighborhood of US $50,000 to $60,000. The detailed scope of work should be drafted with the assistance of the person selected and Mr. Ismail.

On completion of the above assignment, the scope of work for any further technical assistance could be drawn up. It is possible that many of the changes that might be proposed could be implemented by the executives and staff of the Company itself, or with temporary or other assistance from local sources.

PORT OF AQABA

The Ministry of Transport has given consideration to privatization of the Port of Aqaba, administered by the Ports Corporation. At the request of the Under-Secretary, I spent a half-day touring the port facilities and meeting with two port officials. So far as could be determined, no detailed study of the question has been made by management, and it was not clear what segment of the port activity is regarded as appropriate for privatization. It is probable that the potential is limited to privatizing the services at several of the 12 berths.

A brief description of port facilities is attached as Appendix IX. The berths, many of which are quite new reflecting a major program of expanding facilities in the past several years, are generally in excellent condition and well maintained. Projects listed under "E. Developments" in Appendix IX are largely completed. The major item referred to there is the oil exporting facility described below.

Because of the Iraq/Iran war, Iraq's ability to ship oil out through the Strait of Hormuz is affected. As a consequence arrangements were made to ship crude out through Jordan by tank truck at the current rate of some 160 to 170 trucks per day. At Iraqi expense a major transshipment facility was built at Aqaba to unload the trucks into a leased tanker at the berth, which serves as storage and pumps to ocean tankers at the rate of about one per month. The facility will become the property of GOJ in another year, but would be largely useless if Iraq became able to ship direct. In the meantime the main road to Aqaba from the North is undergoing gradual destruction by this "sausage pipeline" of trucks with loads well in excess of its design capacity.

This is illustrative of the potential for major international policy considerations to dictate use of Jordan's extremely limited port resources. Aqaba is Jordan's only access to the sea, and the total coastline of the country is approximately 15 miles. Steep hills rise close to the coast, leaving very little usable land for exploitation. An attempt is being made to develop what there is for both shipping and tourism, the former, of course, increasingly threatening the latter (particularly through pollution caused in the loading of increasing exports of phosphate). The writer is inclined to think that this scarcity factor is sufficient to suggest caution in considering transfer to private sector owners of control of the berths or any significant portion of the waterfront suitable for berths. If there ever was a physical resource that could properly be regarded as a "national treasure", Aqaba may be it, at least under present political conditions in the Middle East.

The foregoing is not to suggest that Government necessarily knows best. A major installation on the Aqaba port landscape is a huge modern timber processing plant completed as a GOJ investment in 1984. At a glance, it appears to be designed for very large capacity operations and is linked to a major berth facility, where it was expected large amounts of timber from the Far East would be landed to be sawed up and finished for local use and export around the Middle East. After a year of low volumes and dramatic losses it was shut down permanently and the equipment has been offered for sale. This experience has led Government officials to be appropriately wary of less than adequate feasibility studies.

While there was not enough time to make any detailed study, it may be that operation of the services at several of the berths could be contracted out and placed under the control of private entrepreneurs. The container facility, including extensive storage space, might be thought to be a case in point. It is modern and very well equipped, and has a high degree of operating efficiency. It can handle three ships at once (plus one RO/RO), using their unloading equipment as well as two gantry cranes each having a capacity of 25 containers per hour. It is said to show a good profit, but this appears to be without regard to the cost of the capital investment it represents. It is questionable whether it would be appropriate for the private sector to make a profit before amortization of capital costs, but the GOJ may wish to keep charges down for reasons related to the development of the Jordanian economy. At the same time, it may be argued that, even if a subsidy is to be involved, the private sector could operate the facilities at lower cost, and the GOJ could continue to absorb the related interest and debt amortization.

It is the writer's conclusion that the other potential candidates for privatization described above have a higher priority and are more likely to produce significant savings in the GOJ debt costs.

Mr. Anthony Shephard, who is expected to continue as advisor with regard to privatization of the bus company, is also experienced in management of port facilities. It is suggested that, subject to a strategy decision by the GOJ that contracting out or other form of privatization would be appropriate, arrangements be made for Mr. Shephard to visit Aqaba and consider what assistance he might be able to provide for such a project.

OTHER PRIVATIZATION CANDIDATES

The Pension Fund is frequently mentioned as a privatization candidate, although generally what is meant is the sale or other disposal of its investment in hotels, agribusiness and other activities that may be considered more appropriate for the private sector. Legislation to facilitate this is in process. The name is a misnomer; it arose as a depository for donor funds provided to Jordan. Although the funds were originally assigned as an endowment to meet Government pension obligations, they never reached a scale to make this appropriate and earnings have been reinvested. It is intended that it become a national investment vehicle, to dispose of salable holdings and reinvest in start-up situations to help them achieve momentum, with a view to resale when feasible. Although it is not viewed as a vehicle for administering or carrying out divestiture of other than its own assets, this writer suggests that consideration be given to using it as a means of "bridging" in connection with privatization of unrelated Government entities, in the manner referred to in the discussion of Alia - The Royal Jordanian Airlines herein.

The dynamic head of the Pension Fund, Mr. Bosson Sacat, has moved on to a new Government post and no successor has yet been named.

As is common in similar situations in other countries, apprehension has been expressed by Government officials about the political aspects of taking losses on the sale of certain of the Pension Fund holdings. This reflects public concern over a number of highly visible Government investment failures, such as the timber processing plant. Hotels are another example; as a result of over-building of hotels, mostly by Government, occupancy rates are down to 40%. It is suggested that consideration be given to a public awareness campaign, making use of the proposed privatization conference in Jordan as well as other opportunities to educate the media, to create wider understanding of the choices between continuing to hold a money-losing asset and selling it at a loss to avoid further losses, as well as the potential benefits to the economy of private sector operations responsive to market needs.

The Housing Bank, which has been enjoying rapid growth, has been an active lender for real estate development and for industry as well. Dispositions of its assets would presumably be subject to problems similar to those of the Pension Fund; the writer did not have an opportunity to meet with its chief executive.

The Jordanian Electricity Authority has also been mentioned as a privatization candidate. Little work appears to have been done on this; in fact, it is not in corporate form at present. The JEA is essentially engaged in the generation and transmission of electricity, and sells in bulk to two distribution companies, which themselves are partially investor-owned (the Jordan Electric Power Company which operates the Amman area is 77% privately owned). Under the circumstances of heavy capital costs for the segment of the business JEA occupies, this does not appear to be a high priority candidate for privatization until it can be demonstrated that capital could be raised privately more effectively than the GOJ can do it. In fact, the latter premise is an important basis for the drive to privatize Alia and the Telecommunications Corporation.

The writer did not have an opportunity to look into the water company, which has also been mentioned as a candidate.

Various projects for possible privatization in the agricultural sector (both growing and processing), and including the Agricultural Credit Corporation, were mentioned by officials. However, it was indicated that they were not ready, and visits were not scheduled.

APPENDIX I

DESCRIPTION OF PUBLIC TRANSPORT CORPORATION AND PRIVATIZATION ALTERNATIVES

1. Introduction

1.1 Components of the Public Transport System.

Apart from the PTC with a book establishment of 430 buses the Amman Region is also served by about 10,000 servis-taxis and about the same number of call-taxis. Servis-taxis are 5 passenger cars which operate on fixed routes and charge separate fares. Call-taxis are licensed to operate from a fixed base where they may be hired by telephone or by a call in person. In practice the distinction between the two taxi types is blurred and most call taxis often pick-up multiple fares.

The contribution of these modes as stated in 1980 are shown in the following table:

	Public Sector Buses	Privately Operated Buses	Servis Taxis	Call Taxis
Number of Vehicles Licensed	228	181	4,777	1,790
Thousands of Trips Per Day	105	33	294	122

These figures represent a total of 554,000 trips a day of which the percentage share between all buses/all taxis was 25/75. These figures refer to the greater Amman region including Zarqa and to a 1980 population of 1,085,000. The population is now about 1,300,000.

The PTC presently carries about 43,000,000 passengers a year or about 150,000 passengers per normal day. Servis-taxis are reported to carry just over 60 passengers a day and call taxis about 50 passengers per day. The breakdown of estimated daily passengers carried would currently resemble the figures in the following table:

	PTC Buses	Servis Taxis	Call Taxis
Number of Vehicles	330	8,000	5,790
Passengers Carried	150,000	480,000	250,000

These figures would indicate an increase in daily per capita travel by Amman's population from 0.50 trips in 1980 to 0.88 in 1986. This means that either a large part of the demand was not met in 1980 or that present estimates are exaggerated. We should not assume exaggeration because there are plenty of higher figures ranging from 1.4 trips/day in Hong Kong and Manila to 1.1 in Kingston, Jamaica.

The role of the PTC is minor. If it were to disappear, Amman's image might suffer but there is no doubt that small private vehicles would quickly fill the gap it left.

1.2 The Traffic Picture

Congestion black-spots are relatively few in Amman if one excludes the downtown market area. Traffic management in downtown Amman is poor and remedial action is needed whether the PTC continues in public or private ownership.

1.3 Administration and Control

A generally permissive attitude towards public transport provision stems primarily from the multiplicity of authorities concerned. The list includes:

- Ministry of Transport: Tariffs, planning
- Ministry of Public Works: Roads
- Ministry of Municipal/Rural Affairs: Land-use planning
- Ministry of Interior: Route licensing, vehicle, inspection, etc.
- Police Department: Traffic control and law enforcement
- Municipality of Amman: Social needs, bus-stops, traffic management

1.4 Socio-Political Aspects

It is recognized that there is no possibility of taking severe measures against the PTC's competitors. The taxis support perhaps 15,000 households in Amman and are popular with the public. The PTC currently provides 1,150 jobs. Taxis operators are said to make profit of about JD 300 a month as against PTC drivers at JD 150 a month. There is greater permanence of employment among taxi operators than PTC personnel.

2. The PTC: A Status Report

2.1 Bus companies are never impressive capital structures. The

PTC's asset value (net book value) in 1981 was JD 2.5 million. The principal addition since 1981 is the new headquarters and depot. The current net book value is unlikely to be more than JD 7 million. We should expect a private buyer to pay considerably less than this value.

2.2 The PTC's Legal Position

Established by statute in 1975, the PTC is the legal monopoly supplier of public transport in the Amman region. In Amman itself, it has been protected from other bus/minibus competition while being almost swamped by shared taxis. The PTC has its fares, wages, and most other operational constraints determined by the statute. No serious private operation can be devised within the existing statute and its abolition is a pre-requisite of privatization.

2.3 PTC Performance

The last full year's accounts relate to 1985. The cost and revenue profiles with performance indicators are attached. The net loss in 1985 was JD 570,000. In 1986 when full account is taken of loan and interest repayment the loss is likely to exceed JD 2,000,000 or about US $6,000,000. That the PTC could provide data to the consultants so quickly indicates effective management. The cost-control in the PTC is good. Why then is performance so disappointing? The reasons are summarized below:

- <u>Lack of Staff Incentives</u>: Wages and salaries are fixed and drivers are poorly paid. Remuneration has to be related somehow to performance.

- Proportion of Unprofitable Routes: The PTC operates 47 urban routes and 14 routes outside of Amman. Of the urban routes, about 16 are profitable. Passengers per bus daily ranges from 1,000 to fewer than 200. No private operator will agree to operate unprofitable routes unless as part of a totally profitable franchise where he knows he can cross-subsidize and still make money. The Government can give no such protected franchise under present arrangements.
- Composition of Fleet: PTC has had to purchase buses in large numbers infrequently. In 1975/76 it purchased Iran National Mercedes buses. Five years passed before it could buy new M.A.N. buses. This situation often occurs with public sector companies. A sensible operator wants bus replacement on an annual basis. Instead of a nominal fleet of 430 buses, PTC has only 330 serviceable and can put in service only 290 a day.
- Operational Practice: The PTC has competent managers but is subjected to advice and instructions from too many sources. For example, it does not need downtown terminals but should run straight through the area picking up passengers at main-road curbside stops. The system of laying over is time-consuming and congestive.

- Uncompetitive Posture: PTC has no chance of competing successfully with shared-taxis unless it can approach their convenience to the public. Over much of Amman the roads are unsuitable for large bus operation but ideal for small buses. The PTC in private ownership would wish to concentrate upon small-bus operations. In many similar situations world-wide 14 to 25-seat buses pick up from 350 to 550 passengers a day at per-seat costs much lower than those of shared-taxis. The average PTC daily passenger total per bus is about 434.
- The Haj Commitment: 150 of the PTC's newest buses are diverted for several weeks each year to Haj pilgrim traffic. Disregarding its unprofitable nature the effect is to surrender its Amman services to competition. A private operator would decline to divert his buses from his main market.
- Fares: The PTC has to accept fares laid down by Government. Private operators in a competitive environment will be permitted to fix their own fares provided that they declare them. Competition protects the public from abuse.

3. Methods of Privatization

3.1 Management Buy-Out

Attractive in theory it rarely happens that a public sector company's management succeeds in converting to profitable competitive operation. One of the problems is to convince a financier that the management team can turn the company around. In Amman the PTC management has an advantage rarely found: it is already used to competition.

3.2 Purchase by Transport Operator

There is always the likelihood that a person or group with transport experience will buy the PTC if convinced of its profitability. Such a buyer will need to be convinced of Government's overall intention to move, for example, towards taxi to small-bus conversion. He may also see the greater profit in minibus operation and, in that case, he will buy the PTC to gain a significant market share from the start. Expect him to bargain down the value of large-buses and their depots, etc.

3.3 Asset Stripping

There is little scope for any buyer to take up the PTC merely to sell off its assets at a profit and with no intention of operating buses.

3.4 Phased Privatization

This is the method so far preferred by the Government. It envisages 3 phases as under:

- Phase I: Make it legally possible for the PTC to have marketable shares. A positive legislative process would create a PTC shareholding owned 100% by the Government which may sell part or all to other parties.

- *Phase II*: Government disposes of a substantial part of the PTC shares to the private sector. So far it appears that Government has in mind to retain 51%.
- *Phase III*: Depending upon performance the Government sells the remaining shares to the private sector. It is not yet clear if Government intends to retain a nominal share-holding and a seat on the Board of Directors. This will probably be unnecessary.

The seriousness of GOJ will become critical in Phase II which will presumably follow immediately the legal steps in Phase I. The private shareholders who take up, say 49% of the shares must be permitted to actively influence the financial and marketing direction of the PTC. Government for its part must develop the right ambience "on the streets" for the PTC to prosper and expand its market-share as a privately directed corporation.

4. Regulation

4.1 The Government is looking for assurances that there can be proper control of public transport in Amman. We have considered this in the context of a privatized PTC, but adequate government control and monitoring of all public transport is necessary in any case.

4.2 Some organization is necessary to arrange and keep under constant review:

- The composition of public transport systems: how many buses, minibuses, taxis.

- Terms and conditions of operations, licensing and franchising.
- Public transport statistics
- The proper use of any government resources committed to public transport: personnel, finance, roads.
- The management of urban traffic as this vitally affects public transport performance.
- Powers and sanctions necessary to ensure the good order of public transport.

4.3 One possibility which has been successful in competitive environments is the creation of a Public Transport Authority answerable to the Minister of Transport but incorporating a works, interior and/or police presence.

4.4 It would be desirable to have this Authority or similar in place to control the privatization exercise and other changes which may arise from it.

4.5 One exercise will concern the conversion to smaller buses from large PTC buses and upwards from taxis. There will be a need to persuade both types of operator that the Authority is expert, flexible and yet firm in its intention to upgrade transport and reduce congestion.
Another delicate exercise will be as leading voice in sorting out downtown congestion by e.g. pedestrian only streets and access to buses only.

4.6 As far as possible all the powers required to control the mix, performance and safety of all forms of public transport should be given or delegated to a single authority supported by all the ministries concerned.

TABLE A

1985 PTC COST AND REVENUE PROFILE

(Expressed in Jordanian Dinar)

A. Cost

Direct Operating Cost	JD 2,793,987
Indirect Operating Cost (Admin., Garage, Haj, etc.)	917,084
Depreciation	872,346
Interest Payment	93,917
Loan Principal Repayment	- 0
TOTAL COST	JD 4,677,334

B. Revenue Items

Inside Amman Routes - 47 Routes	JD 2,274,720
Outside Amman Routes - 14 Routes	1,060,068
Charter/Private Hire	252,225
Queen Alia Airport Route	146,313
Haj Revenue	298,704
Advertising & Other Miscellaneous	69,826
Interest Income	5,045
TOTAL COST	JD 4,106,902

C. Net Profit/Loss

Net Loss	JD 570,432

TABLE B

1985 PTC PERFORMANCE PROFILE

A. Performance Indicators

Total Vehicle Kilometers	JD 24,215,000
Total Passengers Carried	43,000,000
Total Serviceable Bus Fleet	330
Average Daily Turnout of Buses	290

B. Selected Performance Measures

1. Direct Cost Per Bus Kilometer

   JD 2,793,987 / 25,215,000 = 111 Fils/Bus Kilometer

2. Total Cost Per Bus Kilometer

   JD 4,677,334 / 25,215,000 = 185 Fils/Bus Kilometer

3. Revenue Per Bus Kilometer

   JD 4,106,902 / 25,215,000 = 163 Fils/Bus Kilometer

4. Loss Per Bus Kilometer

   185 Fils - 163 Fils = 22 Fils/Bus Kilometer

5. Revenue Per Bus Passenger (Farebox)

   JD 4,032,031 / 43,000,000 = 84 Fils/Bus Passenger

6. Average Kilometer Per Bus (Yearly)

   JD 25,215,000 / 330 = 76409 Kilometer/Bus

APPENDIX II

PUBLIC TRANSPORT COMPANY
PROPOSED PRIVATIZATION STUDY

SCOPE OF WORK

Definition of Area - the area of PTC operations should be the City of Amman and such major links as are now covered by PTC services.

Contribution of PTC - The performance of the PTC in relation to its competitors in the study area are to be accurately assessed:

- Resources to be defined
- Routes and route performance individually assessed
- Route strength, defects and potential analyzed
- Comparison with servis and call-taxis performance to be accurately established
- Reason for unprofitable performance
- Assess effectiveness of engineering and other support services
- Personnel productivity to be established and rated by categories and compared with competition

Performance and Profitability of Public Transport Sector

- Utilize PTC data to achieve overall assessment of PTC performance and profitability
- Establish reliable data for competitive modes
- Evaluate and compare modes

Demand

- Update 1981 Halcrow Fox and other available travel data to give reliable estimate of present (1986) passenger travel by modes
- Estimate increase in demand related to feasible improvements in the offer of PTC and other modes
- Include the introduction of minibuses/small buses at various replacement levels for large buses and for servis taxis and estimate increase in demand.

Public Transport Interface with Traffic Management

- Identify traffic flow problems impacting on public transport, utilizing existing and on-going study data
- Suggest and outline improvements in traffic management to improve bus performance

Control of Public Transport

- Identify specific control measures which can improve performance, public service and profitability of public transport
- The composition of public transport systems: how many buses, minibuses, taxis
- Terms and conditions of operations, licensing and franchising
- Public transport statistics
- The proper use of any government resources committed to public transport: personnel, finance, roads
- The management of urban traffic insofar as this affects public transport performance
- Power and sanctions necessary to ensure the good order of public transport

Privatization of PTC

- Assess profitability and role of a private PTC
- Determine the case:

    1. For retaining the PTC in its present form
    2. For privatizing the PTC at its present level of contribution to total public transport
    3. For privatizing the PTC and extending its contribution
    4. For the (phased) abolition of PTC

- In the event of 2. or 3. above being adopted, devise the most suitable method of privatization
- Determine the preferred financial/equity structure, directorship and management for a private PTC
- To advise improvements in the PTC which will ensure and enhance:

    1. Quality of service
    2. Personnel motivation and rewards
    3. Profit at reasonable fares
    4. Optimum use of resources including buses, depots and equipment.

- Detailed advice covering:

  1. Selection of good routes with alignment stops and terminal depots
  2. The composition of fleet (bus and minibus)
  3. Limitation of PTC's service area
  4. Revised operation practices
  5. Personnel requirements
  6. Fare structure
  7. The PTC image and public relations
  8. Conversion to smaller buses/minibuses
  9. Most effective engineering practices

<u>Overview of Total Public Transport Scene</u>

The concluding section of the study will locate the PTC's role in a revised total public transport scenario which will estimate its significance over a 5-year period. This projection would present the most realistic possible estimation of PTC, minibus and taxi operations. It would incorporate sensitivity to different levels of patronage at different fares. It would redefine the roles of government and the private sector and forecast revised income and costs as a basis for a valuation sales price, and lead to identifying potential buyers.

APPENDIX III

INDUSTRY/ENTERPRISE PRIVATIZATION CHECKLIST

PUBLIC TRANSPORT CORPORATION

A. ECONOMIC VIABILITY

1. Profitability Track Record - PTC operates at a loss, estimated in a full year (1986) with no forebearance at US $2 million. In effect this loss represents depreciation charges, capital borrowings and finance charges. The operation is just about at break-even.

2. ubsidy Element - PTC in essence enjoys privilege of the Government of Jordan meeting its budget deficit.

3. Protection Element - Enjoys a nominal, total monopoly of public transport supply in Jordan. In practice this monopoly is enforced only in respect of Amman city and refers to protection from other bus operators. Taxi competition is unrestricted.

   Enabling statute is Law of 1975 styled "temporary".

4. Market Share - See Appendix 2/para 1.1. The PTC is estimated to account for about 17% of public transport passengers in Greater Amman.

5. Domestic Market Potential - The PTC should be capable of capturing a greater market-share under effective private, commercial management. This is subject to non-interference by government agencies for "social" reasons.

6. Staffing/Organization/Management - General management

supervision adequate but unprofessional. There is a tendency to find excuses for under-performance and to allow bad operational practices to continue, but not very different from U.S. and U.K. public-sector bus companies. An indicator is division of personnel-625 drivers and 525 other personnel, an obvious top-heavy situation. The Ministry of Transport view is that management needs strengthening in financial and operational direction.

7. Wage and Salary Structure - Comparison was only possible in a limited way for drivers. It appears that PTC has high driver turnover, losing out to trucking industry which pays up to double the fixed PTC driver wage of US $450 monthly. Seris taxi drivers make an estimated US $900 monthly profit.

8. Plant Productivity (Bg/Equipment/Parts) - Not examined in detail. A presumption of adequacy is justified by high turnout of buses; i.e. 290 daily out of an effective fleet of 330. The cost profile at end of Appendix I also supports this conclusion.

9. Dependability of Accounting Records - Appears to be adequate. Consultants had no difficulty in establishing cost/ revenue profiles from current performance records.

B. DEAL "DO-ABILITY"

1. Potential Operating Independence - Good. The Government appears to be keen to place the PTC in a position where it enjoys no protection from competition and has no recourse to

subsidy. This view was expressed by Minister of Transport and senior officials.

2. Government Accept Paper/Lower Price - Apparent flexibility of Ministry. This is a point which the proposed pre-implementation study is expected to clarify.

3. Government Re-schedule Debt/Assume Liabilities - Same comments as for 2 above.

4. Other Creditors Flexibility - Proof of existing Arab Bank flexibility in loan restructuring.

5. Union Contract Flexibility - There is no evidence of strong labor union influence. Many employees are ex-army but seem to have no special rights.

6. Local Cost and Import Financing Requirements - The current PTC request for 150 new buses has been shelved pending outcome of the privatization decision.

7. Full Divestiture and Other Privatization Options - To be assessed in study requested by Jordanians; a phased divestiture seems to be favored.

8. Evidence of Government's Commitment - Statement by Minister of Transport that privatization of PTC is a priority objective. Shelving of further investment in PTC and agreement on a pre-implementation study of short duration indicate serious purpose but also a desire to adhere to a specific plan of action with all alternatives assessed. The proposed scope of services for a final "do-ability" study

is suggested by MOT as a joint operation with senior ministry staff as counterparts to US AID experts. Policy commitment is supposed to be developed step-by-step with the study.

C. <u>OTHER FACTORS</u>

1. <u>Strategic/Social Significance</u> - High public exposure. Labor/job provision is a major issue.

2. <u>Natural Monopoly</u> - None. There is already virtually unlimited competition in the sector from shared taxis.

3. <u>Impact on Development</u> - Not yet assessed.

4. <u>ESOP Potential</u> - Unknown, but unlikely to be significant.

5. <u>Small Business Generation Potential</u> - High. Successful private placement of PTC with rationalization of other mass transit element should provide avenues for cooperative ventures.

D. <u>CRITICAL ISSUES</u>

These, as seen by the Jordanian MOT and the USAID mission/ consultants, are illustrated in the scope of services in Appendix III. Abolition of the PTC monopoly and a decision to let it sink or swim on commercial criteria and performance has obliged the Jordanians to view the total demand/supply situation as regards public transport in and around Amman. The PTC can be isolated and privatized but this activity provides the opportunity to make many other improvements in the provision, operation and control of all transport modes. If properly handled the overall result should be not only a totally private supply but improved/upgraded transport in the Amman area.

The USAID Mission in Jordan and CFP is keen to proceed rapidly with PTC privatization. GOJ wants to study the PTC and related transport issues carefully to ensure success and overall improvement in mass-transit.

The scope of services at Appendix III represents negotiated agreement between the parties.

E. ACCOMPLISHMENTS

Appendix IV lists the consultants' meetings, etc. In essence, following the very first meeting the consultants established expert technical and strategic dialogue with the MOT and PTC. Factual performance indicators were obtained from the PTC and presentations made to MOT and the USAID Mission in order to define a practical scope of work to privatize the PTC and make specific improvements in transport/traffic.

F. RECOMMENDED FOLLOW-UP

It is suggested that the study defined in Appendix II be undertaken subject to its acceptance as a pre-implementation exercise. The MOT also needs to confirm the availability of senior officials collaborating with outside experts in completing the study and in notifying its associated policy implications.

Properly executed this study and pre-implementation exercise will be a model for other countries with similar attitudes and problems. The privatization of one relatively small company the PTC is being used to develop and commit a whole series of improvements.

It has been assumed that the existing consultancy team will complete the follow-up work assisted by limited input from a Transport Economist and Traffic Engineer/ Manager. The total time to completion would be of the order of 6 months and require a total specialist commitment of 12 man-months.

APPENDIX IV

SHEPHARD/WASHINGTON
AMMAN, JORDAN

MEETING ITINERARY AND TRIP CHRONOLOGY

July 9 -17,198

1. **Wednesday, July 9**

   Meeting at Ministry of Transport to discuss privatization opportunities in Transport sector. In attendance were all three CFP team members: Richard Rousseau and Tom Rishoi from USAID; Mr. Dajani, Minister of Transport; Mr. Bilbeisi, and Mr. Shammour, from the Ministry of Transport; Mr. Mahadeen, General Director; and Mr. Kheetan, Director of Planning; from the Public Transport Corporation. Bus team agreed to prepare PTC status and privatization evaluation report for a Sunday meeting at Ministry of Transport.

2. **Thursday, July 10**

   Meeting at PTC to discuss and examine issues relating to privatizing the PTC. Attendees included Washington & Shephard, Mr. Mahadeen, Mr. Samir Sunna, and Mr. Kheetan from the PTC. Bus team toured PTC bus routes and terminals in Amman and observed bus/taxi transport in Zarqa.

3. **Friday, July 11**

   Afternoon and evening spent working on PTC report.

4. **Saturday, July 12**

   Bus team met Mr. Kheetan and worked at PTC headquarters in preparation of PTC privatization status report.

5. **Sunday, July 13**

Bus team briefed Alex Tomlinson at post-breakfast meeting. Bus team presented and discussed draft report at Ministry of Transport. Attendants included:

Mr. J. Washington, CFP
Mr. A. Tomlinson, CFP
Mr. A. Shephard, CFP
Mr. D. Masters, USAID
Mr. Shammour, Ministry of Transport
Mr. Mahadeen, PTC
Mr. Kheetan, PTC

6. **Monday, July 14**

Revised report for Tuesday meeting with Mr. Bilbeisi, Under Secretary, Ministry of Transport.

7. **Tuesday, July 15**

Meeting at Ministry of Transport to discuss revised report and development of Action PLAN. Attendees included:

Mr. Bilbeisi, Ministry of Transport
Mr. Shammour, Ministry of Transport
Mr. Mahadeen, PTC
Mr. Kheetan, PTC
Mr. Kraczkiewicz, USAID

Meeting at USAID to discuss PTC privatization evaluation and merits of USAID sponsored participation. Attendees included:

Mr. Lewis Reade, USAID
Mr. T. Rishoi, USAID
Mr. D. Masters, USAID
Mr. R. Rousseau, USAID
Mr. R. Brown, USAID
Mrs. Susan Riley, USAID
Mr. Kraczkiewicz, USAID
Mr. Shephard, CFP
Mr. Tomlinson, CFP
Mr. Washington, CFP

8. **Wednesday, July 16**

Dinner meeting with Mr. Bilbeisi, Mr. Mahadeen, Mr. Kheetan, Mr. Sunna, and other PTC staff. Mr. Mark Kraczkiewicz of USAID accompanied bus team (Shephard & Washington). Bus team delivered a proposed scope of services (terms of reference) for discussion during Thursday's meeting.

9. **Thursday, July 17**

Meeting at Ministry of Transport to discuss the proposed scope of services for privatizing the Amman Public Transport Corporation (PTC). Attendees included Mr. Shammour from the MOT; Mr. Mahadeen and Mr. Kheetan from the PTC, and Mr. Kraczkiewicz, Mr. Washington and Mr. Shephard.

APPENDIX V

ALIA - THE ROYAL JORDANIAN AIRLINE

COMPARATIVE BALANCE SHEET SUMMARY
December 31, 1984 & 1985

(In millions of Jordanian dinars)

	1985	1984
Current Assets	53.2	62.5
Investments and other assets	25.4	23.4
Fixed Assets:		
Flight Equipment	213.4	211.5
Ground Equipment	12.3	11.5
Land & Bldgs.	2.4	2.2
Total fixed assets	228.0	225.2
Less: accum. depr'n.	61.8	57.9
Net fixed assets	166.2	167.3
Advance payment on aircraft & equipt. purchase contracts	-	4.7
TOTAL ASSETS	244.8	257.7

	1985	1984
Due to Banks	19.4	21.2
Current portion of long term debt	22.9	20.9
Other	24.2	29.2
Total Current Liab.	66.5	71.3
Long Term Liab.		
Loans, foreign	132.4	132.8
Loans, local	22.5	25.8
Total loans	155.0	158.7
Bonds Payable	15.0	16.0
	170.0	174.7
Less: current portion of long term debt	(22.9)	(20.9)
Total long term debt	147.1	153.7
Provision for staff indemnities	2.8	2.8
Provision for fleet overhaul	5.9	9.0
Total long term liab.	155.7	165.5
Equity of GOJ:		
Paid-up capital	21.0	21.0
General reserve	(0.2)	9.5
Net profit (loss) for year	1.8	(9.7)
Total equity of GOJ	22.6	20.8
TOTAL LIABILITIES AND EQUITY	244.8	257.7

See Notes to Financial Statements attached to Appendix VI.

APPENDIX VI

ALIA - THE ROYAL JORDANIAN AIRLINE

COMPARATIVE INCOME STATEMENTS

Years Ended December 31,1984 & 1985

(In millions of Jordanian dinars)

	1985	1984
Operating Revenues		
Scheduled Service		
Passenger	89.1	82.8
Cargo	15.9	17.4
Excess Baggage	2.3	2.0
Mail	.4	.3
Total Scheduled Service	107.8	102.6
Chartered Flights	2.7	3.0
TOTAL OPERATING REVENUES	110.5	105.6
Operating Expenses		
Flying Operations	41.0	38.4
Maintenance	10.3	10.2
Depreciation of flight equipment	11.6	12.1
Station and ground	12.3	12.3
Passenger services	11.1	10.2
Sales and promotion	22.8	21.8
General and administrative	4.5	4.2
TOTAL OPERATING EXPENSES	113.5	109.1
Loss from operations	(3.0)	(3.6)
Non-Operating Income (Expense)		
Other Income	24.0	13.5
Interest and other expenses	(19.2)	(19.6)
	4.8	(6.1)
NET PROFIT (LOSS) FOR YEAR	1.8	(9.7

See Notes to Financial Statements on next page.

SOME NOTES ON FINANCIAL STATEMENTS

- New aircraft are depreciated over a 14 year period and used aircraft are depreciated over a 10 year period. Residual value is 15% of cost

- The company recognizes expenses when incurred; none are capitalized - i.e. interest on long term debt for new aircraft, development of new routes, introduction of new types of aircraft, etc.

- Investments and other assets - only significant changes are:

	1985	1984
Aircraft maintenance facility	11.5	10.2
Alia Hotel Amman	8.6	7.6
Total investments and other assets assets	25.4	23.2
Note: Alia's share of accumulated losses of Arab Wings Co. not included in accounts	(1.8)	(1.8)

- All long term loans and bonds (domestic and foreign) are guaranteed by GOJ.

- The general reserve is comprised of accumulated profits and losses from inception of the company and, at the discretion of the Board of Directors, can be used to meet operational for any other purpose.

- The interest component of "interest and other expenses":

1984	18.1
1985	17.7

- "Other Income" included gain on sale or disposal of aircraft as follows:

1984	2.3
1985	14.2

- In may 1986 the company entered into an agreement with Airbus Industrie to lease 12 aircrafts (six A 310-300s and six 320s) with an option to lease a further seven aircrafts (three A 310-300s and four A 320s) for a contract value of about US $500 million (12 year lease period). Delivery of A 310-300s to start in 1987, and A 320s in 1990.

APPENDIX VII

ALIA - THE ROYAL JORDANIAN AIRLINE

OPERATIONS

Years Ended December 31, 1984 & 1985

Regular Service	1984	1985	%
Kilometrage covered (0,000)	25,050	25,984	+ 3.7
Flights	15,488	15,165	- 2.1
Flying Hours	41,122	41,642	+ 1.3
Passengers Carried (000)	1,328	1,290	- 2.8
Excess Baggage (tons)	1,607	1,764	+ 9.8
Cargo (tons)	35,564	40,620	+14.2
Mail (tons)	710	711	+ 1.0
Passenger/Kilometers (millions)	3,610	3,553	- 1.6
Seat/Kilometers (millions)	6,429	6,155	+ 4.3
Seat Occupancy (%)	56.2	57.7	+ 1.5
Tonnage/Kilometers (0,000):			
Passengers	324,919	319,794	- 1.6
Cargo	139,870	152,051	+ 8.7
Mail	1,498	1,523	+ 1.7
Total	406,287	473,368	+ 1.5
Load (Carriage) Capacity	910,996	917,995	+ .8
Total (Carriage) Capacity Rate (%)	51.2	51.6	+ .4
Aircraft Lease Charters			
Kilometrage (0,000)	835	472	-43.5
Flying Hours	1,294	726	-43.9
Grand Total			
Flying Hours	42,416	42,368	- 0.1
Kilometrage	25,885	26,456	+ 2.2

APPENDIX VIII

ALIA - THE ROYAL JORDANIAN AIRLINE

OPERATING ECONOMICS

1983 - 1985

	1983	1984	1985	Unit
Seat/kilometer offered cost	14.8	14.4	14.2	Fils
Passenger/kilometer carried cost	25.8	25.6	24.6	Fils
Passenger/kilometer carried revenue (yield)	25.5	22.9	25.1	Fils
Cargo ton/kilometer carried revenue (yield)	123.5	124.9	104.9	Fils
Total load ton/kilometer carried revenue (yield)	245.5	219.9	227.7	Fils
Ton/kilometer carried cost	247.2	240.7	223.9	Fils
Ton/kilometer offered cost	142.1	135.3	115.4	Fils
Seat occupancy (factor) rate	57.5	56.2	57.7	%
Breakeven point seat occupancy	58.0	62.8	56.5	%
Total load factor rate	51.2	51.2	51.6	%
Breakeven point load factor rate	51.6	55.9	50.7	%
Revenue rate in foreign exchange	76.1	77.3	84.0	%
Expenditure rate in foreign exchange	67.0	65.0	65.0	%
Net surplus in foreign exchange	9.2	8.3	26.7	Dinar (mil
Number of aircraft	17	17	18	Airplane
747 daily utilization	9:27	9:32	9:09	Hours
L 1011 daily utilization	7: -	7:13	7:34	Hours
727 daily utilization	6:15	6:14	6:27	Hours
707 daily utilization	4:25	3:06	5:07	Hours
Number of employees	4,410	4,634	4,476	
Gross income per employee	28,090	25,692	30,055	Dinar
Ton/kilometer offered per employee	190.0	196.6	205.1	(000)
Ton/kilometer carried per employee	97.2	100.6	105.8	(000)

Note: One B707 leased by Sierra Leone since November 1982.

APPENDIX IX

AQABA PORT

FACTS ABOUT THE PORT FACILITIES

(see following page)

Aqaba Port

A. Location :

The Commercial seaport of Aqaba is the only port to the H. K. of Jordan and is situated at the top of the Gulf of Aqaba at latitude 29-31 N & longitude 35 E. .

B. The Port Facilities :

1. The Main- Port Berths :Include 12 berths with a total length of 2050m. for handling general cargo, grains , phosphate, and discharging lighters, as following :

Berth No.		Length ofd Berth in Metres	Draft in Meters
1	(receive ships up	160	11
2(3,4)5,6	to 40,000d.w.t.)	180	(12),11
7		150	7,8
8,9		150	5,8
Lighters Discharging Berth		150	11
Phosphate Berth No. (A) (With conveyer belts and shiploader of 500 ton/ hour)		210	
Phosphate Berth No. (B) (With conveyer belts and two shiploaders of 2200 t/h each)		180	15

2. Container Berth : It was performed in 1984 with a total length of 540m. & a draft of 15m. which can receive three vessels at a time up to 100,000 d.w.t. each. It is equipped with two 40- ton gantry cranes. Attached to this berth and with 10m draft is Ro-Ro Berth with 40m. in length .
3. Passengers Terminal and Yarmouk Floating Berth : With a length of 150m. and a draft of 15m. Although it is specialized now in passengers traffic with their vehicles, it receives as well Ro-Ro and container ships.
4. Mo'ta Floating Berth : It is recently fixed to the north of container berths with a length of 150m. and a draft of 15m., to be used for bagged cement export purposes and Ro-Ro ships .
5. The Moshterak Berth : With 120m. in length and a draft of 11m. and is currently used for exporting crude oil.
6. Industrial Berth : A berth with a length of 200m. & a draft of 22m. for imports and exports of chemical fertilizers & potash, with two shiploaders of 2000 ton/ hour and one ship evacuater of 500 t/ h .
7. Maritime Slipway ; for maintaining maritime equipments.
8. The Grain Silos; erected by Ministry of Supply on berth No.1 with evacuaters & conveyer belts with a capacity of 500 t/h, and storage capacity of 150,000T.
9. Maritime Secondary School: To train port's employees and receive pupils from secondary classes to obtain a Secondary School Graduate Degree .
10. Storage Facilities :

Total Shedded Area	40,500sqm.
Closed Hangers Area	34,500sqm.
Paved Open Storage Area	450,000sqm.
Closed Cold Store	500 tons.
Container Terminal Area	309,000sqm.

11. Maritime Equipments :

a) Three tug boats with a capacity of 1300-1500 H.P.
b) Seven mooring and towing boats .
c) Four pilot boats .
d) 23 Barges with a capacity of 250-500 tons each .

12) Cargo Handling Equipments :

a) More than 60 cranes with a capacity of 3- 90 tons.
b) 90 Forklifts with a capacity of 2- 35 tons .
c) 43 Tractors .
d) Eight Straddle carriers for handling containers.
e) 14 Tug masters .
f) Two " Gantry " with a capacity of 40 tons each .
g) 120 Trailors .

C. Port Services :

1. Pilotage ; is compulsory for all ships above 150 N.R.T. Ships entering or making any movement must have a pilot on board . Ships have to supply the following information to the pilot station :

a) Name of ship
b) Maximum draft
c) Agent's name
d) Cargo for Aqaba
e) Nationality
f) Gross & net tonnage
g) Overall length
h) Any special characteristics of the vessel .

2. Stevedores : The port provides its own stevedoring services which are available 24 hours, 7 days a week.
3. Towage : The use of tug boats is compulsory for all berthing operations .
4. Bunkering : Bunker fuel is available in Aqaba .
5. Water and Provisions : Fresh water and provisions are available in Aqaba .
6. Waste Matter and Pollution : No rubbish or oil may be thrown over board either at the anchorage or alongside the berths .
7. Health Services : The Health section of Aqaba Port provides all medical services .
8. Radio : The station call is JYO .

D. Imported and Exported Cargo :

Imp. (million tons)	Exp. (million tons)
1983: 6,1(48% transit)	5,0 (3,7 phosphate)
1984: 6,5(50% transit)	7,2 (4,7 phosphate)

E. Developments :

The development plan for The Ports Corporation includes projects such as :

1) Construction of an oil exporting jetty which is expected to be completed at the end of the year 1985.

2) Construction of three general cargo berths with 540m. in length to the south of container berths .

3) Building a new permanent Passengers Terminal at the southern coast .

F. Aqaba Port Traffic Comparison 1974, 1980, 1984, 1985

Year	No. of ships	Cargo Traffic (in thousand Tons) Imports	Exports	No. of Passengers
1974	299	367	1116	7
1980	1466	3024	3618	47460
1984	2329	6448	7158	521198
1985*	2450	6500	9000	570000

(*) Partly estimates .

M.B.

APPENDIX X

ALEXANDER C. TOMLINSON

AMAN AND AQABA, JORDAN
July 9 - 17 1986

PERSONS CONTACTED

U.S. Embassy
Paul M. Boeker, Ambassador

USAID
Lewis P. Reade, Mission Director
Thomas L. Rishoi, Chief, Project Office
Richard E. Rousseau, Project Officer
Richard R. Brown, Program Officer
Donald Masters, Program Officer
Susan Riley

ALIA - The Royal Jordanian Airline
Ali Ghandour, Chairman and CEO
Khaled Bitar, Exec. Assist. to the Chairman
Omar Zoqash, Vice President, Finance
Zeid Kilani, Vice President, Engineering & Maintenance
Adnan Y. Habboo, Vice President, Inflight & Food Services

Ministry of Transport
Ranai Dajani, Minister
Mutazz A. Bilbeisi, Undersecretary

Telecommunications Corporation
Mohammad Shahid Ismail, Director General and Deputy Chairman

Jordan Electricity Authority
M. S. Arafeh, Director General
Walid M. Jaouni, Chief Engineer
Fakher A. Anshasi, Computer Manager
Muhamad Azzam, Manager, Planning Department

Office of the Prime Minister
Mr. Tarwaneh, Economic Advisor to the Prime Minister

Port of Aqaba
Mohammed Abu-Ebeid, Technical Director