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USAID/JORDAN-FINANCIAL MARKETS DEVELOPMENT STRATEGY

FINAL REPORT

May 24, 1989

ervices 296 0800
1801 K Street, N.W.
Washington, DC 20006

Price Waterhouse

May 24, 1989

Mr. Barry MacDonald
Deputy Director
Projects and Private Sector
Operations
USAID/Jordan
American Embassy
Jebel Amman
Amman, Jordan

Dear Mr. MacDonald:

Re: Financial Sector Development Project (FSDP)
Contract No. PDC-2206-Z-00-8191-00
USAID/Jordan - Financial Markets Development Strategy
PIO/T No. 278-0277-360183

Attached please find ten copies of the Final Report of the Financial Markets Development Strategy, as prepared by Mr. Donald Shay and Mr. Stimson Eveleth and reviewed by Price Waterhouse, Prime Contractor under FSDP.

It has been a pleasure to work with USAID/Jordan on this important strategy. We look forward to working with you again in the future as your plans for new projects in the financial sector develop.

Very Truly Yours,

Price Waterhouse

attachments

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FINAL REPORT

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I. INTRODUCTION

A. Background

USAID/Jordan has previously undertaken a preliminary assessment of the Jordanian financial sector, and has been actively involved in policy dialogue which led to the liberalization of interest rates ceilings. USAID has maintained regular contact and dialogue with private bankers, Central Bank officials, the Chairman of the stock exchange, and businessmen/entrepreneurs regarding financial sector issues.

As a follow-on to these efforts, USAID requested AID/PRE, through its Financial Sector Development Project (FSDP), to assist in preparing, in consultation with the Mission and in line with the AID Policy Paper on Financial Markets, a comprehensive financial markets strategy document. This document is to provide the basis for future financial sector policy dialogue and technical assistance projects, including the financial markets project scheduled for FY 1990.

B. Strategy Design and Scope

The strategy design and scope encompass the following components:

- General macroeconomic setting
- Fiscal and regulatory environment
- Analysis of other factors (social, economic, financial) which constrain the development of, or limit access to, Jordanian financial markets
- Structure of financial institutions
- Status of the development of financial instruments
- General recommendations for financial markets improvement
- A description of other donor activity
- Review of current AID interventions and an outline of a specific program of new interventions

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Appendix A contains a copy of the full Statement of Work.

C. Project Staffing and Management

The services of Mr. Donald Shay, as strategic planning specialist, and Mr. Stimson Eveleth, as banking/credit specialist, were acquired to carry out this engagement. Mr. Shay is a consultant to Price Waterhouse (PW), FSDP Prime Contractor, and Mr. Eveleth is a consultant to Robert R. Nathan Associates, Inc., subcontractor to PW under FSDP. The field work took place during the month of February. The consultants, prior to their departure from Amman, prepared a Preliminary Draft Report and orally briefed USAID on their preliminary findings and conclusions. AID/PRE was briefed by the consultants upon their return to Washington.

A Draft Final Report integrating the consultants' responses to comments by Susan Riley and Tom Dailey of USAID/Jordan was prepared and reviewed by Price Waterhouse in its capacity as prime contractor. This Final Report incorporates consultants' responses to further comments to the Draft Final Report received from USAID/Jordan and AID/PRE as well as a final Price Waterhouse review.

D. Organization of the Report

Chapter II presents a strategic assessment of the Jordanian financial sector, including the macroeconomic setting, the fiscal and regulatory environment, barriers to increased financial intermediation, the institutional structure of the Jordanian financial sector, and the status of financial sector instrument development. Chapter III outlines recommendations and a strategic implementation program for these recommendations. The proposed new recommendations are organized both by category and suggested priority.

II. STRATEGIC ASSESSMENT OF THE JORDANIAN FINANCIAL SECTOR

A. General Macroeconomic Setting

The outlook for the Jordanian economy has changed substantively during the eighties. The economy, formerly dependent on foreign sources, has had to turn to its own resources for growth and development. Traditional sources of foreign exchange earnings and government revenues, such as worker remittances and financial subsidies from Gulf states, have been dramatically reduced.

The deficit in the goods and services balance clearly indicates the size of this external financial gap. Traditionally, this deficit has been financed by a combination of donor support and external borrowing, and more recently by drawing down foreign assets. In 1987, this deficit widened by $212 million to $938 million. Donor support, predominantly Arab grant aid, continued to shrink in 1987, reaching $588 million in 1987, compared with $1,334 million in 1980.

As a result of the widened trade deficit, the current account deficit, equivalent to 6.3 percent of GNP in 1987, has jumped from $46 million in 1986 to $349 million in 1987. The need to finance current accounts deficits in the range of $250- 300 million annually has not only caused a rapid draw down of Jordan's foreign exchange reserves, but also resulted in a dramatic rise in foreign debt.

In 1980, Jordan's external public debt totalled $1,241 million, equivalent to 32 percent of GNP. By year-end 1987, foreign debt totalled $3,833 million, equivalent to two-thirds of GNP. A significantly larger portion of this much greater debt is now carried on more stringent commercial terms. Borrowing from foreign banks and other commercial sources now comprises 37 percent of total foreign debt against only 17 percent in 1982. Debt servicing is escalating rapidly, and at $564 million in 1987 is more than double the level of $242 million three years ago. Debt service payment on existing debt is rising, and will approximate $900 million in 1989.

Until June 1988, the Government of Jordan regulated interest rates by setting a ceiling on the maximum deposit and lending rates for financial institutions. Allocation of credit remains skewed

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by according banks preferential tax treatment and rediscount facilities with the Central Bank for government-guaranteed syndicated loans and bonds, made to favor government-sponsored enterprises. With a diminishing net inflow of external resources, more emphasis must be placed on economic efficiency in resource allocation in the domestic economy to accelerate the rate of sustained economic growth.

Flexibility in interest rates is of paramount importance for markets to work well. With the ceiling that existed on lending rates, financial institutions tended to be risk averse, lending only to the most established clients on a collateralized basis. Lack of flexibility to charge higher rates for more risky ventures has been detrimental to the development of a whole array of innovative forms of financial products by financial institutions. As a result, investment is curtailed as promising new enterprises lack financing. This constraint is being partially met by specialized financial institutions, but needs to be expanded. USAID's newly established loan guarantee program will, in part, meet this need.

The Jordanian Dinar (JD), once rigidly pegged to the SDR, has lost considerably in relative value--almost 45 percent against the US dollar by January 1989. Expectations concerning the stability of the Dinar have caused Jordanians to shift their capital abroad in fear of greater depreciation. In an attempt to curb capital outflow, the Government ventured into a further liberalization effort whereby ceilings on all Jordanian-denominated deposits were lifted to equalize real returns on assets in domestic and foreign markets, avoiding an undue loss to Jordanians. However, the recent inflationary trend has further eroded the returns on domestic currency deposits. In addition, interest rate ceilings were further increased on loans, and caps on commissions removed. This is more in line with a market-oriented perspective, where subsidies from the financial sector need to be reduced by increasing the reliance on interest rate signals for the mobilization and allocation of funds, where differentials reflect risk, maturity and cost.

The current macroeconomic situation, including the recent changes discussed above, will have a number of cumulative effects on the Jordanian financial sector, including:

- <u>A lack of appropriate financial policies and instruments in an inflationary environment</u>: The banking system, until very recently, has been operating in a non-inflationary environment. As a result, the system is lacking in instruments and policies that will help the banks and their customers to properly manage the effects of inflation. For example, there are no variable rate instruments. The system will likely experience turmoil, and problems with banks' portfolios may result unless mechanisms and policies are instituted suitable to the upcoming inflationary period.

- <u>A lack of foreign exchange due to a fixed exchange rate, inhibiting exporter growth potential</u>: The GOJ's policy of setting a fixed exchange rate for the JD against the US dollar will likely lead to foreign exchange scarcity as its exchange reserves diminish. While the Government currently allows exporters to retain 50 percent of their foreign exchange earnings, there may be pressure to reduce this in the future. As foreign exchange availability becomes limited, even those exporting may face increasing constraints on their right to retain foreign exchange earnings, thus exacerbating the situation and limiting exporters capacity to grow.

- <u>A lack of financial system flexibility in the face of economic uncertainty due to market-substituting policies by the Central Bank</u>: The most significant effect of the deteriorating economic situation will be uncertainty and potential instability. The current policies governing the financial sector assume a set of stable economic conditions which no longer exist. The GOJ's past policies of providing guarantees, imposing interest rate ceilings, and approving and directing credit have diminished market forces and as a result have created institutional conditions ill-equipped to deal with structural change in economic conditions. The paternalistic subsidization of the private and public economic system on the part of the GOJ will have to give way to policies based on allowing the interplay of market forces.

B. Fiscal and Regulatory Environment

1. Interest and Exchange Rate Policies

Until recently, interest rates ceilings on loan and deposit instruments were set by the Central Bank, while the JD was allowed to float relative to other currencies. In late 1988, the Central Bank liberalized its interest rate policy by setting a limit on loan interest rates of 10 percent, but allowing lenders to charge commission at any level above this, in effect eliminating the cap on interest. At the present time, with inflation running in excess of 10 percent, there is a risk that if future interest rate increases are capped, negative real rates of interest would result, with attendant disinvestment and capital flight.

Historically, real rates of interest have been high, at times reaching 8 percent. This situation has been changing as a result of relatively high inflation levels. If inflation persists, which is likely given the devaluation of the JD and the high level of imports as a percent of GNP, there is likely to be a significant increase in nominal interest rates, but a decrease in real interest rates (perhaps even to negative real levels).

The Central Bank has very recently moved to stabilize the JD relative to hard currencies, pegging the JD to the US dollar at a buy level of .538 and a sell level of .542. All exchange is now through the formal banking system and individuals are not allowed to buy more than $5,000 in any one year. While the market rate at the money changers prior to the close down was .670 JD to the US dollar, the Government apparently believes that strict controls will work to stabilize the exchange rate. The efficacy of this approach is difficult to determine so soon after the pegging. However, as long as interest rates remain high in two key hard currency countries (US and Great Britain), there will tend to be downward pressure on the JD and subsequent upward pressure on local interest rates.

2. Central Bank Credit Policies

In addition to its role as the manager of the Government's monetary policy, the Central Bank is also the banking system's regulator. In this regard, the Bank seeks to maintain the integrity of the banking system through a variety of means, including reserve requirements (now set at 15 percent of a bank's deposits), minimal capitalization standards, and annual bank examinations supplemented by monthly reports.

The Central Bank also takes on the unusual responsibility of final credit authority for loans. As a matter of policy, the Central Bank must approve all extensions of credit in excess of JD500,000 to any one client. Banks must also report monthly to the Central Bank all credit granted to any individual or corporation above JD5,000. Rather than rely on legal lending limits which set the maximum amount that may be lent to any one entity by any given bank, the Central Bank attempts to directly ensure the system's integrity through the credit approval process. Thus, not only does the Central Bank act as a central information credit clearinghouse for all but the smallest creditors, it also uses its regulatory authority to directly intervene in the credit allocation process. It chooses to do this rather than establish policies that allow the market to work while ensuring the banking system's safety.

Implicitly, the Central Bank, through the credit approval process, sets credit standards for banks. Thus, the Central Bank's emphasis on collateral, personal guarantees, and low debt leverage, tend to permeate through the system, influencing bankers to adopt very conservative lending practices.

3. The Tax Code

Under current tax policies, recipients of interest and dividend income are not taxed, with the exception of financial institutions, thus providing an incentive for corporations and individuals to be net savers and investors. Similarly, interest paid by individuals (e.g., mortgage interest) is not tax deductible, while corporations can deduct interest as an operating expense. Public share holding companies are taxed at the rate of 55 percent, depending upon the type of company for both distributed earnings and retained earnings. Capital gains for bonds and equities are also taxed, providing further incentive to be an investor.

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C. Barriers to Increased Financial Intermediation

From a strategic point of view, there are several categories of barriers to the growth of the financial sector and efficient capital mobilization. They include financial industry structure, Central Bank policy, cultural values, and instruments and terms.

1. Structural Barriers

The commercial banking system in Jordan is highly concentrated, with the three largest banks making up 80 percent of the commercial banking system's deposits, 68 percent of the loans, and 77 percent of the assets. As a result there is less competition and less of an incentive to provide a variety of financial instruments and terms.

2. Central Bank Policy

The Central Bank, rather than the market, is the ultimate rationer of credit. As noted earlier, this is effected through a policy that requires that all loan amounts for a single creditor above JD500,000 receive prior approval by the Central Bank. In addition, all loans above JD5,000 must be reported, naming the creditor, in the monthly reports prepared for the Central Bank. There is some indication that the Central Bank directs credit through this prior approval process.

The Central Bank's credit criteria, coupled with the Government's policies, produces some squeezing out of private loans by public loans. Factors that reduce the relative attractiveness of private loans, especially those with little substantive collateral, include:

- <u>Government guarantees</u>: The Government guarantees not only all governmental issues, but bonds issued by corporations as well.
- <u>Income tax exemptions</u>: Government-issued bond income is currently 25 percent tax free, and T-bills are 15 percent tax free to individuals and non-financial institutions, increasing their attractiveness vis-a-vis private issues.

- o <u>Central Bank lending criteria</u>: The Central Bank's collateral-intensive, non-financial lending criteria tend to favor capital-intensive, well-secured loans over other types. This would affect, for example, loans to a service business where the owner has no personal collateral to guarantee the note, even though the business may be highly profitable.

3. Instruments and Terms

The existing financial system is well understood by both the consumers and providers of credit. The instruments and terms in place today, while perhaps adequate in the past environment of low inflation and foreign exchange rate stability, will not serve well if inflation increases and as the Central Bank continues to require that banks move away from overdraft lending. Yet, the banking system may resist change, because it is costly, and the knowledge and skills necessary to deal with effectively new instruments are not presently adequate.

For example, the banking system prefers overdraft lending because it is simpler and cheaper to administer, although in reality this form of lending may be riskier than more rigorous lending under established lines of credit. The ubiquitous use of overdraft lending has eliminated the need for more complex instruments and has served many purposes, both short and long term. As a result, neither the banking system nor the market have had experience with other instruments. As the Central Bank continues to pressure banks to reduce overdraft lending, both groups will need to learn how to deal with new forms of financial intermediation.

Similarly, because of the lack of inflation in the past, there has been no experience with variable rate instruments. As inflation becomes a reality, the banks and the market will likely have to learn to utilize such instruments, especially for medium and long-term lending.

4. Cultural Values

The institutional and cultural values of both borrowers and lenders affect significantly how people view the use of financial assets and the terms under which business transactions are conducted.

Security is the preeminent value when considering the placement of financial assets. This is best exemplified by depositors' willingness to put JDs in low interest-bearing accounts with "safe" banks when higher rates are available elsewhere. These banks in turn are risk averse, as exemplified by their very liquid loan portfolios containing a disproportionate percentage of assets in cash and cash equivalents. This cultural value is reinforced by the Central Bank in the way it analyzes credit worthiness based on the value of collateral and strength of security.

Unlike in the West, there is also an ethic to limit borrowing from institutions. For example, people who qualify for a 75 percent mortgage will often take out only a 50 percent mortgage, preferring to save or borrow from relatives rather than incur debt with an institution. This is reinforced by the lack of tax incentives to be leveraged: mortgage interest is not tax deductible. In fact, as there is no income tax on unearned (dividend and interest) income, there is a clear tax incentive to be an investor as opposed to a debtor. However, if inflation continues to increase, people's willingness to incur debt may increase as they realize they can pay off debts with depreciated JDs in the future.

D. The Institutional Structure of the Jordanian Financial Sector

The financial sector in Jordan is diverse, made up of a number of public and private institutions providing a variety of debt and equity financing facilities to a wide range of consumers, both individual and corporate. As shown in Exhibit II-1, there are eighteen commercial banks, six specialized banks, thirteen finance companies, two investment banks, thirty-three insurance companies, and several other governmental savings and pension funds.

There is also an active stock exchange, the Amman Financial Market. While private placements still make up the majority of non-exchange equity deals, there are plans for the formation of several venture capital-type arrangements subscribed to by banks and individuals. Some USAID support may flow to these institutions.

Each of these types of institutions, their source of funds and the types of products they provide, is discussed below.

Debt Sector

Central Bank of Jordan

- 18 Commercial Banks
- 13 Finance Companies
- Specialized Credit Institutions
- 16 Insurance Companies
- 2 Investment (Islamic) Banks
- Savings and Other Financial Institutions

Equity Sector

Ministry of Industry and Trade

- Amman Financial Market
- Private Placement
- Venture Capital

Jordan's Financial Sector

1. Commercial Banks

There are eighteen commercial banks, including two foreign, ranging in size from JD3.2 billion to JD100 million in assets. They have a network of 296 local and 36 foreign branches. The Housing Bank, discussed below, has the most branches with eighty-six. Arab Bank, with 63 percent of the assets, is the dominant institution, with the next largest commercial bank, Petra Bank, holding less than 10 percent of assets.

Sources of funds include deposits (demand, savings, and time), equity, interbank loans, and the Central Bank discount window. The commercial banks provide a variety of loan products to customers, including overdrafts, bills discounted, margin accounts (for the purchase of equities), letters of credit, commercial mortgages, and medium to long-term project loans. Overdraft accounts are favored by both the banks and their customers as a form of credit, as they are simple to administer and allow the customer to use the funds for any purpose, ranging from working capital to long-term funding. This latter facility is provided indirectly, as the banks rarely require that their customers repay the entire line of credit, but rather that there be activity in the account, with payments offsetting withdrawals at some level. This use of the overdraft account will be restricted in the future, as the Central Bank has directed the commercial banks to reduce overdraft lending to no more than 20 percent of their loan portfolio over the next two years.

Although the banks reportedly use cash-flow analysis to support their lending decisions, the adoption of this practice is recent and probably uneven in its application and rigorousness. Banks still require substantial collateral, oftentimes twice the value of the loan and, when conditions permit, a personal guarantee as well.

Cross-bank ownership of shares is not uncommon, although no bank is allowed to own more than 10 percent of another. The Industrial Development Bank, for example is 65 percent owned by other banks, with the Housing Bank holding a 10 percent share.

2. Specialized Credit Institutions

There are six specialized banks, originally established to meet sector-specific needs. They include the Housing Bank, the

Industrial Development Bank, Agricultural Credit Corporation, Housing Corporation, Jordan Cooperative Association, and the Cities and Villages Development Bank. With the exception of the non-mortgage facilities of the Housing Bank, which has diversified beyond its original mandate to become a de facto commercial bank with a large mortgage operation, loans are provided by these institutions on relatively easy terms. The two largest institutions are discussed further below.

The Housing Bank is the second largest banking institution in the country, with assets in excess of JD515 million. Its sources of funds include equity, Central Bank loans and, most importantly, deposits. With eighty-six branches, the Housing Bank has attracted a substantial deposit base, and in recent years has taken in a disproportionate share of new deposits. As the Housing Bank has been able to more than meet mortgage demand, it has moved into other lines of lending, notably syndicated loans, discounted bills, letters of credit, overdrafts, and uncollateralized lines of credit for depositors of up to JD5,000. The Housing Bank also uses its extensive branch network to broker various insurance products. In addition, the Housing Bank is now evaluating the possibility of entering the small business loan market.

The Industrial Development Bank (IDB) was established specifically to provide medium- and long-term project lending to industrial companies. The IDB is owned 65 percent by other banks, with the balance of shares held by private investors (IDB is traded on the AFM) and the Government. IDB's primary sources of capital include the Central Bank and external agencies, such as the Kuwait Fund, the European Investment Bank, and KFW (Germany), all of which provide loans at concessionary rates. IDB provides medium-term loans for raw materials and long-term loans for plant and equipment. They do finance start-ups, but require a debt-to-equity ratio of no less than 1:1, although on occasion they have relaxed this requirement to meet a competitive threat (e.g. responding to less stringent IFC loan standards).

3. Finance Companies

The ten finance companies essentially act as commercial banks, with the exception that they are not allowed to take demand deposits. They also typically provide services not found at the commercial banks, such as share underwriting and a small amount of equity investing in start-ups. There are also three real estate finance companies that provide construction and real estate-related financing. Typically, they are owned fully or in part by developers and act as their financial arm.

4. Investment Banks

There are two Islamic institutions that fall into the investment bank category, although they operate in ways similar to commercial banks. These banks operate under Islamic principles, which do not allow the charging of interest, but do allow participation in profits. These banks provide credit securitized in a manner similar to a commercial bank, although the terms and processes used are superficially different. From the point of view of the debtor, the outcome is identical to borrowing from a commercial bank. Thus, these banks do not really provide equity funds but loans, with interest accrued and paid as "profits."

5. Governmental Funds

The Post Office Savings Bank, Pension Fund, and Social Security Corporation are all governmental institutions. They rely on deposits (Savings Bank) and employer/employee contributions as their sources of funds. These monies are then invested in equity in wholly-owned Government enterprises in selected sectors, such as hotels, loans to the Housing bank and Housing Corporation, risk capital for new Government-owned or controlled enterprises, loans to government enterprises, and deposits with the Central Bank and commercial banks.

6. Insurance Companies

Until recently, there were twenty-two local and eleven foreign insurance companies. In late 1988, the Government passed a law that required foreign insurance companies to meet certain capitalization and loss guarantee requirements, which none of them could meet. As a result, the foreign companies were merged into the local companies. Several other companies failed or were also merged with larger insurance companies, with the result that today there are sixteen local insurance companies in the market.

Jordanian insurance companies sell a wide range of traditional insurance products, including life, health, auto, home, marine, and property insurance. More sophisticated insurance products, such as product liability, agricultural disaster, malpractice, and business loss, are not currently provided. It was felt by one insurer that the lack of these kinds of insurance may inhibit entrepreneurial growth.

Insurance companies place their assets in a variety of investments, including mandatory banking and bond deposits in the name of the Ministry of Industry and Trade (to act as guarantee of the insurance company's credit), government bonds, stocks, real estate holdings, and equity in start-ups. In this latter category, one insurance company indicated that it put 10 percent of its portfolio into carefully scrutinized and monitored start-ups. They take a significant enough position so that they can influence management, but not so significant they will lose a substantial amount should the company fail. An insurance company executive has said that this practice of taking equity positions in start-ups is common practice among the insurance companies, although it is undertaken in varying degrees depending on the guidelines set Boards of Directors. One company indicated that there was a shortage of good quality deals, in part because of their careful screening process. These equity positions are typically viewed as long-term holdings, with a view to receiving dividends at some point in the future.

7. The Amman Financial Market

The Amman Financial Market (AFM) is a vibrant equities and bond market, with about 140 companies currently trading. Established by law in 1976, AFM began operations in 1978. Broad public ownership has been encouraged, with a reported 700,000 shareholders in country of 3 million people.

As an independent governmental body, the AFM acts as market regulator, exchange, and transfer agent. By law, all limited liability and incorporated companies must belong (and file annual financials) to AFM, but are not necessarily listed. To be listed they must pass certain criteria, such as having 50 percent of authorized capital paid in and be at least one year old. Firms wishing to become listed must prepare a prospectus. AFM would like all members to eventually be listed.

The exchange is run as a two-tier equities market, essentially equivalent to the NYSE and OTC exchanges, and a thin bond market. AFM also provides a limited off-the-floor trading service through its legal department for non-qualifying companies in special circumstances.

For initial offerings (the first time an equity share is brought to market), the Ministry of Industry and Trade sets the opening price using either par value or, if the company requests, a value determined by a formula that considers book value and earnings. This method is apparently not very accurate at assessing likely market reception. There is anecdotal evidence of the over-valuing of shares of some companies, leading to a loss to underwriters.

On the other hand, there have been occasions when the Ministry has significantly under-valued new issues. As a result, good companies not yet listed may resist listing by ensuring that AFM's minimal requirements are never met, and thereby avoid selling equity at below-market prices. For example, in 1986, the Bank of Jordan entered the equity market by selling shares with an initial price of JD13. The price rose immediately to JD16 and two months later stood at JD17.86. In another case, Cairo Amman Bank introduced new issues at JD16. Two months later the price was JD31.25. As a result, the Government's interference with the free market is limiting companies' access to additional equity which could be used to grow their businesses, as they perceive that the true market value for newly-issued equity will not be realized by the company, but rather by stock purchasers.

To minimize disruptive speculation and to "protect the small investor," AFM prohibits short selling and sets price fluctuation limits, currently set at 5 percent. However, since automated systems do not exist to track stock ownership, some speculators may sell stock they do not own, then clearing out of their position on the same day or shortly thereafter, before AFM can detect the short selling. This undisclosed short selling undermines the integrity of the system, as best exemplified by the bankruptcy of a broker who unknowingly executed short-selling trades for a client.

Margin accounts are available through banks, typically up to the amount of JD150,000. Banks establish their own policies as to the amount of margin to be provided, with most banks limiting margins to 25 percent, although they could theoretically allow lending up the full value of the purchased stock.

8. Brokerage Firms

There are twenty-seven brokerage firms licensed by the AFM providing, under AFM licence, a variety of related services, including buying and selling shares and bonds, investment advice, and underwriting. Their commission is set by law at .0065 of the value of the transaction for the first JD20,000 and .005 for transactions above that level. (Twenty percent of this fee is paid to the AFM to cover operating expenses.) Larger brokers are reputedly discounting from the official rate by various means, but the official position of the Brokers Association is that the commission level is necessary to sustain the smaller brokers.

E. Status of Financial Instrument Development

Jordanian financial markets may be viewed as highly sophisticated, yet underdeveloped. They are sophisticated to the extent that both suppliers and users of funds are aware of the existence of specialized credit instruments. They are underdeveloped to the extent that, when available, specialized instruments are not used to the full advantage of both lender and borrower, and are not necessarily structured to reflect the true risk of the transaction.

A case in point are self-liquidating loans such as export financing, certain types of loans against receivables, and bills discounted lines. Given a good historic experience with a borrower and reasonable cash flow and financial statements, the documents underlying the commercial transactions would normally be sufficient to secure the transaction, particularly if supported by guarantees. In Jordan, additional coverage is required in the form of security. While this is certainly prudent banking, it may be unduly cautious and unnecessarily limit the total amount of credit available to any one customer and thus, potentially, impede capital availability to productive businesses.

Overdraft lending is far and away the most favored lending instrument, both by borrowers and lenders. Overdrafts are favored by banks because they are simple to implement, require minimal documentation, virtually no follow-up, and minimum examination of the use or purpose of the proceeds. The same factors motivate the borrowers, reinforced by the fact that if the overdraft is "evergreen," repayment may be delayed indefinitely. Given that overdraft lending is the riskiest form of lending, high security and guarantees are required by banks, even for the most credit-worthy customers. Additionally, since there is no specific time set for repayment, cash flow and statement analyses are of limited value in judging ultimate credit risk.

The second most common form of lending is bills discounting. The most likely reason for this is the rediscountability of the bills to the Central Bank, thus providing banks with liquidity. However, since the Central Bank must approve the credit risk of the bills, and since the Central Bank places a great deal of emphasis on security, these transactions are normally secured. Again, while securing these transactions provides banks with a high level of comfort, this practice absorbs security which could more productively be used to support other credit transactions.

Banks also claim they extend construction finance. It is doubtful, however, that they are doing much else than providing credit for construction under the same credit criteria as other loans, particularly as it pertains to security coverage. The same comments may be applied to special purpose lines of credit, whether for working capital requirements, project finance, or simply pre-production or inventory accumulation of goods.

With regard to longer-term debt instruments, such as bonds, the Government's policy of guaranteeing both principal and interest on these instruments, and making the resulting income tax exempt, renders differentiation by risk, rate, and return a redundant exercise. Given that the full faith and credit of the Jordanian Government stands behind these instruments, institutional investors snap them up and hold them to maturity in their portfolios. Consequently, there is no secondary market where investors can dispose of undesirable paper in favor of more desirable paper. This situation is likely to change, however, as the Government's expressed desire to minimize the use of guarantees comes into play.

Equity issues, as has been pointed out before, are subject to the arbitrary and formalistic setting of prices for initial issues. This practice tends to limit the expansion of this market as an effective medium for capital mobilization.

Standard deposit instruments, such as demand, prior notice and time deposits, exist. However, both customers and banks routinely ignore maturity terms, effectively making these deposits interest-bearing current accounts.

The attempted creation of Certificates of Deposit (CD's) was unsuccessful since the banks had no need to pay a premium for fixed-rate time deposits, and hence were unwilling to participate. There was no need for a secondary market because time deposits were either short or the contract could be easily broken, as noted above, thus providing the liquidity usually provided by a secondary market in CD's. With the ceiling on time deposit interest removed, there is absolutely no need for CD's.

F. The Efficiency of the Jordanian Financial Sector

The banking system appears to be reasonably efficient by normal banking standards:

- Most (70 percent) of the money supply (M4) is held in the form of private sector deposits in banks, and is therefore available for stimulating commercial activity by the private sector.

- On a comparative basis, between 1980 and 1988, on average, 70 percent of total bank deposits were on-lent. The same ratio for 1987 was 60 percent. Considering that legal and reserve requirements absorb 15 percent of total deposits, and that in a fundamentally "cash society" banks would prudentially hold 10 to 15 percent of deposits in cash and free reserves to meet client demands, there is not a substantial percentage of total deposits that are not invested in commercial loan activities.

- In 1987, deposits generated from the private sector exceeded loans by the banking system by only 9 percent. When considering legal and prudential reserve requirements, and the state of development of financial markets, this would indicate a high level of efficiency.

The efficiency of the stock market is somewhat mixed. In terms of participation, the AFM could be viewed as reasonably efficient, since up to 23 percent of the country's population may hold shares. However, since the total value of trades on the stock market has only represented 6 percent of total bank deposits in 1987, the stock market can be viewed as relatively insignificant in terms of extending financial intermediation. By another measure--new issues--the stock market can also be regarded as an inefficient financial intermediary, since new issues are sporadic, and oftentimes are not priced on the basis of market prices.

G. Other Donor Activity

There is little international donor activity in the financial sector, other than concessionary loans provided by several donor agencies to IDB, and minor IFC involvement. The IFC is currently providing some equity funding and long-term, hard-currency loans to highly-leveraged companies, but not at a significant level. The IFC is viewed by the market as the last acceptable lender for project finance.

III. RECOMMENDATIONS AND STRATEGIC IMPLEMENTATION PROGRAM

A. Current USAID Interventions

There are a number of current AID initiatives aimed at improving the private sector's access to capital, including:

- Housing Guarantee Program: This program is designed to make long-term financing available to low-income families for the purchase or construction of affordable housing, currently funded at $35,000,000.

- Private Enterprise and Technical Resources Assistance Project (PETRA): This project has the goal of helping private businesses develop and grow through the provision of various technical support services. This program is funded at $10,000,000 over a four-year period.

- Commodity Import Program: This program is designed to provide foreign exchange to Jordanian importers for the import of US goods to support priority economic development activities, funded at $79,000,000 over 5 years.

- Loan Guarantee Project for Small Enterprise Development: This is a program to provide credit to enable micro and small enterprises establish, expand, and improve efficiency to sell goods in the local and export markets. This is funded at $10,000,000 over four years.

- PRE Loan Guarantee Loan Facility: This facility of $5,000,000 is provided through two banks to support the extension of credit to mid-sized companies.

In addition to these projects, USAID is actively engaged in the process of helping to create a venture capital fund, in conjunction with a U.S. venture capital firm, several local banks and finance companies, and several individuals.

B. Proposed New Interventions by Special Categorization

As USAID further develops its overall financial sector development strategy in the period ahead, the following are those initiatives which could be undertaken by the Mission to foster the development of more efficient intermediation in financial markets and which have the greatest probability of eventual pay back. In this section they are organized by the following type of initiative:

- o Technical Assistance/Training (TAT) for Central Bank and other Governmental Institutions
- o Technical Assistance/Training (TA) for Banking Institutions
- o Stock Exchange/Equity Market Development

In Section C they are ranked by priority and chronological order, and are discussed in more detail. Exhibit III-1 presents a breakdown of these activities.

1. Technical Assistance/Training (TAT) for Central Bank and Other Governmental Institutions

a. In order to promote the growth of competition and innovation in the banking system, USAID should encourage the modification of the role of the Central Bank from that of prior approver of individual credits to that of regulator and supervisor: We recommend a banking system which allows banks to freely compete for business and to introduce new products and instruments within defined parameters of prudent regulation established by the Central Bank. The Central Bank in its capacity as supervisor and regulator of the banking system would assure the integrity of the system through an upgraded and modernized system of independent examination and evaluation of the bank's portfolio and financial condition.

b. Determine the feasibility of an export insurance scheme: USAID should provide technical assistance to the Government of Jordan for establishing an export insurance program to cover political and exchange risks for Jordanian exporters.

New
Technical Assistance/Training ntral Bank and
Other Governmen st ns

Recommendations	Participating Entities	Preliminary Estimated Costs	Preliminary Overall Priority
Encourage the modification of the role of the Central Bank from that of prior approver of individual credits to that of regulator and supervisor	Central Bank	$200,000 - 300,000 for technical assistance $200,000 - 250,000 for short- and long-term training of bank examiners	1
Determine feasibility of an export insurance scheme	Gov. Of Jordan	$250,000-300,000	3
Determine feasibility of the use of retail-oriented products by SMEs	Gov. Of Jordan	$60,000-100,000	4
Study/Communicate the importance of market interest and exchange rates	Central Bank	N/A	9
Explore mechanisms for monetary control	Central Bank	N/A	8
Study/Communicate the adverse effects of continued overdraft lending	Central Bank	N/A	2
Review and update the commercial code	Gov. of Jordan	$50,000-100,000	14
Study alternatives/ ramifications to limiting use of loan guarantees	Gov. of Jordan	N/A	12
Assist GOJ to develop competition - enhancing strategy for financial sector	Gov. of Jordan	$100,000-150,000	19

EXHIBIT III-1

Proposed New Interventions
Technical Assistance / Training (TAT) for Banking Institutions

Recommendations	Participating Entities	Preliminary Estimated Cost	Priority
Sponsor TAT program in new financial instruments	Bankers' Association Chamber of Commerce Jordan Institute of Management Chamber of Industries	$300,000 - 400,000	5
Sponsor TAT program in basic credit assessment techniques	Bankers' Association	$300,000 - 350,000	6
Sponsor TAT program in bad loan identification and workout tochniques	Bankers' Association Jordan Institute of Management	$400,000 - 600,000	7

EXHIBIT III-1

New
Stock Ex[illegible]e / Equity [illegible] e[illegible]elopment

Recommendations	Participating Entities	Preliminary Estimated Cost	Priority
Sponsor TAT program to introduce a wider range of investment practices	Amman Financial Markets	$20,000 - 50,000 for study $10,000 - 25,000 for implementation	11
Determine feasibility of establishing Jordan-based regional financial market	Amman Financial Markets	$150,000 - 250,000	18
Determine automation needs of AFM back-office operations	Amman Financial Markets	$25,000 - 50,000 for study $100,000 - 150,000 for implementation	17
Determine feasibility of clearinghouse for private placements	Amman Chamber of Industry Amman Chamber of Commerce	N / A	16
Study alternative mechanisms for pricing new equity issues	Ministry of Industry and Trade	$200,000 - 250,000 for study	10
Determine feasibility of separating the functions of the AFM	Amman Financial Markets	$50,000 - 100,000	13
Establish an independent, universally accessible, comprehensive credit information system	Central Bank	$75,000 - 100,000	15

EXHIBIT III-1

c. Determine the feasibility of the use of retail-oriented loan products by SMEs: USAID should follow-up on the 1987 Robert Nathan Associates report--Jordan Small Business Development Project Phase II--with a view to implementing the recommendations to fund a study to review the appropriateness of introducing retail-oriented loan products and methods into the financial environment. The objective of this intervention would be to introduce retail lending techniques to provide credit to the small and micro entrepreneur.

d. Study/communicate the importance of market interest and exchange rates: During the process of policy dialogue with the Central Bank, USAID should be in a position to discuss the importance of free, if managed, interest and exchange rate structures, especially in this time of inflationary pressure.

e. Explore mechanisms for monetary control by Central Bank: USAID should also provide technical assistance in interbank mechanisms, open market techniques and reserve requirements to the Central Bank in order that it may effectively direct monetary policy.

f. Study/communicate the adverse effects of continued overdraft lending: In its policy dialogue with Central Bank, USAID should encourage it to continue to support the limitation of overdraft lending to true short-term requirements.

g. Review and update the Commercial Code: Sponsor a review of the Commercial Code with a view to updating it, particularly with regard to perfecting liens.

h. Study alternatives/ramifications to limiting the use of loan guarantees: USAID should conduct a policy dialogue with the Government of Jordan with the objective of promoting recognition of the importance of limiting the use of Government guarantees to only the most deserving and essential of Government projects.

i. Assist the GOJ develop a competition-enhancing strategy for the financial sector: Competition in the banking sector should be encouraged to stimulate the banking sector to becoming more responsive to loan customers' needs.

2. Technical Assistance/Training (TAT) for Banking Institutions

a. Sponsor a TAT program in new financial instruments: USAID should sponsor seminars/workshops under the auspices of industry associations such as the Bankers' Association, the Chamber of Commerce, the Chamber of Industries and the Jordan Institute of Management, on the structure and use of transaction/purpose-specific lending instruments.

b. Sponsor a TAT program in basic credit assessment techniques: USAID should provide technical assistance, through such entities as the Bankers' Association, with the objective of providing on-going training in the techniques of structuring, securing and analyzing different types of credit requirements and instruments. Such instruction should include such things as financial statement analysis, cash flow analysis, techniques of securing extensions of credit, project analysis, and industry analysis.

c. Sponsor a TAT program in bad loan identification and workout techniques: USAID should provide technical assistance through an entity such as the Banker's Association or the Jordan Institute of Management on the process of identifying bad loans, their management and work out techniques.

3. Stock Exchange/Equity Market Development

a. Sponsor a TAT program to introduce a wider range of investment techniques: USAID should sponsor studies through the Amman Financial Market directed at increasing the number of allowed investment techniques, such as short-selling and possibly option writing, with the objective of increasing overall market efficiency. These studies should carefully consider the maturity of the Amman Financial Market in establishing the proper timing for the introduction of these new investment techniques. There are a number of investment techniques that provide investors with the ability to hedge their position, thus allowing them to share risk with other investors. However, to be effectively controlled and regulated these new forms of investment would require appropriate and rigorous supervision by the exchange authorities.

b. <u>Determine the feasibility of establishing a Jordan-based regional financial market</u>: USAID should fund a study to determine the desirability and practicability of establishing a regional financial market. A possible first step would be to build on the AFM to establish a regional stock exchange. This development would be consistent with Jordan's position as a regional supplier of certain manufactured goods and its reputation for integrity. Any study should include the possibility of Jordan becoming a regional banking center, building on its reputation for safety. It should be noted that the common characteristics of successful regional financial markets include an uncommon regard for probity coupled with a regulatory environment favoring free market conditions.

c. <u>Determine the automation needs of AFM back-office operations</u>: USAID should fund a study of the Amman Financial Market back-office operations so as to determine the appropriateness of automation and current real need for equipment, in order to permit a more efficient, accurate, and responsive exchange, as well as to permit stock exchange growth beyond the current upper limit of 1000 trading transactions per session.

d. <u>Determine the feasibility of a clearinghouse for private placements</u>: USAID should consider an initiative with the Amman Chamber of Industry or the Amman Chamber of Commerce toward setting up a clearing house for prospective private placement opportunities.

e. <u>Study alternative mechanisms for pricing new equity issues</u>: USAID should initiate a policy dialogue with the Ministry of Industry and Trade to encourage them to remove themselves from the function of determining the pricing of new equity issues.

f. <u>Determine the feasibility of separating the functions of the AFM</u>: USAID should fund a study to determine the appropriateness of the Amman Financial Market serving as regulator, stock exchange and transfer agent. AFM is considering establishing an independent transfer company. This effort should be supported.

g. <u>Establish an independent, comprehensive credit information system which is available to all financial sector participants</u>: USAID should fund a study of alternative systems of credit information for Jordan.

C. Proposed New Interventions by Priority

Following is a more detailed presentation of the recommendations set forth in the previous section aimed at assisting USAID develop a full-scale financial sector development strategy. These recommendations are rank-ordered by priority and, to the extent possible, by chronology. It should be noted that, the proposed initiatives should be considered regardless of any economic difficulties that may be encountered. The priorities among the various initiatives might shift with the economic winds, but they should be viewed as appropriate in any economic climate.

1. <u>In order to promote the growth of competition and innovation in the banking system, USAID should encourage the modification of the role of the Central Bank from that of prior approver of individual credits to that of regulator and supervisor</u>.

<u>Description</u>: We recommend a system which allows banks to freely compete for business and to introduce new products and instruments within defined parameters of prudent regulation established by the Central Bank. The Central Bank in its capacity as supervisor and regulator of the banking system would assure the integrity of the system through an upgraded and modernized system of independent examination and evaluation of the bank's portfolio and financial condition.

<u>Purpose</u>: This initiative is designed to increase the role of market forces in the Jordanian banking sector in order to foster greater competition, innovation, and the introduction of new financial products, techniques and services.

<u>Rationale</u>: As mentioned elsewhere in this report, the Central Bank plays a significant role in the process of credit approval by exercising prior approval to all extensions of credit exceeding a total aggregate of borrowing by any one company in excess of JD500,000, as well as post approval review of all extensions of credit between JD5,000 and JD500,000. This current Central Bank practice can reduce competition among banks and inhibit the development of new financial instruments. The Central Bank's current system can also lead to a number of other negative ramifications for the financial system, including: lack of thoroughness in the commercial banking system's approach to credit evaluation; adoption of very conservative lending policies

because of the current emphasis on collateral, personal guarantees and low debt leverage; and the potential undermining of market forces in determining the allocation of financial resources within the economy.

Under the system we recommend, banks would compete for business within parameters defined by basic bank law and regulation and would be free to innovate and introduce new products and techniques. Such a system would lead to greater competition in the financial sector and enhanced financial intermediation. The banks would be, as should be the case, responsible for the evaluation of risk and the consequent pricing of their products. The banks would assume the credit risk which results from these judgments, as they would be putting their capital at risk to back their credit decisions.

As the Central Bank implements its stated policy of reducing overdraft lending to 20 percent of the risk portfolios of financial institutions there will be a tremendous opportunity to develop a broader range of lending instruments. The Central Bank in exercising its authority as the regulator, would establish, in place of its present practice of prior approval of credit, regulations that limit a financial institution's exposure to any one customer or industry. Such regulations have the effect of not only limiting the risk that one financial institution will be unduly negatively affected by the financial problems of one company or industry, but also assuring that big and strong companies will have to seek banking support from more than one supplier of credit, thus introducing an element of competition into the system. A system of legal lending limits, tied to banks' capital bases, also provides a safety net for the financial system which statutorily spreads credit risk throughout the system, and as a corollary, may force the creation of financial instruments, such as commercial paper, which are outside of the banking system, and hence competitive with it.

It would be unwise to assume that the establishment of these regulations would by themselves assure the integrity of the banking system. In addition to sound regulation, it is critical that the Central Bank strengthen its bank supervision and examination procedures. Such procedures are necessary to provide decision-makers with the current and accurate information they need to take timely action to assure the soundness and financial integrity of the banks as well as the banking system as a whole. We recommend that the USAID consider offering technical assistance in the areas of prudential regulation and bank supervision to the Central Bank.

Preliminary Estimated Cost: $200,000 - $300,000 to fund technical assistance to the Central Bank for the upgrading and modernization of the regulatory system and bank supervisory capacity. $200,00-$250,000 for short- and long-term training of bank examiners.

2. Study/communicate the adverse effects of continued overdraft lending

Description: USAID should initiate a policy dialogue with the Central Bank to support the bank's expressed policy of working toward limiting the banking sector's loan exposure in the form of overdrafts to 20 percent of the sector's risk portfolio.

Purpose: To facilitate the diversification of financial instruments, thereby forcing bank balance sheets to more accurately reflect the true risk nature of loan portfolios and the real liquidity of banks.

Rationale: The present market practice of bank lending being almost universally on an overdraft basis, frequently evergreen, presents several severe inconveniences and risks to the financial system and the Central Bank. First, no one, the banks included, can accurately judge the purpose and term of lending in the system. Secondly, it is extremely difficult to judge, except by supporting security, the true credit risk involved in the extension of credit. Thirdly, it is difficult to judge the liquidity of a bank and ascertain what effect an economic downturn might have on a financial institution. A diversification of asset and liability instruments clearly reflected in bank balance sheets will make the job of the supervisors and regulators easier in monitoring the banking system. The objective should be the eventual prohibition of "evergreen" overdrafts to be replaced by true term lending or "evergreen" outstandings under established lines of credit with identified purposes, and subject to periodic review as to compliance with terms and conditions and credit risk.

Preliminary Cost Estimate: N/A

3. Determine the feasibility of an export insurance scheme

Description: USAID should provide technical assistance to the Government of Jordan for establishing an export insurance program to cover political and exchange risks for Jordanian exporters.

Purpose: To provide a safety net for exporters by covering "non-commercial" risks attendant to the process of exporting

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goods and services of Jordanian origin.

Rationale: One of the elements which could assist Jordan in relieving its shortage of foreign exchange would be expanding its ability to export goods and services. However, such "non-commercial" factors as political and exchange rate risks are very difficult for exporters to judge, much less hedge against. Most countries wishing to encourage exports, insure the exporter against these risks through some government-supported insurance program. While such a product is available in the Gulf states, it does not appear to satisfy the needs of the Jordanian exporter. Consequently an indigenous program should be supported.

Preliminary Cost Estimate: $250,000 - $300,000

4. Determine the feasibility of the use of retail-oriented loan products by SMEs

Description: USAID should follow-up on the 1987 Robert R. Nathan Associates (RRNA) report (Jordan Small Business Development Project, Phase II) with a view to implementing the recommendations to fund a study to review the appropriateness of introducing retail-oriented loan products and methods into the financial environment. The objective of this intervention would be to introduce retail lending techniques to provide credit to the small and micro entrepreneur. Of particular value would be a study to determine the appropriateness of introducing standardized rating techniques, such as credit scoring to facilitate the process of credit evaluation of small borrowers.

Purpose: To determine whether retail lending products could be successfully introduced into the Jordanian market as a means of providing working and start-up capital to the smaller businessperson.

Rationale: As mentioned in the RRNA study, retail lending is more dependent on economies of scale, actuarial and statistical analyses than on credit evaluation for successful operation. Given the paucity of credit information and the reluctance/inability of smaller companies to provide financial information, as well as the excessive costs to banks to process small credits on an individualized basis, retail-based lending could more readily make funds available to small enterprises hitherto considered unacceptable risks.

Preliminary Cost Estimate: $60,000 - $100,000 to fund market research.

5. Sponsor a TAT program in new financial instruments

Description: USAID should sponsor seminars/workshops under the auspices of such industry associations as the Bankers' Associations, the Chamber of Commerce, the Chamber of Industries and the Jordan Institute of Management, on the structure and use of transaction/purpose-specific lending instruments.

Purpose: To provide a venue where both users and providers of credit can meet to learn about the variety of instruments in common in other countries, their uses and benefits. They could also discuss each others' needs, requirements and methods of satisfying these needs and requirements in a rapidly changing, expanding and progressively more sophisticated environment.

Rationale: With the greater commercialization and industrialization of the economy, users of credit are beginning to demand credit instruments which more realistically reflect the characteristics of the underlying transaction and, therefore, may reduce the need for traditional types of security and support. Banks, on the other hand, are being urged by the Central bank to more clearly identify the nature of their portfolios. The interests of both these group can be best be served by the mutual understanding such seminars would provide.

Preliminary Estimated Cost: $300,000 - $400,000

6. Sponsor a TAT program in basic credit assessment techniques

Description: USAID should provide technical assistance, through such entities as, the Banker's Association, with the objective of providing ongoing training in the techniques of structuring, securing and analyzing different types of credit requirements and instruments. Such instruction should include such things as statement analysis, cash flow analysis, techniques of securing extensions of credit, project analysis, and industry analysis.

Purpose: To provide the financial system with an ongoing supply of credit officers trained in the more advanced aspects of credit analysis and loan structuring.

Rationale: With pressure from the Central Bank to more clearly define the components of bank loan portfolio's, and the incipient demand from customers to relate loan products to the underlying transactions, banks will require greater expertise in analyzing and structuring loan transactions. Increased competition may also force banks to diversify portfolios and secure transactions on non-traditional bases. While it is believed that banks require much of the information needed to make such analyses and judgments, it is doubtful that the information currently plays an important part in the credit evaluation process based, as it currently is, on the value of collateral, usually in the form of real estate.

Preliminary Estimated Cost: $300,000 - $350,000

7. Sponsor a TAT program in bad loan identification and workout techniques

Description: USAID should provide technical assistance, through an entity such as the Banker's Association or the Jordan Institute of Management, on the process of identifying bad loans, their management and work-out techniques.

Purpose: To assist financial institutions in the process of identifying sub-standard loans and providing a basis for curing the deficiencies, as well as providing the Central Bank with a yard stick against which to measure the effectiveness of banks' loan portfolio management capabilities.

Rationale: The consultants understand that a meaningful but unquantifiable portion of the credit extended under the rubric of "overdrafts" may in fact be non-performing, or even bad. One reason for this, in addition to an unwillingness on the part of banks to recognize these possible losses, may be an inability on their part to clearly identify and quantify the problem, then work out a reasonable scenario to effect recovery. Work out management is a specialized activity within the credit process and requires special training to be effective.

Preliminary Estimated Cost: $400,000 - $600,000

8. Explore mechanisms for monetary control by Central Bank

Description: USAID should provide technical assistance to Central Bank in interbank mechanisms, open market techniques and reserve requirements.

Purpose: To provide the Central Bank with mechanisms that would enable it to effectively oversee and manage the activities of the interbank market and that would make this market responsive to its policy decisions regarding interest rates and money supply.

Rationale: The Central Bank must retain the authority and ability to guide monetary policy unhampered by commercial banks who may take action in their own interests. The Central bank must have both the regulatory capacity and technical skill to execute its policies directly and indirectly by working through the credit markets, in a manner consistent with its responsibilities as Central Bank.

Preliminary Estimated Cost: N/A

9. Study/communicate the importance of market interest and exchange rate structures

Description: USAID should continue its policy dialogue with the Central Bank regarding the importance of free, if managed, interest and exchange rate structures.

Purpose: To assure that short-term political objectives do not unduly interfere with rational, long-term development.

Rationale: Major distortions in either interest rate levels or foreign exchange rates from real market values will adversely affect economic development and, eventually, political stability.

Preliminary Estimated Cost: N/A

10. Study alternative mechanisms for pricing new equity issues

Description: USAID should initiate a policy dialogue with the Ministry of Industry and Trade to encourage them to remove themselves from the function of determining the pricing of new equity issues. As an intermediate position, consideration may be given to the possibility of the underwriters setting the price for new issues with approval being required by the Ministry before floatation. This intermediate position could be replaced later on the basis of an agreed-upon time frame by a system where only the underwriters set the price based on market considerations. It must be recognized that this system would also require regulation which would prevent misrepresentation (i.e. blue sky) of the stock issues' future prospects.

Purpose: To assure that new issues of equity instruments are priced to reflect the reality of the market, and that the process is even handed with regards to both issuer and investor.

Rationale: The current process of stock valuation often discourages companies from selling public shares. Participants in the market believe that stock offerings are often significantly undervalued by the Ministry. This practice undercompensates current owners for the sale of equity, and favors traders of the stock in the aftermarket. The real rewards to entrepreneurship are therefore reduced. A number of companies recognize this and have taken steps to remain unlisted.

A likely result of continued non-market based initial price determination would be the withering away of the formal stock market in favor of other, perhaps informal markets or venture capital companies which give a more appropriate reward to entrepreneurship. Indeed, even the growth prospects of the venture capital process, or other capital market innovations, could be adversely affected by the continuation of this practice, as venture capitalists require access to stock markets which are willing to offer a price which reflects the perceived future gains of the enterprise.

If the price for new issues of equity instruments were determined by the marketplace companies who were previously reluctant to be listed would be encouraged to come to the market, and thereby expand the base of the Amman Financial Market. A broader based stock market will not only encourage investment but also stimulate the flow of funds to productive purposes. A good rate of return from the stock market, either from capital gains or earnings, will also provide healthy competition for banks and other investment media and encourage the growth of venture capital.

Preliminary Estimated Cost: $200,000 - $250,000 to develop research to support use in policy dialogue showing the beneficial aspects of this policy.

11. Sponsor a TAT program to introduce a wider range of investment practices

Description: USAID should sponsor studies through the Amman Financial Market directed at increasing the number of allowed investment techniques, such as short-selling and possibly option writing, with the objective of increasing overall market efficiency. These studies should carefully consider the maturity of the Amman Financial Market in establishing the proper timing for the introduction of these new investment techniques. There are a number of investment techniques that provide investors with the ability to hedge their position, thus allowing them to share risk with other investors. However, to be effectively controlled and regulated these new forms of investment would require appropriate and rigorous supervision by the exchange authorities.

Purpose: To legalize what is common practice in operating an organized securities exchange, and thus serve as a basis for appropriate supervision and control, thereby limiting speculation in the market to acceptable levels.

Rationale: A stock market, by its very nature, is a speculative enterprise. The activities of such an entity and the participants should be transparent to all so that investors, buyers and sellers alike, are able to make decisions from an even playing field.

Preliminary Estimated Cost: $20,000 - $50,000 for research to support USAID's position; $10,000 - $25,000 for technical assistance for implementation.

12. Study alternatives/ramifications of limiting the use of loan guarantees

Description: USAID should initiate a policy dialogue with the Government of Jordan with the objective of limiting the use of Government guarantees to only the most deserving and essential of government projects.

Purpose: To limit the exposure of the Government of Jordan, to allow the market to set the price for different issues based on risk and reward considerations, and to provide support for those activities of true "national importance" which could not get funding at reasonable price without government support.

Rationale: For all practical purposes, since they are government backed, all debt issues carry the same grade "A" risk rating. Consequently, all issues are bought and held by institutional investors, generating no secondary market. Furthermore, there is no rational reason why the Government of Jordan should guarantee either private debt or parastatal debt that can stand on its own credit rating.

Preliminary Estimated Cost: N/A

13. Determine the feasibility of separating the functions of the AFM

Description: USAID should fund a study to determine the appropriateness of the Amman Financial Market being regulator, stock exchange and transfer agent. There are several sources of technical expertise available to carry out such a study (see Appendix D).

Purpose: To separate the functions of regulatee and regulator into independent, unrelated activities.

Rationale: The AFM, as both regulator and exchange, is open to possible conflict of interest. The primary purposes of an exchange regulatory body are to:

- Ensure full and valid public disclosure of all material factors which affect the financial condition of listed companies
- Monitor and discipline stock and bond exchanges to ensure the integrity of trading activities
- Regulate the activities of member firms dealing in securities as underwriters, brokers, dealers, and investment advisors.

The primary purpose of an exchange, in turn, is to facilitate trading of various securities. Under the current organization, it may be difficult for management to reconcile their best interests as an exchange with their responsibilities as a regulator. For example, as an exchange, AFM is motivated to expand trading volume and to grow. As a regulatory agency, it is responsible for ensuring that such growth does not come at a cost of fraud or system integrity. As another example, what if senior official of AFM were to conduct trades through third parties, based on his inside knowledge of likely price movements? What authority would investigate and discipline such activity? Only a truly independent regulatory body would be likely to properly carry out this responsibility. While it is conjecture at this point whether or not such objectives will actually conflict, the potential for conflict is there nonetheless, and may in time lead to significant difficulties. In view of the importance of the public's perception that AFM is well-regulated and free of conflicts of interest, it is important that these functions be divorced.

AFM also carries out transfer responsibilities, a function typically fulfilled by commercial banks in other systems. The primary motivation for doing so is difficult to decipher, but it appears to be founded in AFM's desire to control all aspects of trading, ranging from regulation to execution. By controlling the actual transfer of transactions, AFM can theoretically, but not now in practice, monitor the participants' buying and selling and the exact ownership of shares. The real benefit of disaggregation is the need for the AFM exchange to focus on what it does best--enable exchanges to take place--while allowing a third party to manage the distribution process.

Estimated Preliminary Cost: $50,000 - $100,000

14. Review and update the commercial code

Description: USAID should sponsor a review of the Commercial Code with a view to updating it, particularly as it pertains to perfecting liens and the availability of assets for security.

Purpose: To assure that the law reflects current commercial practice and facilitates rather than hinders economic activity.

Rationale: There is some evidence that, although recently revised, the commercial code does not accurately reflect current commercial needs, particularly with regards to the perfection of liens and the use of chattel mortgages. There are still numerous legal barriers impeding the expeditious process of taking title in a defaulted loan situation.

Preliminary Estimated Cost: $50,000 - $100,000

15. Establish an independent, comprehensive credit information system which is available to all financial sector participants

Description: USAID should fund a study of alternative systems of credit information for Jordan.

Purpose: To establish and independent, comprehensive credit information system which is available to all financial sector participants.

Rationale: As a by-product of its credit approval process,

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the Central Bank is able to provide basic credit information on individuals and firms borrowing from the banking system. However, the only information available on file is that provided by banks. There is, therefore, no commercial credit information available on non-borrowers. Additionally, non-bank creditor institutions (e.g. supplier credit) do not have ready access to data. We recommend a credit system that is equally available to all who are willing to pay the price and that covers all who may eventually require a credit rating. Jordanian views about the need for additional credit inforamtion were uniform in their concern about the inadequacy of the current information. They currently rely on three sources for credit information: the Central Bank, their own informal checks with other banks or creditors, and the Bankers' Association which maintains files on bad clients. The Bankers' Association does not maintain files on good credit risks as banks do not want to share information on good clients. More importantly, there is no vehicle for uniformly and efficiently evaluating the credit-worthiness of an individual or firm with no prior record. While a minority of banks interviewed expressed satisfaction with the current informal system, several banks were favorably disposed towards the creation of an independent system to maintain credit files and to act as a central source for ascertaining credit standing.

16. <u>Determine the feasibility of a clearinghouse for private placements</u>

<u>Description</u>: USAID should consider an initiative with the Amman Chamber of Industry or the Amman Chamber of Commerce toward setting up a clearing house for prospective private placement opportunities.

<u>Purpose</u>: To provide a venue where a network for private placement opportunities may be developed.

<u>Rationale</u>: It is our understanding that, while private sources of investment exist, there is no formal or informal network for potential investors to be made aware of investment opportunities. The establishment of a centralized location for the exchange of information and opportunities could stimulate this sector of the market.

<u>Preliminary Estimated Cost</u>: N/A

17. Determine the automation needs of the AFM back-office operations

Description: USAID should fund a study of the Amman Financial Market back-office operations so as to determine the appropriateness of automation and current real need for equipment.

Purpose: To permit a more efficient, accurate, and responsive exchange, as well as to permit stock exchange growth beyond the current upper limit of 1000 trading transactions per session.

Rationale: The Amman Financial Market is studying an automation proposal from an equipment supplier which we believe seriously overstates the AFM's current and near-term needs. While it is clear that remedial action is required to improve through-put, the current manual processing could be vastly streamlined. And if combined with modest computer processing capabilities, would provide the necessary processing and information needs for the immediate future.

The AFM operates for the most part using manual systems to conduct and record transactions, transfer deed, and track and report statistics. The only exception to this is the use of the Reuters system to report transactions as they occur over the Reuters Service. The primary need calling for at least some automation is the growing volume of transactions being conducted daily on the exchange, and the inability of a cumbersome and overly-redundant back-office system to keep up with that growth. (Even the Reuters system is experiencing volume-related difficulties associated with transmission equipment and speed, but these problems are in the course of being resolved.) If AFM is to grow, automation must be introduced. The functions that would most benefit from automation would include transaction matching and recording, broker confirmation, commission calculation, and deed transfer and tracking. Also, the AFM maintains a variety of statistics and prepares reports, all of which could be easily automated onto PCs using existing available spreadsheet and database management software.

Before the system is automated, however, a decision must be reached as to the proper role of AFM in recording transfers. One school of thought believes that all securities transactions should be recorded so that short selling can be monitored and prevented. Another holds that this is not a necessary or even proper role for AFM and other, less onerous measures can be taken to eliminate naked short selling.

If AFM were to become a regional exchange, automation of the back-office function would be vital, not only to keep up with volume demands, but also to be able to maintain the integrity and accuracy of the trades, as well as the ability to report them over a variety of telecommunications media.

Preliminary Estimated Cost: $25,000 - $50,000 for study; $100,000 - $150,000 for implementation (50 percent share of total cost.)

18. Determine the feasibility of establishing a Jordan-based regional financial market

Description: USAID should fund a study to determine the desirability and practicability of establishing a regional financial market. A possible first step would be to build on the AFM to establish a regional stock exchange. This development would be consistent with Jordan's position as a regional supplier of certain manufactured goods and its reputation for integrity. Any study should include the possibility of Jordan becoming a regional banking center, building on its reputation for safety. It should be noted that the common characteristics of successful regional financial markets include an uncommon regard for probity coupled with a regulatory environment favoring free market conditions.

Purpose: The purposes of the effort would be to make full use of the current infrastructure and Jordan's reputation for honesty and reliability, to act as a first step toward establishing Amman as a regional financial center, and to provide Jordan with a stream of foreign exchange earnings.

Rationale: The AFM is poised for expansion. Any expansion effort should be directed toward maximizing economies of scale and enhancing Jordan's position in the regional financial markets, as well as to complement its position as a supplier of both goods and services in the region. For Jordan to develop and prosper as a regional exchange, and later as a regional financial market, several conditions must be met:

- There must be in place a well-trained, respected, and competent oversight body to ensure the integrity of the system and the veracity of all participants, including listed companies, brokers, and the exchange itself.

- Government policy must encourage the flow of capital through the exchange by removing all financial impediments that may motivate traders to conduct business elsewhere. This would include tax policy, profit repatriation policy, and foreign exchange limitations. Government must also be prepared to pass legislation protecting investors from undue government invasion of the privacy of their transactions. Government policy must be evenhanded in the treatment of foreigners, including non-Arab foreigners. Investors will not participate in a market where advantages are granted on a discriminatory basis.

- Telecommunications must be sufficiently advanced to allow for the real-time transfer of data concerning market performance, trades and so forth, not only within the region, but to money centers and possibly other exchanges as well.

The primary benefits for Amman in becoming a regional financial center are three-fold:

- As trades are conducted on the exchange in foreign currencies, there will be a net in-flow of these currencies. Commissions and other fees on trading activities will result in foreign exchange earnings for the country.
- As Amman grows as a regional financial center, new service jobs will be created, not only to meet the center's immediate needs, but also in related support industries, such as telecommunications, accounting, computer services, and so forth.
- The creation of a regional financial center will elevate Jordan's visibility and stature within the world market, making it a more attractive place to invest.

Preliminary Estimated Cost: $150,000 - $250,000 for preliminary feasibility assessment.

19. Assist the GOJ develop a competition-enhancing strategy for the financial sector

Description: Competition in the banking system needs to be encouraged to stimulate the banking system to become more responsive to loan customers' needs. There are a number of policies the Government could implement to encourage competition, such as encouraging Government- sponsored banks to become more aggressive in loan and other banking products, and enabling foreign banks to enter the market on terms equal to local banks. One important step the Government could take would be to set up deposit insurance schemes to guarantee deposits up to a set level. This would provide the security customers are very concerned about.

Purpose: The current banking system, oligopolistic in nature, is slow to innovate due to the lack of competition. USAID should encourage, through studies and policy dialogue, various steps that could be taken to increase competition in the banking system. Through the use of such programs such as deposit insurance, the Government could insure that all depositors, up to a pre-determined level, would be protected and treated equally by all banking institutions, thus placing all banks on an equal footing with regards to the public's perception of their funds safety.

Rationale: A more competitive system is much more likely to develop new instruments, and become more responsive to both deposit and loan customers.

Preliminary Estimated Cost: $100,000 - $150,000

STATEMENT OF WORK

USAID AMMAN IS IN THE PROCESS OF DEVELOPING A FINANCIAL MARKETS DEVELOPMENT STRATEGY WHICH WILL BE THE BASIS FOR A $5 MILLION FINANCIAL MARKETS PROJECT CURRENTLY SCHEDULED FOR OBLIGATION IN FY 1990. MISSION SEEKS A BUY-IN TO PRE'S FINANCIAL SECTOR DEVELOPMENT PROJECT TO PROVIDE TWO INDIVIDUALS TO COME TO AMMAN TO DEVELOP, IN CONJUNCTION WITH THE MISSION, A STRATEGY PAPER.

1. BACKGROUND:

MISSION HAS PREVIOUSLY UNDERTAKEN A PRELIMINARY ASSESSMENT OF THE FINANCIAL SECTOR AND HAS BEEN ACTIVELY INVOLVED IN POLICY DIALOGUE PARTICULARLY IN THE AREA OF LIBERALIZING INTEREST RATES. AT LEAST PARTIALLY DUE TO OUR CONTINUOUS EFFORTS IN THIS AREA, INTEREST RATE CEILINGS WERE RECENTLY LIFTED THEREBY ENABLING FOR THE FIRST TIME THE MARKET TO DETERMINE INTEREST RATES. AS A FURTHER STEP IN THE DEVELOPMENT OF OUR OVERALL STRATEGY WE HAVE TALKED WITH THE PRIVATE BANKERS, THE CENTRAL BANK, THE CHAIRMAN OF THE STOCK EXCHANGE AND NUMEROUS ENTREPRENEUR/ BUSINESSPERSONS. THIS WORK HAS LED TO THE FOLLOWING INITIAL ASSESSMENT.

AS JORDAN CONTINUES TO DEVELOP AND BUSINESS BECOMES MORE SOPHISTICATED, THE DEMAND FOR MORE COMPLEX CREDIT INSTRUMENTS INCREASES. SO FAR, THE FINANCIAL SECTOR HAS SHOWN LITTLE INTEREST OR ABILITY TO EXPAND AND DIVERSIFY THE AVAILABLE INSTRUMENTS TO MEET THESE NEEDS. THERE ARE NUMEROUS INSTRUMENTS AND TECHNIQUES FOR MOBILIZING CAPITAL FOR PRODUCTIVE INVESTMENTS WHICH CURRENTLY ARE NOT AVAILABLE IN JORDAN WHICH THE MISSION BELIEVES SHOULD BE EXPLORED. THESE INCLUDE COMMERCIAL PAPER, DEBENTURES, RECEIVABLES FINANCING, A WIDER RANGE OF GOVERNMENT SECURITIES, DEBT EQUITY SWAPS, MORTGAGE BONDS AND DIFFERENT TYPES OF LEASING INSTRUMENTS.

ALSO INCLUDED IN THE AREA OF DEVELOPMENT OF NEW FINANCIAL INSTRUMENTS IS THE DEVELOPMENT OF SECONDARY FINANCIAL MARKETS. IT APPEARS THAT THERE IS A STRONG NEED FOR TECHNICAL ASSISTANCE AND TRAINING TO STRENGTHEN AND DEVELOP SECONDARY FINANCIAL MARKETS TA AND TRAINING WOULD BE MOST BENEFICIAL IN SUCH AREAS AS BOND TRADING, SECURITIES REGISTRATION AND TRANSFER, FINANCIAL ANALYSIS AND PROSPECTUS DEVELOPMENT, CREATION AND MARKETING OF MUTUAL FUNDS AND THE DEVELOPMENT OF A SECONDARY MORTGAGE MARKET.

2. THE STRATEGY DOCUMENT

THE PREVIOUS WORK AND ANALYSIS NOTED ABOVE WILL FORM THE BASIS FOR THE DEVELOPMENT OF A COMPLETE STRATEGY DOCUMENT WITH THE FOLLOWING COMPONENTS:

A. GENERAL MACROECONOMIC SETTING: SUMMARY DESCRIPTION OF CURRENT ECONOMY AND ANALYSIS OF IMPACT OF CURRENT SITUATION AND FUTURE TRENDS ON THE JORDANIAN FINANCIAL SECTOR.

B. FISCAL AND REGULATORY ENVIRONMENT: SUMMARY DESCRIPTION OF FISCAL POLICY, TAX CODE AND REGULATORY ENVIRONMENT AND ANALYSIS OF THEIR IMPACT ON THE FINANCIAL SECTOR.

C. ANALYSIS OF ANY OTHER FACTORS (SOCIAL, ECONOMIC, FINANCIAL) WHICH CONSTRAIN THE DEVELOPMENT OF JORDANIAN FINANCIAL MARKETS OR LIMIT ACCESS TO THOSE MARKETS.

D. STRUCTURE OF FINANCIAL INSTITUTIONS: DESCRIPTION OF BANKING, SPECIALIZED CREDIT INSTITUTIONS AND OTHER FACILITIES OF THE JORDANINAN FINANCIAL MARKET. aNALYSIS OF STRENGTHS AND WEAKNESSES OF THESE INSTITUTIONS AND THE OVERALL INSTITUTIONAL STRUCTURE.

E. STATUS OF THE DEVELOPMENT OF FINANCIAL INSTRUMENTS. REVIEW OF WHAT INSTRUMENTS ARE AND ARE NOT CURRENTLY IN USE AND ANLAYSIS OF INPEDIMENTS TO THE GROWTH OF FINANCIAL INSTRUMENT USE.

F. GENERAL RECOMMENDATIONS FOR FINANCIAL MARKETS IMPROVEMENT

(1) POLICY REFORM (MACROECONOMIC, FISCAL, REGULATORY STRUCTURE AND CONTENT)

(2) INSTITUTIONAL DEVELOPMENT

(3) DEVELOPMENT OF FINANCIAL INSTRUMENTS OR OTHER FINANCIAL MARKET TOOLS

G. OTHER DONOR ACTIVITY: DESCRIPTION OF ACTIONS BEING TAKEN, IF ANY, BY OTHER DONORS IN THE FINANCIAL SECTOR AND ANALYSIS OF LIKELY IMPACT OF THEIR ACTIVITIES.

H. CURRENT AND PROPOSED AID PROGRAM

(1) REVIEW OF CURRENT AID INTERVENTIONS

(2) SPECIFIC PROGRAM OF NEW INTERVENTIONS: POLICY DIALOGUE, INSTITUTIONAL DEVLEOPMENT AND/OR FINANCIAL INSTRUMENT DEVELOPMENT, AS APPROPRIATE. EACH INTERVENTION SHOULD BE AS FULLY DETAILED AS POSSIBLE, INCLUDING A DISCUSSION OF THE INTENDED PARTICIPANTS AND BENFICIARIES. INSOFAR AS POSSIBLE, A GENERAL COSTING OF EACH INTERVENTION SHALL BE PROVIDED.

3. <u>SCOPE OF WORK FOR CONSULTANT TEAM</u>

A. DEVELOP FAMILIARITY WITH EXISTING DOCUMENTATION ON JORDAN'S ECONOMIC CLIMATE AND FINANCIAL SYSTEM. IF POSSIBLE, MISSION WILL MAKE DOCUMENTATION AVAIALBLE IN ADVANCE SO THAT IT CAN BE REVIEWED BY CONSULTANTS PRIOR TO ARRIVAL IN JORDAN.

B. CONSOLIDATE AND SYNTHESIZE DESCRIPTIVE AND ANALYTICAL MATERIALS ALREADY COMPILED BY THE MISSION ON FINANCIAL MARKETS. THIS STEP WILL COVER ESSENTIALLY SECTIONS A THROUGH E OF PARA 2 ABOVE. IDENTIFY ANY FURTHER INFORMATION REQUIRED ON FINANCIAL MARKETS AND ACQUIRE IT. UNDERTAKE ANY ADDITIONAL ANALYTICAL WORK REQUIRED TO MEET THE TERMS OF SECTIONS A THROUGH E IN PARA 2 ABOVE.

C. MEET WITH APPROPRIATE GOVERNMENT OFFICIALS FROM THE CENTRAL BANK AND MINISTRY OF FINANCE AND, MANAGING DIRECTORS OF BANKS, FINANCE COMPANIES, LEASING COMPANIES, SPECIAL CREDIT INSTITUTIONS AND THE STOCK EXCHANGE, ALSO MEET WITH APPROPRIATE BUSINESS PERSONS TO HEAR THEIR ASSESSMENT OF PROBLEMS IN DEALING WITH THE FINANCIAL SECTOR.

D. MEET WITH MININSTRY OF PLANNING OFFICIALS AND REPRESENTATIVES OF OTHER DONORS TO DETERMINE EFFORTS AND INTERVENTIONS CURRENTLY UNDERWAY OR ENVISAGED BY OTHER DONORS.

E. ON THE BASIS OF THE FOREGOING, PROPOSE GENERAL RECOMMENDATIONS FOR FINANCIAL MARKETS IMPROVEMENT INCLUDING THE AREAS OF POLICY REFORM, INSTITUTIONAL DEVELOPMENT AND THE DEVELOPMENT OF FINANCIAL INSTRUMENTS.

F. IDENTIFY AND REVIEW OTHER DONOR ACTIVITY AND GOVERNMENT OF JORDAN PLANNING FOR FINANCIAL MARKETS IMPROVEMENT.

G. REVIEW THE CURRENT A.I.D. PROGRAM AS IT IMPINGES ON FINANCIAL MARKETS IMPROVEMENT AND MAKE SPECIFIC RECOMMENDATIONS ON A PROGRAM OF NEW INTERVENTIONS IN THE SECTOR WHICH WOULD ALLEVIATE PREVIOUSLY DEFINED CONSTRAINTS TO FINANCIAL MARKET DEVELOPMENT.

H. PREPARE THE FINANCIAL MARKETS STRATEGY DOCUMENT.

4. PRODUCT

IN CONSULTATION WITH USAID/JORDAN STAFF, THE CONTRACTOR WILL PREPARE THE REPORT OUTLINED IN PARA 2 ABOVE. A FULL DRAFT WILL BE COMPLETED BY THE END OF WEEK THREE OF THE ASSIGNMENT. THIS DRAFT WILL BE REVIEWED AND MODIFIED AS REQUIRED DURING THE FOURTH WEEK OF THE CONSULTANCY. IF NEEDED, THE DOCUMENT WILL THEN BE REVIEWED BY SPECIALISTS IN THE CONTRACTOR'S HOME OFFICE BEFORE FINAL SUBMISSION TO USAID/JORDAN.

5. STAFFING

AS DISCUSSED DURING TELCON (B) REF B USAID AMMAN IS SEEKING THE SERVICES OF TWO INDIVIDUALS TO COME TO AMMAN FOR A PERIOD OF NO LESS THAN 3 PERSON WEEKS EACH TO HELP US DEVELOP OUR FINANCE SECTOR STRATEGY. THIS TWO PERSON TEAM SHOULD CONSIST OF A STRATEGIC PLANNING SPECIALIST AND A BANKING/CREDIT SPECIALIST. THE BANKING/CREDIT SPECIALIST MUST HAVE AN EXTENSIVE BACKGROUND IN THE USE OF THE SORTS OF FINANCIAL INSTRUMENTS DETAILED IN PARA 1 ABOVE. THIS PERSON MUST HAVE EXPERIENCE IN FINANCING

SMALL AND MEDIUM SIZED BUSINESSES FROM INITIATION THROUGH GROWTH CYCLES. A BANKER WHOSE BACKGROUND IS FOCUSSED SOLELY ON FINANCING OF LARGE INTERNATIONAL BUSINESSES WILL NOT FIT THE BILL. THE STRATEGIC PLANNING SPECIALIST MUST HAVE A BROAD BACKGROUND IN BANKING OR INVESTMENT FINANCE AS WELL AS SPECIFIC EXPERIENCE IN STRATEGIC PLANNING. IF NEEDED, SHORT-TERM SPECIALISTS IN SUCH FIELDS AS FINANCIAL SECTOR REGULATION AND FINANCIAL INSTRUMENTS WILL BE MADE AVAILABLE BY THE CONTRACTOR IN THE CONTRACTOR'S HOME OFFICE TO REVIEW THE STRATEGY DOCUMENT PRIOR TO COMPLETION.

APPENDIX B

Persons Contacted

Name	Title/Institution
Central Bank of Jordan	
Ahmad Abdel Fattah	Executive Manager, Bank Examination
Kamal Fanek	Executive Manager, Debt Issuance
Hassan Samman	Assistant Head, Foreign Banking Dept.
Commercial Banks, Finance, and Insurance Companies	
Basil Jardaneh	Managing Director, Jordan Investment & Finance Corp
Fawzan Shukri	Managing Director, Cairo Amman Bank
Ghada Debbas	Vice President, Citibank
Ziyad Annab	General Manager, Industrial Development Bank
Khalid Shoman	Deputy Chairman, Arab Bank
Mufleh Akel	Manager, Merchant Banking Department Arab Bank
Bassam Atari	Deputy General Manager, The Housing Bank
M. Jawad Hadid	Director, Arab Jordan Investment Bank
Issam Salfiti	Managing Director, Arab Finance Corporation (Jordan)
Mahdi Al-Farhan	Social Security
Sami Gammoh	General Manager, Middle East Insurance Company
Stock Exchange	
Ibrahim Belbeisi	Assistant General Manager, Amman Financial Market

Name	Title/Institution
Private Companies	
Emad Shamma'm	Production Director, Arab Electrical Industries
Fawaz Zu'bi	Managing Director, Arab Drip, Inc.
Mohammad Al-Sharif	President, Universal Electroplating
S. T. Darwazah	General Manager, Al-Hihma Pharmaceuticals
Adel Sa'ad	Managing Director, Sa'ad Trading and Industrial Co.
AID	
Thomas Dailey	Project Development Officer
Jim Dempsey	Director of Projects and Private Enterprise Operations
Shaden Halazun	Economist
Richard Johnson	Deputy Mission Director
Bassam Khatib	Enterprise Development Officer
Mark Kraczkiewicz	Regional Economic Advisor
Harvey Lee	Economic/Commercial Officer (Embassy)
Barry MacDonald	Deputy Director of Projects and Private Enterprise Operations
Bill McKinney	Chief Program Officer
Lew Reade	Mission Director
Bill Riley	Project Development Officer
Susan Riley	Private Enterprise Officer
Richard Rousseau	Project Development Officer

Name	Title/Institution
Other	
Robert Mertz	World Bank
Knut Meyer	Director of Marketing, MMIS (Jordan Institute of Management)
John Andrica	Managing Director, MMIS (Jordan Institute of Management)

APPENDX C

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Appendix D - Description of US-Based Technical Resources Related to Developing Stock Exchanges

1. Security and Exchange Commission (SEC):

The SEC doesn't have a formal technical assistance program but it could arrange for a qualified expert to go over to AMMAN to perform the study. Possibly, Mr. Terry Chuppe, Associate Director for Economic Policy Analysis (202) 272-7359. The SEC is prepared to advise AMMAN Financial Market. Technical assistance can be arranged through a Participating Agency Services Agreement (PASA) between the SEC and A.I.D.

2. New York Stock Exchange (NYSE):

Mr. Bob Clark (212) 686-2240, advised that NYSE is both a self-regulatory agency under SEC and manager of a stock exchange. NYSE doesn't have a technical assistance program and doesn't send out its own consultants. The NYSE does receive stock exchange officials from overseas and can advise them on matters of mutual interest. It can also furnish a list of qualified retired NYSE employees.

3. Securities Industry Association (SIA):

(N.Y. office, Dave Strongin, contact (212) 608-1500)

The SIA does not provide technical assistance. It is available to consult with visiting officials of foreign stock exchanges or their brokers in New York or Washington. It can also furnish names of qualified technical consultants.

4. Federal Reserve System (FRS):

Mr. Charles Sigman, International Finance Department (452-3000), advises that the FRS, in special cases, does send out experts to advise on financial market structuring. It depends on timing, availability of their experts, and the specific scope of the assignment. Technical assistance can be arranged with AID through a Participating Agency Service Agreement (PASA). If interested, please contact Larry Promisel 452-3533.

5. NASDAQ - NASDAQ has no formal program of technical assistance. They will advise, assist and cooperate with foreign stock exchange officials who visit Washington, D.C. or New York City. They will also furnish lists of qualified consultants on over the counter market operations. Consult with Mr. Nellius, NASDAQ 728-8381.