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A REPORT ON THE ESTABLISHMENT OF AN EXPORT CREDIT GUARANTEE AND INSURANCE AGENCY IN JORDAN

PREPARED FOR THE

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EXPORT CREDIT GUARANTEE AND INSURANCE AGENCY IN JORDAN

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EXECUTIVE SUMMARY

In August 1988, the Government of Jordan (GOJ) announced a series of measures to encourage investment in Jordan and expansion of exports from Jordan which included a request that the Central Bank of Jordan (CBJ) prepare a feasibility study for the establishment of an export credit guarantee and insurance agency. The preliminary CBJ study recommended the establishment of export credit insurance and guarantee programs to support Jordanian exporters' efforts to increase sales to foreign buyers, especially to non-traditional markets. This agency was thought to be able to play a substantive role in supporting the export sector, and consequently in contributing to increased foreign exchange earnings, a high priority given the current economic situation in Jordan.

To assist the GOJ in determining the feasibility of creating an effective export credit guarantee and insurance agency, as well as the programs that it could provide to support exporters and the appropriate organizational, management and financial structure, the United States Agency for International Development (USAID) provided resources for technical experts in the field of export credit, guarantees and insurance to work with the CBJ to refine the study. The firm of First Washington Associates (FWA) was retained by USAID as technical advisors on export credit insurance and guarantees. This report presents the conclusions and recommendations with respect to these tasks, based on the field work carried out by Carol A. Oman of First Washington Associates in Jordan from July 11 to August 10, 1989. Discussions were held with a number of exporting companies, banks and both public and private sector institutions involved in trade to determine companies' export finance needs and potential interest in using export credit guarantee and insurance programs to support their export activity.

Conclusions

Export credit insurance and guarantees are programs to stimulate exports that have proven useful in a number of countries, both industrialized and developing. Developing countries which have successfully introduced such schemes have generally had at least U.S.$300 million or more in exports and over U.S.$100 million in sales of non-traditional products. Jordan exported over U.S.$850 million in 1988, of which U.S.$350 million were non-traditional exports. More than 90% of Jordan's non-traditional exports are to developing countries, which usually require extended payment terms for balance of payments reasons.

Some Jordanian agricultural products may need export credit insurance/guarantee support because new markets and new buyers are not well known, and some producers may be relatively small and new to exporting. Manufactured exports, including both industrial and agro-industrial products, often can benefit from export credit insurance and guarantees. Exporters of these goods may not be familiar with markets outside the region, or be trying to penetrate new markets in the region, where they are unfamiliar with the foreign buyers, but must extend credit terms to meet foreign competition. Likewise, many exporters of manufactured products may be small/medium-sized firms which have limited access to bank financing for their exports because the companies are not well known to banks and/or lack sufficient collateral to obtain needed financing. These conditions appear to exist in Jordan and argue for the use of export credit insurance and guarantees to support expansion of exports.

The CBJ survey of exporters covered companies whose export sales total 81% of Jordan's exports, and included all the major non-traditional industries. It identified several problems facing exporters, including that not all companies could obtain needed finance from commercial banks. Also noted were concerns about payment risks to some countries, and the consequent refusal by some exporters to trade in these markets. Others had experienced requests for deferred payment terms by foreign buyers which they were unwilling to meet due to concern about repayment, absence of letters of credit, or the inability to finance the deferred payment period in Jordan. Some companies noted the absence of export financing under Islamic principles, which limited their export activity.

In the CBJ survey, exporters and bankers apparently showed great interest in the idea of an institution to insure export credits, and expressed the belief that this institution would facilitate increased production and exports in both the agricultural and industrial sectors. It was thought that this institution would enable commercial banks to extend additional finance to Jordanian exporters through adequately covering commercial and non-commercial risks. Guarantees under appropriate conditions could facilitate receiving required export finance.

While a systematic survey of exporters to determine the specific market for export credit insurance has not yet been done, the results of the CBJ study and discussions with banks, trade associations and exporters, as well as the experience of other countries suggest that Jordanian exporters could benefit from export credit insurance and guarantees. This appears clearly to be the case for exporters attempting to penetrate industrialized country markets where increasingly sales are made without letters of credit and deferred payment terms are required to be competitive.

At first glance, the destination of Jordan's non-traditional exports would seem to show an exceptionally high risk export profile. However, several factors mitigate this risk somewhat. Jordan has long established trading relationships with the countries in the region. This experience and inter-dependence usually means less risk compared to other countries that have much less experience and fewer long-standing connections in these markets. In addition, tariff exemptions and/or reductions make Jordanian products more competitive. Jordan has established trade protocols with several countries which have experienced foreign debt payment difficulties, such as Iraq, Egypt, Syria and Sudan. The protocols allow for the payment through debits and credits to national accounts, without the transfer of hard currency.

Most of the exporters contacted thought that export credit insurance would assist them in penetrating new markets, rather than just in making additional sales to traditional markets (e.g. Iraq). Insuring all exports was generally thought possible, if the cost of insurance was sufficiently attractive. Such responses are typical of exporters surveyed by FWA in other countries.

Most bankers agreed that such facilities would allow them to finance exports and exporters which they had turned down in the past. Export credit and guarantee programs are most effective when commercial banks are supportive and use the facilities. It is hardly necessary to say that well-run programs enjoy the confidence of exporters and banks, and therefore are more likely to have an effective impact on expanding national exports.

The only program specifically directed at financing exports of manufacturers in Jordan is the Export Credit Discount Program provided by the CBJ. Started in 1980, the facility makes available low interest rate credits to support eligible exports, covering both pre-shipment and post-shipment export finance requirements. In 1988, export credits extended equalled about 10% of total exports and 25% of non-traditional exports.

Some exporters interviewed indicated that they did not know about the export credit discount program and others stated that their banks refused to finance certain transactions. It seems likely that many exporters are unfamiliar with the program and that some banks are not particularly interested in using the program. Exporters state that banks generally require collateral and/or personal guarantees to support all credit facilities. The larger, well-established exporters report little difficulty in obtaining finance. But, even these firms indicated that when they were becoming established, obtaining adequate collateral was a problem.

Banks stated that lack of experience with a client, and lack of adequate collateral are the primary reasons for turning down export finance requests, although the risk of particular markets such as Iraq could be a significant factor. Banks, established exporters and trade association representatives virtually all agreed that obtaining financing by smaller and new firms is difficult, due to the lack of adequate security. Only a very small number of financial institutions seem willing to consider routinely export financing on the basis of self-liquidating transactions. All financing is done with recourse to the exporter, and the collateral is viewed as a source of support in the event of non-payment or non-acceptance of goods by the foreign buyer.

Most likely case projections suggest that by the end of the fifth year of operation the Jordan Export Credit Guarantee Corporation could support exports totalling almost JD 95 million or about 6% of Jordan's total exports and over 10% of non-traditional exports (all exports except phosphates, potash and fertilizers). While the organization would not cover all its operating costs from current operations until the fifth year, income from investment of its initial capital of JD 3.5 million would allow it to show overall profitable results each year and make additions to reserves necessary to support continued annual growth in export support. A more optimistic scenario which projects a larger volume of exports being supported would require an initial capitalization of JD 5 million and provide a sufficient cushion for higher than projected levels of claims and administrative expenses.

Recommendations

Jordan should establish an export credit guarantee and insurance organization that offers commercial and political risk export credit insurance, and pre-shipment export credit guarantees.

It is recommended that Jordan's export credit guarantee and insurance organization be an autonomous corporation with a separate identity, or as a second alternative, it be operated initially from the CBJ and subsequently become an independent corporation.

The Corporation should be established with mixed public/private ownership. Appropriate private shareholders would be commercial banks and other financial institutions, including insurance companies, operating in Jordan. The private shareholders should include as many banks and other financial institutions as possible to encourage widespread support of the program. The CBJ, and possibly other finance related government entities such as the Ministry of Finance, should represent the public sector.

Current law makes no provision for such an entity. Therefore, a new enabling law will be required. Several financial institutions already exist in Jordan with mixed ownership (e.g. Housing Bank, Industrial Development Bank). The precedent can be useful in drafting and passing appropriate legislation in a short time-frame. The objectives and powers of the export credit guarantee and insurance corporation should be broadly drawn, with the least amount of detail possible to allow the organization to adapt to changing circumstances. Provisions should be made for some form of insurance and guarantees using Islamic banking principles. Possibilities should be explored including acting as an agent for the Islamic guarantee operations of the Islamic Development Bank when its Islamic Guarantee Insurance Scheme is operational, and perhaps operation of a separate Islamic fund within or associated with the Corporation.

The minimum capital of the Corporation should be JD 3.5 million, all paid-in prior to commencing operation. Additional capital up to a total of JD 5 million would allow for a higher volume of business and provide an additional cushion to deal with unexpected events.

The Government of Jordan should assume responsibility for losses from political risks and for losses that exceed the capital and accumulated reserves of the Jordan Export Credit Guarantee Corporation. This should be in the form of a specific law or an agreement between the Corporation and the Government, prior to establishment. In addition, the possibilities for obtaining reinsurance with foreign and domestic reinsurers should be explored.

The maximum exposure of the Corporation to a single exporter, foreign buyer and country should be established, in order to maintain a diversified, balanced portfolio which assumes risk appropriate to its capital and reserves.

The Jordan Export Credit Guaranty Corporation should initially offer whole-turnover comprehensive export credit insurance covering both commercial and political risk. Exporters should be required to ensure all of the export sales except sales to affiliated companies and confirmed irrevocable letters of credit. The maximum term of coverage should be 180 days, and exceptionally 360 days to cover some commodity and consumer durables transactions. Proceeds of export credit insurance policies would be assignable to commercial banks to facilitate export credit lending by banks. Consignment coverage should be made available. Consideration should be given to offering insurance/guarantees covering lines of credit, a policy insuring payment for services and a bond indemnity policy covering bid, performance and advance payment requirements.

A pre-shipment working capital export credit guarantee should be offered to commercial banks to facilitate provision of export finance to exporters. This guarantee should cover a maximum of 75% of the value of the loan made by the commercial bank. Banks would be primarily responsible for administration of the guarantee program through vetting the exporter's qualifications, and monitoring the exporter's performance and collateral supporting the transaction.

The staff of the Jordan Export Credit Guarantee Corporation should be small initially. A maximum of sixteen persons, including professional and support staff, should be sufficient for at least the first four years of operation. An organization chart and descriptions of the duties and qualifications of personnel are included in the main body of the report.

The success of the Corporation will depend on dynamic qualified staff and sound management. Talented people should be recruited with appropriate experience and educational qualifications. Without such management, exporters and commercial banks are unlikely to have confidence in the organization. Likewise, profitable operation will be dependent on professional management using standards employed by other successful export credit insurance and guarantee schemes. Management and staff should be recruited from different commercial banking and other financial institutions including insurance companies, if possible, to ensure sound, private sector oriented operation. Salaries and benefits comparable to those offered by private, well-run financial institutions should be offered to assure that competent staff can be attracted to the new Corporation.

Export credit guarantees and insurance is a highly specialized field. The CBJ, commercial banks and insurance companies appear to agree that expertise in this area is not currently available in Jordan and that this expertise will need to be developed to operate the export credit guarantee and insurance agency as a financially viable scheme that promotes expansion of exports from Jordan.

Technical assistance is proposed specifically in the areas of development of specific guarantee and insurance policies, portfolio structuring, premium and reserving strategies, credit investigation techniques, policy administration, claims and recovery procedures, marketing programs, manpower planning and staff training, and accounting/management information systems.

A two year program of assistance is suggested. The program includes a full time advisor for the entire two years. This person should have extensive experience as an executive with a successful export credit guarantee/insurance organization. Second, nine months of short term assistance by different experts will provide highly specialized advice on various technical aspects of program operation. The short term assistance will be concentrated in the first year when the details of the policies and procedures are being developed and the agency begins operation. Several short term experts might be providing assistance at the same time as a team before start up. Training for management and staff of the agency at other successful guarantee and insurance organizations, as well as at relevant courses abroad, will complete the technical assistance effort. This training will occur primarily prior to the agency commencing operation.

EXPORT CREDIT GUARANTEE AND INSURANCE AGENCY IN JORDAN

I. INTRODUCTION

In August 1988, the Government of Jordan (GOJ) announced a series of measures to encourage investment in Jordan and expansion of exports from Jordan. These measures included a request that the Central Bank of Jordan (CBJ) prepare a feasibility study for the establishment of an export credit guarantee and insurance agency. A preliminary study was completed by the Bank's Research and Studies Department in January 1989. The Research and Studies Department recommended the establishment of export credit insurance and guarantee programs to support Jordanian exporters' efforts to increase sales to foreign buyers, especially in non-traditional markets. This agency was thought to be able to play a substantive role in supporting the export sector, and consequently in contributing to increased foreign exchange earnings, a high priority given the current economic situation in Jordan.

To assist the GOJ in determining the feasibility of creating an effective export credit guarantee and insurance agency, as well as the programs that it could provide to support exporters and the appropriate organizational, management and financial structure, the United States Agency for International Development (USAID) provided resources for technical experts in the field of export credit, guarantees and insurance to work with the CBJ to refine the study. The firm of First Washington Associates (FWA) was retained by USAID as technical advisors on export credit insurance and guarantees.

The objective of this technical assistance was to confirm the feasibility of establishing an export credit guarantee and insurance agency in Jordan; and to make preliminary recommendations on programs, personnel, funding and institutional arrangements for such an agency.

The Scope of Work specifically referred to the following tasks:

- Review of the reports prepared by the CBJ regarding the establishment of an export credit insurance and guarantee agency.

- Assess the need and demand for various types of pre-export and post-export credit schemes in Jordan, such as supplier credits, buyer credits, insurance, bank guarantees, etc.

- Recommend types of programs that should be offered in Jordan based on the needs and demand identified.

- Develop a detailed plan for implementing the recommended programs including:

  - Roles of both public and private institutions in the establishment, financing and operation of the programs

  - Legal format of any new institution that might be recommended

  - Suggested organizational structure

  - Mechanisms for marketing the program

  - Staffing requirements, including numbers of personnel, qualifications, and suggested training

  - Financial requirements, including pro-forma financial statements for the first five years of operation.

- Develop a timetable for implementation of recommended programs.

This report presents the conclusions and recommendations with respect to these tasks, based on the field work carried out by Carol A. Oman of First Washington Associates in Jordan from July 11 to August 10, 1989. The field work was conducted in close cooperation with the Research and Studies Department of the CBJ. Meetings were held with representatives of the CBJ, the Ministry of Trade and Industry (MOTI), the Ministry of Planning (MOP), the Amman Chamber of Industry, the Federation of Jordanian Chambers of Commerce, the Jordan Trade Association (JTA), the Federation of Jordanian Insurance Companies, and the Jordan Commercial Centers Corporation (JCCC). Senior managers from a large segment of the financial institutions in Jordan, including commercial banks, finance companies, the Industrial Development Bank (IDB) and insurance companies, were interviewed to ascertain their views. In addition, discussions were held with a number of exporting companies in various industries to determine their export finance needs and potential interest in using export credit guarantee and insurance programs to support their export activity. A list of people contacted is shown as an Appendix to this Report.

The report first describes the background and current status of export credit programs in Jordan, including a review of the CBJ study. Second, the need for export credit guarantees and insurance is discussed, taking into consideration the growth, composition and destination of Jordan's exports, as well as exporters' access to sufficient export finance. Third, proposals are made with respect to the ownership and risk-sharing structure. Fourth, the guarantee and insurance programs that would most effectively meet the needs identified in the section are presented, including broad guidelines as to what specific coverage would be offered. Fifth, an appropriate management structure is presented with a basic description of the responsibilities and suggested qualifications of management and staff. Sixth, projections of operating results and of capital and reserve requirements, are made for five years. The report concludes with a timetable for implementation, a broad approach to marketing, and a suggested program for technical assistance, which includes management and staff training.

II. BACKGROUND

The idea of establishing an export credit guarantee and insurance facility has been proposed for some time in Jordan and has been supported in principle by the GOJ. The 1986-1990 Five-Year Plan makes explicit reference to "...relevant and necessary policies to boost demand for Jordanian exports and diversify their structure and markets:" including "- To establish an integrated national export insurance, financing and guarantee system and develop the current export financing system so as to include credits and guarantees to importers and exporters of Jordanian commodities."

The CBJ Report entitled "Export Finance Guarantee Program: Basis for Establishing a National Export Guarantee Agency in Jordan" was completed by the Research and Studies Department in January 1989. The Report is divided into four parts, plus a supporting appendix. The first part describes in general the role of export credit insurance and guarantee programs in facilitating exports, summarizes some of the main features of such programs, and refers to the characteristics and experience of export credit, guarantee and insurance programs in other countries.

Part II sets forth briefly the Jordanian experience with the CBJ rediscount program, including the regulations that apply to it. This program is discussed in detail below. The Third Part describes Jordan's export products and markets, discusses the problems faced by Jordanian exporters, and the need for establishing an export credit guarantee agency, and estimates the volume of exports that could be supported by the agency. This is based on the results of a survey of exporters carried out by the CBJ. The survey information obtained by the CBJ, supplemented by the series of interviews conducted for this Report, is incorporated in the discussion of need for export credit insurance and guarantees in the next section of this report.

Part IV discusses the operational aspects of establishing and operating an export credit guarantee and insurance agency, including programs which could be offered, organizational structure, and financial resource requirements. Specific proposals made by the CBJ will be referred to in the appropriate sections of this Report.

The report was presented to a working committee on exports made up representatives of several key ministries that was charged with developing measures to deal with the export problem. The concept was supported in principle by the working committee.

III. NEED FOR EXPORT CREDIT GUARANTEES AND INSURANCE

A. General Overview of Export Credit, Guarantee, and Insurance

The availability of credit at a reasonable price and on reasonable payment terms is an important element in the success of exporting firms. Credit is necessary at the pre-shipment stage to enable the exporter to meet working capital needs and to purchase, manufacture and pack the goods destined for export. Pre-shipment financing also helps to meet administrative expenses and overhead requirements during the period prior to export. Such pre-shipment financing gains extra importance when a firm must stockpile substantial inventories of raw materials (including imported raw materials), semi-finished or finished goods because of problems in receiving imported requirements or in shipping goods overseas (because of shipping schedules, foreign exchange problems, distance from the source of supply or purchaser, etc). At the post-shipment stage, credit is required to bridge the gap between the shipment of the goods and the receipt of payment from the overseas buyer. Usually, such payment is received in a matter of days or weeks, but increasingly sellers of all types of goods are being asked by their overseas customers to provide more extended credit to permit the buyers to realize some economic gain from their purchases before they have to make payment to the exporters.

The ability of exporters to obtain low-cost credit at both the pre- and post-shipment stages enables them to follow one of three basic scenarios: (1) increase export sales in price sensitive markets by quoting lower prices than would be possible in the absence of the credit, but not extending credit terms to the buyer; (2) make greater profit on sales by selling at the same prices as if no credit were available, extend no credit to the buyer and not increase sales volume; or (3) make more sales with the same profit margin by quoting the same price and extending credit to the foreign buyer.

The majority of export sales in all countries is made on terms of cash or letter of credit payable upon shipment of goods. However, a significant and growing amount of export sales is made on deferred payment terms, mostly short term (up to one year and typically 180 days or less), and lesser amounts on medium and long term (1-5 years and over 5 years, respectively). Primary products and consumer goods are usually shipped with a maximum term of 180 days. Semi-finished goods, components and other manufactures normally attract a maximum term of one year. However, capital equipment is sold on terms of up to five years and sometimes longer if the contract price is substantial or if the equipment is part of a large project.

As competition in the world market has become more severe, buyers have been able to demand and obtain more favorable export credit terms. Developing country exporters face several competitive disadvantages in offering export credit to their buyers. First, the commercial banking sector in many developing countries is very conservative in the extension of credit and normally offers shorter terms and higher interest rates than their industrial country counterparts. Second, because of their own size and because of risk perceptions, banks in developing countries frequently offer smaller amounts of credit to individual customers and insist on greater collateralization than in industrialized countries. Third, developing country banks are often less experienced and well-connected internationally, and therefore, less willing to make export loans. Fourth, many developing countries strongly circumscribe the extension of export credits because of balance of payments considerations. Finally, exporters in developing countries are handicapped in obtaining credit because of the relative newness of many of these operations and their smaller average size relative to firms in industrial countries.

In order to offset these problems, a number of developing countries, including Jordan, have implemented government-sponsored schemes to facilitate the provision of export finance as reasonable cost, for both pre-shipment and post-shipment periods. These schemes normally work closely with official credit insurance programs, which offer risk coverage for loans made with the assistance of government funding programs. In many cases, export credit insurance is mandatory if an exporter is benefiting from official export funding support.

The main method adopted by developing countries to increase the availability and reduce the cost of export finance is the provision of refinancing facilities for commercial banks with the central bank or government-sponsored export financing funds. The commercial banks are offered refinancing at fixed rates of interest, provided they do not charge the exporter more than a certain maximum interest rate, at a given spread above the official discount rate. In this way, the commercial bank is encouraged to fund export transactions at a reasonable, sometimes even concessional rate, without having to be concerned with the risk that its cost of funding will exceed its financing charge, or even that its lending margin will be diminished by changes in funding cost during the term of the export credit. The Central Bank of Jordan export credit refinancing facility is described in this report.

To facilitate access to the such financing, many programs have been developed offering comprehensive guarantee coverage of virtually any risk which may prevent repayment of financing extended to the exporter to cover pre-shipment working capital needs. This is commonly known as an export credit guarantee, i.e., a guarantee to a financing institution that a loan made to an exporter for working capital will be repaid. The recipient of this guarantee coverage is the commercial bank financing the transaction rather than the exporter. These guarantee schemes are most prevalent in developing countries where export pre-shipment working capital financing is usually less available than in the industrialized countries. Where such guarantee schemes exist in industrialized countries, they are typically targeted only to small and new-to-export firms, since larger and more established exporting companies are assumed to have access to well-developed commercial bank financing without such guarantee support.

Export credit insurance, mainly used in the post-shipment period, plays a vital role in facilitating the exports of all industrialized countries, and increasingly, of developing nations. The first export credit insurance schemes were initiated in European countries in the 1920s, and by the early 1960s every industrial country had an officially supported program. In the 1970s, a number of developing nations introduced export credit insurance programs, and by 1988 more than three dozen were operating such schemes. The rationale behind all such programs is mitigating the risks of selling abroad on credit terms, and thereby encouraging companies to expand their export sales while making it easier for them to obtain non-recourse financing for such sales from commercial banks.

A number of factors make selling abroad on credit terms riskier than selling domestically. Reliable information on foreign buyers is usually harder to obtain, and therefore, it is more difficult to assess creditworthiness. General industry or sector trends may also be less well known, and an exporter does not benefit from the inside knowledge about buyers which comes from the close daily contact on an informal basis which is available between domestic firms. In the event of default on credit, exporters are further disadvantaged by their distance from the buyer and the lack of a local presence. Enforcing payment or undertaking legal action to collect is usually more complicated and costly in a foreign country than it is domestically. Also, foreign sellers may not be equitably treated with domestic firms in the courts of the buyer's country.

In addition to commercial risks like delayed payment, default, insolvency and bankruptcy, export credit sales involve significant risks which are beyond the control of both buyer and seller. These are usually referred to as "political risks." Such political risks involve war, riot, revolution, expropriation, shortage of foreign exchange and other transfer problems which may impede payment after shipment of the goods to the buyer's country. Another category of political risk is the failure of a public buyer to repay its foreign debt for imports, for whatever reason. All such buyers are owned by governments, and thus, all risks of non-payment are classified as political. The commercial and political risks described above are typically covered by export credit insurance. The cancellation of export or import licenses is often part of standard political risk coverage although it occurs in the pre-shipment period.

Post-shipment export credit insurance is most often issued to the exporter to cover repayment risks on deferred payment sales to specific foreign buyers. The proceeds of the insurance policy can be assigned to a financing institution that extends credit to the exporter as security for the loan. This allows the exporter to receive funds for sales made on deferred credit terms prior to the due date for payment by the foreign buyer. Facilitating access to post-shipment export financing can be a major benefit of export credit insurance to the exporter. Alternatively, many export credit insurance schemes issue policies to banks directly, typically where the bank is providing credit to the foreign buyer or the buyer's bank directly. Export credit insurance policies in some countries have been specifically designed to cover risks associated with different types of export transactions, such as exports of services, leases, insurance of lines of credit extended to foreign banks, and bond indemnity coverage (bid, advance payment and performance bonds). The latter in effect covers the risks associated with the exporter's performance rather than that of the foreign buyer.

In addition to the risks described above which are usually part of a post-shipment export credit insurance policy, many schemes offer policies designed also to cover pre-shipment risks. Such policies cover can cover the risk of cancellation of the purchase contract by the foreign buyer. This insurance is usually issued where the exporter must make goods to the specifications of the buyer and the products would not be readily saleable to another buyer, such as custom-made garments or high unit cost capital goods.

The need for export credit insurance and guarantee facilities is closely related to the type of products a country exports, the current and potential export markets, and the number and size of firms that export or potentially could export. The availability of needed financing and the capacity of the financial sector to provide both adequate and appropriate financing also affect both the need and demand for export credit and insurance and guarantee facilities. Additionally, government programs and regulations can either facilitate or hinder export development and influence how both exporters and banks react to and use export credit insurance and guarantee programs to expand their export related activities.

Commodity exports, primarily agricultural and mineral products, are often sold on a cash or near cash basis in international markets, using large firms or government entities through long-established channels. In Jordan, phosphates, potash and fertilizers are products which could be considered commodities that probably will not require insurance or guarantee support. An exception might be sales to some developing country markets where foreign exchange problems exist and buyers request extended credit terms which exceed traditional norms. In this Report phosphates, potash and fertilizer are referred to as "traditional exports", and all other products as "non-traditional exports." Not all non-traditional products will need financing and risk-reducing assistance provided by export credit guarantees and insurance. Sales made on terms of cash in advance or irrevocable LCs in many markets will not necessarily require this assistance, as the political and commercial risks are minimal.

Jordanian agricultural products may need export credit guarantee support because new markets and new buyers are not well known, and some producers may be relatively small and new to exporting. Manufactured exports, including both industrial and agro-industrial products, often can benefit from export credit insurance and guarantees. Exporters of these goods may not be familiar with markets outside the region, or be trying to penetrate new markets in the region, where they are unfamiliar with the foreign buyers, but must extend credit terms to meet foreign competition. Likewise, many exporters of manufactured products may be small/medium-sized firms which have limited access to bank financing for their exports because the companies are not well known to banks and/or lack sufficient collateral to obtain needed financing. These conditions appear to exist in Jordan and argue for the use of export credit insurance and guarantees to support expansion of exports.

Developing countries which have successfully introduced such schemes have generally had at least U.S.$300 million or more in exports and over U.S.$100 million in sales of non-traditional products. Jordan exported over U.S.$850 million in 1988, of which U.S.$350 million were non-traditional exports. As is discussed below, more than 90% of non-traditional exports are to developing countries, which usually require extended payment terms for balance of payments reasons.

This section of the report briefly describes the current economic situation, and analyzes Jordan's exports and existing export credit financing in order to determine the potential volume of business eligible for export credit guarantee and insurance facilities. Export performance and prospects by sector and destination are described, with emphasis on the manufacturing sector. The activities of the export credit refinancing scheme are analyzed to determine the extent to which exporters have access to low cost financing to support their export sales efforts.

B. Economic Situation and the Need to Promote Exports

Jordan has a fairly diversified production base in which the private sector plays the major role. Government acts primarily to provide basic services and infrastructure. Because the neighboring oil-producing countries provide the main market for exports of both goods and skilled labor, as well as the main source of foreign grants, the performance of the Jordanian economy is highly dependent on developments in the region. The regional economic boom from 1974 to 1982 provided Jordan with a ready market and substantial inflows of external grants and private remittances. During this period, average annual real economic growth exceeded 10 percent, real investment quadrupled, real per capita income almost doubled, foreign exchange reserves increased, and the balance of payments and budget presented no substantial problems.

In the last several years, Jordan's economic and financial performance has suffered considerably as a result of the prolonged recession and other developments in the region which have reduced the flows of external grants, remittances, and investments, as well as limited export growth. Real GNP growth averaged only 1.5 percent in the 1983-87 period, with the agricultural sector suffering from drought in 1984 and 1986, and the industry and construction sectors experiencing weak demand because of the regional recession. Some preliminary figures suggest a real economic decline in 1988. Figures summarizing economic and export performance are shown in Table 1.

TABLE 1

SUMMARY OF ECONOMIC AND EXPORT PERFORMANCE, 1983-88*

	1983	1984	1985	1986	1987	1988
Real GDP (% Change)	5.7	2.3	5.6	5.4	3.2	-3.5
Nominal CDP (% Change)	7.7	5.3	7.2	2.1	2.8	1.0
GDP Deflator	1.9	3.0	1.5	-3.1	-0.4	4.6
U.S.$/JD Exchange Rate**	2.75	2.60	2.54	2.86	2.95	2.65
(In millions of U.S. $)						
Domestic Exports	441.1	679.8	648.2	644.8	734.5	858.7
% Change Dom. Exports	-16.3%	54.1%	-4.6%	-0.5%	17.5%	18.3%
Non-Traditional Exports	239.4	345.2	324.3	286.9	382.5	339.8
% Change Non-Trad. Exp.	-31.6%	44.2%	-6.1%	-11.5%	33.3%	-11.2%

* Preliminary figures for 1988

** Annual Average Exchange Rate.
U.S.$/JD Exchange Rate at August 1, 1989 was approximately $1.18 per JD.

Source: Central Bank of Jordan, World Bank/IMF, USAID

In the last 3-4 years, current account deficits have been financed primarily by foreign borrowing, resulting in sharply increased external debt and heavy debt service payments. The Jordanian Dinar was allowed to depreciate in 1988, which helped to increase exports, along with improved economic conditions in the region and rising prices for phosphate, potash and fertilizers exports. In dollar terms, exports of non-traditional products remained relatively weak, partly because the impact of the devaluation was not realized until the last months of 1988.

Balance of payments problems persist, with imports rising, external receipts remaining weak, and official reserves declining to low levels. External payments arrears appeared, and in July 1989 a new stand-by agreement was reached with the IMF and a Paris Club rescheduling was arranged. At the end of July the Jordanian Dinar was again allowed to float, resulting in substantial depreciation. This represented a decline with respect to the U.S. dollar of about 55% from August 1988 and 44% from year-end 1988.

Given this economic and financial picture, a major thrust of economic readjustment policies is to reduce the current account deficit, including measures to stimulate exports. The exchange rate depreciation should increase the competitiveness of Jordanian products, and other measures such as export credit insurance and guarantees are expected to support improved export performance by encouraging exporters to expand activities, particularly to new buyers and new markets.

C. Composition of Exports from Jordan

Exports of Phosphate, Potash and Fertilizers represent by far the largest portion of Jordanian exports, averaging over 50% of Jordanian exports during each of the last five years.

The main agricultural products exported are vegetables, fruits and eggs. Processed foods represent only a small portion of agricultural exports. Primary manufactured goods exported include pharmaceuticals, textiles, paper products, soaps/detergents, cement, iron/steel manufactures, plastics, and clothing.

As is shown in Table 2, there are variations from year to year reflecting the influence of regional economic conditions on Jordan's export performance. In dollar terms, the same erratic export results for various products are evident as is shown in the tables in Appendix B.

The CBJ exporter survey determined that significant unused capacity existed in most of the industries that export, exceeding 50% in some firms and industries. The CBJ concluded that, given this production capacity, significant scope existed for expansion of exports, particularly to new markets. Assuming that these producers can compete effectively as to quality and price of products in international markets, this capacity will allow Jordan to expand exports rapidly if market opportunities are available. Access to additional finance and risk reduction possibilities provided by export credit insurance should encourage these firms with excess capacity to pursue new foreign buyers and new markets. It should be noted that exports of non-traditional products for cash or on sight letters of credit generally will not need export credit insurance support, but insurance coverage for usance letters of credit may be valuable to exporters in many markets.

TABLE 2

DOMESTIC EXPORTS BY COMMODITY BY SITC, 1983-1988
(Thousands of JDs)

	1983	1984	1985	1986	1987	1988
0. Food & Live Animals	36,277	41,761	43,558	41,932	33,837	30,010
Live Animals	6,855	3,727	3,663	3,493	2,750	560
Dairy Prod. & Eggs	2,838	1,455	3,314	1,841	4,475	5,862
Wheat & Flour	79	1,622	5,100	1,564	3,213	832
Vegetables	17,614	18,565	16,628	13,377	14,765	15,168
Fruits and Nuts	7,604	8,359	7,458	8,475	5,246	4,400
Fodder	101	6,962	6,587	12,407	1,721	1,408
1. Beverages & Tobacco	3,833	4,265	1,937	1,390	3,037	1,488
Cigarettes	528	4,004	1,716	1,297	3,017	1,379
2. Crude Mat., Inedible, Except Fuels	52,712	87,101	98,463	97,829	91,502	146,862
Phosphates	51,611	60,613	66,084	64,805	61,002	76,682
Potash	87	14,939	30,887	31,396	28,003	67,311
3. Min. Fuels, Lubricants & Related	55	11	8	145	344	338
4. Animal & Vegetable Oils & Fats	1,182	1,123	176	1,514	437	632
Olive-Oil	1,002	913	94	1,373	196	365
5. Chemicals	36,791	67,629	50,959	54,465	69,932	91,625
Paints	2,559	2,129	1,459	313	1,176	1,264
Medicaments	8,520	11,482	14,298	15,430	18,633	18,534
Detergents & Soap	1,948	5,617	1,569	4,092	3,846	2,280
Fertilizers	20,669	44,010	30,593	29,072	30,143	48,943
6. Manufactured Goods Classified by Mat.	17,981	33,777	39,718	19,622	37,343	35,371
Articles of Wood	2,832	7,768	8,516	611	115	1,366
Paper & Cardboard	1,815	2,775	3,836	3,178	5,047	4,858
Textile Yarn, Fabric & Rel.	2,149	5,092	10,003	3,322	11,160	13,092
7. Machinery & Transport Equipment	1,996	1,972	2,014	1,408	2,464	3,762
8. Misc. Mfrd. Articles	9,227	23,416	18,513	7,320	9,877	13,749
Clothes	2,276	11,491	11,558	739	1,293	3,345
Plastic Products	5,011	7,192	4,689	3,924	3,753	3,573
9. Not Class'd Elsewhere	31					951

Source: Central Bank of Jordan

A very important part of the manufacturing sector in Jordan depends heavily on imported inputs to produce goods that are subsequently exported. While no input-output studies apparently have been undertaken which would quantify the extent of Jordanian value-added in export products, from interviews with selected exporters it is clear that for many close to 60% of the value of their products is attributable to foreign inputs. This makes it particularly critical that exports expand so as to obtain the foreign exchange to purchase inputs.

At the time this study was being prepared, the lack of foreign exchange, and perhaps more importantly, the price of this foreign exchange needed to support production was a major pre-occupation of virtually all exporters. How this situation plays out in the short run is not clear. However, it is clear that in the longer run, expansion of exports to hard currency markets will be essential to Jordan's economic well-being. An export credit guarantee and insurance agency by itself cannot solve the foreign exchange problem. It can make a substantial contribution by supporting exporters' efforts to expand competitively in foreign markets.

While no projections of exports by various products are available, overall export performance is expected to increase by 5 percent in 1989, 16-17 percent in 1990, and 9-11 percent during the following 5 years according to World Bank/IMF estimates based upon the adoption of agreed upon adjustment measures. Estimates of exports in broad categories for 1989-1995, derived from the World Bank/IMF estimates for overall exports and traditional exports are presented in Table 3.

TABLE 3

PROJECTIONS OF JORDANIAN EXPORTS, 1988-1995
(In millions of U.S.$)

	1988	1989	1990	1991	1992	1993	1994	1995
Total Exports	1,009	1,063	1,234	1,358	1,514	1,690	1,868	2,066
Re-Exports	150	158	184	202	225	251	278	308
Domestic Exports	859	905	1,050	1,156	1,289	1,439	1,590	1,758
Traditional Exp.	511	511	543	572	602	635	669	706
Non-Traditional	348	394	507	584	687	804	921	1,052
Manufactured	252	285	368	424	498	583	668	763
Fruits,Vegs.	48	54	69	79	93	109	125	143
Miscellaneous	48	55	70	81	96	112	128	146

Source: Derived from CBJ, World Bank/IMF estimates

The actual number of Jordanian firms that export is hard to determine. Estimates of active exporters range from 200 to 1,000. According to the JCCC, apparently about a thousand companies have stated an intention to export, but most persons in the leading trade associations believe 300 or less are active, even though a much larger number probably have exportable products. As yet, no directory of exporters is published in Jordan. The JCCC, a public/private venture that implements various trade protocols, conducts trade missions, arranges for trade fair participation and other export promotion activities, is preparing an exporter directory.

D. Destination of Jordan's Exports

To determine the extent exporters may need political risk insurance and to evaluate how the risk with respect to country markets could affect the operation of an export credit and insurance program, the destination of Jordan's exports should be examined. Table 4 below shows Jordan's primary markets for the export of non-traditional goods.

Jordan's single biggest market is Iraq, followed by Saudi Arabia. The Arab countries account for over 40% of Jordan's exports. India is another large market, but one which purchases primarily phosphates, potash and fertilizers, as do the socialist countries. The European Community (EC) is a relatively small market which represents less than 10% of Jordan's export sales. Japan is a small market, generally purchasing only potash and fertilizers. Some limited sales of non-traditional products are made to the United Sates, but represent less than half a percent of Jordan's total export market.

Although Jordan exports a wide variety of goods, most are destined for the traditional Arab markets, notably Iraq, Saudi Arabia, the Gulf States, Yemen, Egypt, Syria and Lebanon. An analysis of 82 products that were exported outside this area in the 1985-87 period shows that 31 were exported only to North African countries. (See Appendix C.) This suggests an attempt to penetrate new markets, and may indicate companies new to exporting are looking at other than traditional markets. North Africa, particularly Tunisia and Morocco, have not previously been active markets for Jordanian products.

TABLE 4

NON-TRADITIONAL EXPORTS BY DESTINATION, 1987-1988*

(Thousands of JDS)

COUNTRY	1987 VALUE	1987 %	1988 VALUE	1988 %
IRAQ	59,560	45.9%	64,491	47.8%
SAUDI ARABIA	25,406	19.6	24,163	17.9
EGYPT	13,083	10.1	7,067	5.2
KUWAIT	8,506	6.6	9,392	7.0
SYRIA	7,201	5.6	3,290	2.4
U.A.E.	4,538	3.5	6,948	5.2
N. YEMEN	1,893	1.5	1,443	1.1
QATAR	1,356	1.0	1,682	1.2
BAHRAIN	1,150	0.9	2,143	1.6
TUNISIA	982	0.8	1,213	0.9
LIBYA	978	0.8	697	0.5
LEBANON	813	0.6	1,018	0.8
USA	778	0.6	1,209	0.9
SUDAN	675	0.5	2,353	1.7
TURKEY	658	0.5	271	0.2
JAPAN	658	0.5	395	0.3
S. YEMEN	355	0.3	105	0.1
OMAN	350	0.3	222	0.2
ALGERIA	120	0.1	1,093	0.8
NETHERLANDS	104	0.1	357	0.3
PAKISTAN	2	-	327	0.2
FRANCE	38	-	912	0.7
BELGIUM	36	-	276	0.2
UNITED KINGDOM	94	0.1	567	0.4
SWITZERLAND			999	0.7
WEST GERMANY			466	0.3
OTHERS	291	0.3	1,779	1.3
TOTAL NON-TRADITIONAL	**129,625**	**100.0**	**134,882**	**100.0**
TRADITIONAL EXPORTS	119,480		189,906	
TOTAL EXPORTS	**248,773**		**324,788**	

* Preliminary figures for 1988. Columns may not add due to rounding.

Source: CBJ External Trade Statistics

Jordan has exported little to industrialized countries. In the same 1985-87 time period, sales of only three products, other than fertilizers, totaled more than JD 11,000 to any EC market. These products were scrap metals and antiques - clearly not items with much export expansion potential. Sales to the United States and Canada which exceeded JD 11,000 have included pharmaceuticals, gelatin derivatives, clothing and gold jewelry. Product sales by destination for 1988 are not yet available. However, some anecdotal evidence suggests that some exporters, particularly clothing manufacturers, are having modest success in increasing sales to the EC. The destination figures for 1988 show increases in a number of European markets for non-traditional Jordanian exports.

Fertilizers aside, Jordan is a very small producer selling to much larger markets, where it has a very small market share. For example, Jordan's sales to Saudi Arabia represent less than one half percent of that country's imports. Sales to the EC are negligible compared to the size of the market, and total less than those of many smaller, less developed countries in many more geographically distant locations. Jordan could dramatically increase sales to industrialized markets without having to obtain more than a very modest market share. Success in these markets will require extensive marketing efforts, adequate product quality and suitability, and the resources to finance the larger volume of production and also to make sales on internationally competitive deferred payment terms . For example, in the clothing market in the industrialized countries which Jordan is trying to penetrate, sales are frequently made without letters of credit and deferred payment terms are quite common. Many of the countries which compete with Jordan for this market, including many of the countries in Asia and the Far East, benefit from export credit insurance to reduce the risks associated with these sales.

The concentration in Arab markets, particularly the countries that have significant external debt and may experience foreign exchange shortages, presents country risks that most of the industrialized nations find difficult. Most export credit insurance and guarantee agencies rate countries on a four letter scale of "A" to "D," with "A" being considered the least risky and "D" the most risky markets. In 1987, 65% of Jordan's exports of non-traditional products were made to countries that most export credit insurance and guarantee agencies would currently rate as "D" markets, where only a few, selected transactions would be covered. Almost 30% of Jordan's export sales were to "A" and "B" markets.

At first glance, the destination of Jordan's non-traditional exports would seem to show an exceptionally high risk export profile. However, several factors mitigate this risk somewhat. Jordan has long established trading relationships with the countries in the region. This experience and inter-dependence usually means less risk compared to other countries that lack experience and long-standing connections in these markets. In addition, tariff exemptions and/or reductions make Jordanian products more competitive.

Jordan has established trade protocols with several countries which have experienced foreign debt payment difficulties, such as Iraq, Egypt, Syria and Sudan. Sales under the protocols are handled by the JCCC, a joint public/private venture owned by the Ministry of Trade and Industry, the Amman Chamber of Industry, the Federation of Chambers of Commerce and the Chamber of Industry. The JCCC earns a commission for sales made under the protocols. These commissions are sufficient to cover the cost of JCCC operations, as well as fund its other export promotion activities.

The protocols typically refer to a specific amount of trade between the two countries. In some cases this may have hindered Jordan from selling more to large markets, because Jordan as a small market cannot absorb enough imported products to balance trade under protocols. The protocols allow for the payment through debits and credits to national accounts, without the transfer of hard currency. In most cases, payments from countries where Jordan has protocol agreements have not been included in reschedulings. Thus, Jordan has experienced some payment delays, but generally is receiving payments. However, this payment mechanism does not yield hard currency. Since a large proportion of Jordan's export products have significant imported inputs, which require payment in hard currency, these payment arrangements do not meet Jordan's needs for export expansion to obtain foreign exchange. In fact, the lack of payment in foreign exchange has led some exporters to limit sales to these countries, since they have not been able to obtain sufficient foreign exchange to cover input requirements. In addition, most banks have been unwilling to finance the volume of sales to some countries, and particularly Iraq, due to the lack of foreign exchange and perceived country payment risk.

Several exporters reported delays in receiving payment from the JCCC for sales made under the protocols. Three month delays were considered typical, and five to seven months delays occurred in some markets. These delays were sufficient to question whether or not sales should be pursued further in these markets.

Some exporters in these markets have resorted to counter-trade as a means of obtaining payment and also obtairing hard currency by sale of the counter-traded goods in countries with freely convertible currencies. For some, willingness to engage in counter-trade has allowed the Jordanian exporter to make sales, competing with major multinational firms that were unwilling use counter-trade. This will in all likelihood remain a small part of Jordan's export trade.

In summary, the destination of Jordanian trade supports the need for export credit insurance for two reasons: one, developing countries which represent a large portion of Jordan's export markets may insist on extended payment terms for balance of payment reasons and therefore present political risk payment concerns to the exporters which could be mitigated by export credit insurance (e.g some Middle Eastern and African markets, with or without protocols); and two, new markets where Jordan seeks to expand exports (EC and North America) are highly competitive, and in many cases, companies may have to extend deferred payment terms in order to be competitive.

E. Access to Export Finance in Jordan

The primary means of financing Jordan's exports is by normal working capital loans to exporting companies from commercial banks and finance companies. Generally these take the form of overdraft lines of credit which are secured by normal collateral requirements, including plant and equipment, other real estate and personal guarantees.

The only program specifically directed to financing exports of manufacturers is the Export Credit Discount Program provided by the CBJ. Started in 1980, the facility makes available low interest rate credits to support eligible exports, covering both pre-shipment and post-shipment export finance requirements. Eligible exports include all agricultural and manufactured exports with 40% or more Jordanian content, and specifically excludes phosphates, potash and fertilizers. The CBJ makes a low rate credit available to the financial institution against incoming letters of credit, incoming documentary collections, promissory notes and accepted and guaranteed drafts. The maximum credit is 60% of the letter of credit, and 80% for collections. Credits against collections include transactions under Letters of Credit, as well as shipments sold on deferred draft terms without letter of credit support. The percentage of the credit made available relates to whether pre-shipment or post-shipment period is financed, not on the type of payment mechanism. However, no provision is made for pre-shipment finance against firm orders, but only against letter of credit.

The financial institution is allowed to make the loan to the exporter at a spread of 1 1/2% over the CBJ rate. One percent of this spread represents an annual interest rate and 1/2% is a flat commission fee. The CBJ export credit rate to financial institutions is currently 4% for Arab countries other than the Gulf Cooperation Council Countries. For the Gulf Cooperation Council Countries (Kuwait, U.A.E, Saudi Arabia, Bahrain, Qatar and Oman) and all other non-Arab countries, the rate is 3%. The interest rate differential is intended to encourage exporters to sell to both traditional and non-traditional markets that have the capacity to pay for exports in hard currency. The current market interest rate is a minimum of 10% plus commission fees of 1/2-3%. The export credits represent a significant interest savings to exporters of 6-7.5% per annum. However, as is noted below, some bankers and exporters indicated that in some instances the full benefit of the lower rate was not passed on to the exporters.

The credits are extended for the duration of the letter of credit or term of the collection, up to a maximum of nine months. After nine months a credit may be renewed for another nine months, and then possibly for an additional period. In effect, the CBJ has been extending credits of 24 months to support exports to Iraq. The financial institution relinquishes to the CBJ all right to the products and documents pertaining to shipments, and pays interest in advance. In other words, the transactions are discounted.

The financial institution repays the CBJ when proceeds of the export transaction are received. The CBJ debits directly the account of the financial institution on the due date, regardless of whether the exporter or foreign buyer has paid. Thus, the financial institution retains the full credit risk with respect to credits under the program.

Licensed financial institutions must have approval of their Boards of Directors to use the CBJ export credit program. The CBJ may reject any application for an export credit without explanation. This is consistent with CBJ review of all loans made by financial institutions above JD 5,000.

Use of the export credit discount program increased from inception in 1980 to 1984. Its activities declined in 1985, but have increased each year since then. In 1988, export credits extended equalled about 10% of total exports and 25% of non-traditional exports. Since 1985, the credits as a percentage of non-traditional exports have increased yearly from 13% in 1985 to almost 25% in 1988. If the tripling of outstandings from year-end 1988 to the end of June 1989, is any indication of overall activity, an even larger amount will likely be covered in 1989. Outstanding credits totalled JD 34 million at June 30, 1989 compared to JD 19 million at December 31, 1989.

Table 5 below summarizes the usage of the export credit discount program since inception. No figures on the total amount extended by month or other interim periods are available.

TABLE 5

EXPORT CREDITS EXTENDED

CENTRAL BANK OF JORDAN DISCOUNT PROGRAM, 1980-1988
(in thousands of JDs)

YEAR	AMOUNT EXTENDED	% CHANGE	OUTSTANDING AT YEAR-END	DOMESTIC EXPORTS	% CREDITS/ TOT.EXPORTS
1980	226	-	-	120,107	0.2%
1981	497	19.9%	497	169,026	0.3
1982	788	58.6	967	185,581	0.4
1983	7,815	891.8	8,076	160,085	4.9
1984	23,940	206.3	6,169	261,055	9.2
1985	16,543	(30.9)	7,777	255,346	6.5
1986	18,970	14.7	10,933	225,346	8.4
1987	29,431	55.1	14,496	238,773	11.8
1988	31,631	7.5	18,980	324,788	9.7

Source: Central Bank of Jordan

The number of transactions financed has also been increasing from year to year with 289 credits made available in 1988. Approximately 36 transactions for 24 exporters were outstanding at year-end 1988 and 59 transactions for 40 exporters at mid-year 1989. Outstandings per exporter ranged from JD 4,000 to JD 6 million. Eleven exporters had outstanding credits of over JD 1 million at June 30, 1989. The number of exporters who have used the program since inception is not available. However, the varied transaction size, number of exporters with current outstandings, and the varied products financed suggests that a fairly wide range of exporters is being served under the program, but that the absolute number is small relative to all the active and potential exporters in Jordan.

Some exporters interviewed indicated that they did not know about the export credit discount program and others stated that their banks refused to finance certain transactions. It seems likely that many exporters are unfamiliar with the program and that some banks are not particularly interested in using the program. Exporters state that banks generally require collateral and/or personal guarantees to support all credit facilities. The larger, well-established exporters report little difficulty in obtaining finance. Even these firms indicated that while they were becoming established, obtaining adequate collateral was a problem. Collateral requirements of 50% or more are common, and according to some banks and exporters, may exceed 100%.

Banks stated that lack of experience with a client, and lack of adequate collateral are the primary reasons for turning down export finance requests, although the risk of particular markets such as Iraq could be a significant factor. Banks, established exporters and trade association representatives virtually all agreed that obtaining financing by smaller and new firms is difficult, due to the lack of adequate security. Only a very small number of financial institutions seem willing to consider routinely export financing on the basis of self-liquidating transactions. All financing is done with recourse to the exporter, and the collateral is viewed as a source of support in the event of non-payment or non-acceptance of goods by the foreign buyer.

Export finance is generally considered like any other lending, using primarily overdraft lines of credit which are the predominant form of commercial lending in Jordan. The CBJ is encouraging the banks to reduce their dependence on overdraft lending in favor of project loans and other transaction-based financing methods.

A total of 16 different products were financed at December 31, 1988 and 29 at mid-year 1989, as is shown in Table 6. Pharmaceuticals (from four companies), followed by thread, vegetables, and chemicals represent the main products financed.

TABLE 6

EXPORT CREDITS OUTSTANDING BY PRODUCT
DECEMBER 31, 1988 AND JUNE 30, 1989
(Thousands of JDs)

PRODUCT	**12/88**		**6/89**	
	AMOUNT	**%**	**AMOUNT**	**%**
PHARMACEUTICALS	5,401	28%	9,110	27%
ELEVATORS & SPARES	181	1	158	1
CANVAS SHOES	605	3		
CHEMICALS	1,625	9	3,378	10
VEGETABLES	2,400	13	1,950	6
CLOTHING	1,083	6	1,126	3
THREAD	3,709	19	4,405	13
EGGS	828	4	1,511	4
SHEET IRON	109	1	20	-
PRINTED PAPER CONTAINERS	526	3	1,461	4
SMALL ELECTRIC MOTORS			185	1
FILTERS			26	-
MEDICAL SUPPLIES			50	-
DETERGENT			1,642	5
FURNITURE			500	1
PLASTIC SHOES			63	-
SYNTHETIC LEATHER SOLES			86	-
GLASS	34	-	45	-
FURNITURE MATERIALS			450	1
IRRIG. PUMPS/SPRINKLERS	1,074	6	1,074	3
CARDBOARD CONTAINERS	496	3	1,699	5
ELECTRIC SAWS	152	1	64	-
LEATHER SHOES			841	3
PLASTICS	281	1	645	2
PLYWOOD			2,467	7
ELECTRIC TOOLS			505	2
EYEGLASSES			87	-
SPONGE FOAM			163	1
CELLOPHANE ROLLS			34	-
TIN CONTAINER TOPS	475	2		
PRINTED BOXES			327	1
TOTAL	**18,979**	**100%**	**34,072**	**100%**

Source: Central Bank of Jordan

Based on outstandings at year-end 1988 and June 30, 1989, fifteen financial institutions are participating in the program as shown in Table 7. Petra Bank, and to a somewhat lesser extent, Finance and Credit and Bank of Jordan are apparently the main financial institutions using the program to finance exports for their clients. The largest exporters using the program were financed by several banks, and Petra Bank financed the largest number of different exporters, based on the figures on outstandings.

TABLE 7

EXPORT CREDITS OUTSTANDING BY FINANCIAL INSTITUTION
DECEMBER 31, 1988 AND JUNE 30, 1989
(Thousands of JDs)

FIN.INST.	12/88				6/89			
	PRE-SHIP	POST-SHIP	TOTAL	%	PRE-SHIP	POST-SHIP	TOTAL	%
FINANCE & CREDIT	2,034	3,274	5,309	28%	2,003	5,247	7,250	21%
JORDAN FIN.HOUSE		757	757	4		905	905	3
JOR.INV.& FINANCE	109	1,162	1,271	7		792	792	2
BANK OF JORDAN	122	3,093	3,215	17		3,944	3,944	12
JORDAN-GULF BANK	147	47	194	1	353	182	535	2
BRIT.BANK OF M.E.	457	189	665	3	1,237	524	1,761	5
CAIRO-AMMAN BK.		522	522	3	185	1,246	1,431	4
PETRA BANK	3,762	41	3,803	20	5,077	3,463	8,540	25
JORDAN-SYRIAN BK.		2,400	2,400	13		1,950	1,950	6
JORDAN SECURITY	26		26	-		467	467	1
BCCI		818	818	4	1,980	1,736	3,716	11
NATIONAL FINANCE						335	335	1
ARAB FINANCE					932	62	994	3
ARAB BANK					1,210		1,210	3
ARAB-INVEST. BANK						242	242	1
TOTAL	**6,676**	**12,304**	**18,980**	**100%**	**12,977**	**21,095**	**34,072**	**100%**
PERCENTAGE	**35%**	**65%**	**100%**		**38%**	**62%**	**100%**	

Source: Central Bank of Jordan

Table 7 also distinguishes between pre-shipment and post-shipment credits, with approximately 2/3 of credits outstanding being for post-shipment financing. It is not possible from this information to determine to what extent exporters receive financing support before and/or after shipment. Likewise, the exact amount of exports supported cannot be ascertained from available figures, since the total amounts extended for pre-shipment and post-shipment are not disaggregated, and it is not possible to determine the amount of sales initially financed in the pre-shipment and subsequently in the post-shipment stage. However, it is interesting to note that collections (post-shipment financing) predominate in most markets where finance was provided, and not just in Iraq and other markets which have required delayed payment terms. The higher percentage of the transaction financed for post-shipment may account in part for the larger collections balances.

When selling on terms other than by letter of credit, the CBJ requires that exporters post a guarantee in favor of the CBJ equal to 10% of the value of the export shipment. The guarantee is cancelled when the export proceeds are repatriated to Jordan, and the guarantee is called if the proceeds are not received by the due date. This guarantee requirement is imposed to help assure that foreign exchange will be repatriated for sales where the proceeds do not necessarily pass through a commercial bank. This guarantee was considered not to be a problem by some exporters and, a costly annoyance by others. When Jordan was experiencing foreign exchange shortages and exporters were having trouble obtaining adequate foreign exchange to meet raw material import needs, the 10% guarantee was small relative to the differential of the parallel market and official exchange rates. As a result some exporters willingly paid the guarantee amount.

Future developments with respect to the availability of foreign exchange and the exchange rate will affect whether such a guarantee will be maintained or changed. Export credit insurance protects the exporter or its financing bank against the risks of not receiving payment in foreign exchange for goods sold to the foreign buyer, where the loss is not due to the fault of the exporter. Export credit insurance does not cover situations where the exporter conspires to divert the foreign exchange before it reaches the Jordanian bank, which appears to be the reason behind the imposition of the Central Bank's 10% guarantee requirement. Accordingly, it is not inconsistent to have both schemes in effect at the same time.

Table 8 below shows the outstandings by geographic market. The export credit program overwhelmingly appears to support exports to Iraq, including a doubling of outstandings between December 31, 1988 and June 30, 1989. This percentage exceeds the

Iraqi share of total non-traditional exports (46%). Syria is the second largest market, where a single transaction represents the predominant outstanding credit. Markets which pay consistently with hard currency represent 16% or less of outstandings in the two periods.

TABLE 8

EXPORT CREDITS OUTSTANDING BY DESTINATION
DECEMBER 31, 1988 AND JUNE 30, 1989
(Thousands of JDs)

COUNTRY	12/88 PRE-SHIP	12/88 POST-SHIP	12/88 TOTAL	12/88 %	6/89 PRE-SHIP	6/89 POST-SHIP	6/89 TOTAL	6/89 %
IRAQ	8,287	5,296	13,583	71%	17,580	9,615	27,195	80%
S.ARABIA	1,461	174	1,635	9%	1,499	158	1,657	5%
SYRIA	2,400	14	2,414	13%	1,950	1,563	3,513	10%
U.A.E.	13	109	122	1%	29		29	-
OMAN	36	-	36	-				
YEMEN	91	-	91	-		500	500	2%
USA		1,083	1,083	6%		1,057	1,057	3%
TUNISIA	16		16	-	37		37	-
U.K.						69	69	-
SUDAN						16	16	-
TOTAL	12,304	6,676	18,980	100%	21,095	12,978	34,073	100%

Source: Central Bank of Jordan

In interviews with exporters, a number indicated that they received low interest rate export credits under the CBJ program and believed that the program was beneficial. While comments about the program were generally favorable, a few indicated that they did not receive the full benefit of the low interest rate from the banks, others did not know about the program, and some indicated that banks would not finance some transactions under the program. With respect to transactions that were not financed through the CBJ program, credits for sales to Iraq were frequently mentioned. All commented that banks made export credits available with full recourse to the exporter. Lack of adequate collateral or guarantees had on occasion constrained the sales of several exporters.

Most banks interviewed stated they used the export credit discount program. However, a number said that the spread was insufficient, and that for their good clients they were able to offer competitive financing in terms of overall services to the client. Some indicated that they normally obtained a spread of 3%. Others noted that they could offer low rate financing because of a substantial deposit relationship. Few seemed to promote the program actively with their exporting customers. There was some indication that the full benefit was not transferred to the client, as additional compensation was sought in the overall relationship.

The World Bank has made several suggestions with respect to the export credit discount program. These include limiting eligible transactions to countries where payment is made in freely convertible currencies, and to letter of credit transactions confirmed by banks which are current in foreign payments and in countries where there is no risk of delayed foreign transfers. To maximize its effectiveness, the World Bank recommended extending access to the export credit program to any exporter, whether producer, manufacturer or export trading company, that meets the previously mentioned criteria. These actions are thought to encourage sales to non-traditional markets, and reduce the implicit medium-term, soft-currency financing subsidized by the Jordanian Government, The World Bank has also suggested reducing the maximum repayment period for post-shipment financing to six months which would be more in line with international norms for most products Jordan exports, and adhere strictly to the nine month maximum for pre-shipment financing. Gradually reducing the term was thought to limit disruption of traditional markets and reduce the cost of subsidy to the GOJ.

While in theory these suggestions would re-target export sales to hard currency markets, they assume that the low interest rate loan is sufficient incentive to re-orient existing trade patterns. It is questionable whether the cost of finance is a major factor in the concentration of exports to neighboring countries. While introduction of these measures might disrupt somewhat existing trade, particularly by restricting access to medium term finance and indeed to any export credits in some markets, it does not immediately follow that exporters will successfully redirect efforts to sales in hard currency markets. Penetrating new markets presumes available competitive products at competitive prices and significant marketing efforts, not to mention over-coming a lack of knowledge of these markets and the buyers in these markets. Furthermore, competitively penetrating new markets often requires extending credit terms to foreign buyers and use of drafts rather than letters of credit. Export credit insurance and guarantees could effectively reduce risks associated with penetrating new markets, and in fact facilitate rather than restrict access to finance. However, it seems particularly appropriate to question whether or not the GOJ should finance goods normally sold on short terms of six months or less on a medium-term basis at a subsidized rate, as is the case with sales to Iraq.

Also recommended is a promotional campaign to inform exporters about the export credit program, since a relatively limited number now use it. This promotion could occur by working with the various Chambers and trade associations. Banks should also be encouraged to make more active use of the export credit facility.

Since the 1 1/2% spread to banks is small relative to the more normal 3% spread, the suggestion is made to allow the rate to be fixed from time to time in accordance with changes in market rates, while maintaining a given spread between the rediscount rate and the commercial lending rate. Currently with normal lending rates at 10 1/2% to 13 1/2% compared to the subsidized export credit rate of 4 1/2%-5 1/2%, exporters obtain a benefit 6% and usually more. Prior to the increase in commercial rates last fall, the maximum benefit to exporters was about 5%. The implicit subsidy could be reduced by fixing the future rediscount rate at 5% under the commercial rate, which is consistent with the benefit to exporters prior to recent increases in interest rates. These latter measures would be in line with actions taken by a number of other countries to provide a financing incentive to exporters at an appropriate cost to government.

F. Terms of Export Transactions

Little information is available on the terms of export transactions. The CBJ survey showed that virtually all sales are made using letters of credit at sight or for periods of up to 180 days. Bankers interviewed stated generally that 60% or more of export transactions are made on sight letter of credit terms. Usance letters of credit to 120 days may represent as much as 10-40% of transactions. Most banks and exporters referred to 1-2 year L/Cs from Iraq. Some bankers refused such transactions, and others sought to assist clients using the export credit discount program. Several had also sought export credit insurance from the Inter-Arab Investment Guarantee Corporation (IAIGC) in Kuwait. The IAIGC is discussed in greater detail below in Section G, Potential Demand for Export Credit Insurance and Guarantees.

Documentary collections without L/Cs represent a smaller portion of transactions, and some banks finance them. As noted above, it is not possible to tell what portion of post-shipment financing under the export credit discount scheme is supported by letters of credit. Only transactions backed by letters of credit are eligible for pre-shipment financing. The pre-shipment export credit schemes in many countries make finance available against firm orders or warehouse receipts. Others base access on export performance in prior periods.

G. Exports Covered by Export Credit Guarantee and Insurance Schemes in Other Countries

As is shown in Table 9, few export credit agencies insure more than 10% of national exports. Only a few, such as Austria, Japan, the United Kingdom, France and Denmark, insure substantially higher amounts. In the first 3-5 years of operation such schemes usually achieve a volume of 0.5% to 2% of total exports. One of the reasons the percentages are so low is that insurance coverage is related to all exports, including commodity exports such as oil, minerals and agricultural products, which are generally not insured or eligible for insurance. If only eligible exports were considered, the total coverage for most countries would be substantially greater. Because of the difficulty in determining what are eligible exports in various countries, it is impossible to make comparisons solely on the basis of exports that could be potentially covered by export credit insurance. By way of example, the export credit program in Cyprus now covers 50-60% of eligible exports and 80-90% of industrial exports. In its first full year of operation Cotunace in Tunisia insured about 7-8% of eligible exports.

TABLE 9

OECD AND NON-OECD COUNTRIES EXPORT COVER, 1984
EXPORTS INSURED/TOTAL EXPORTS IN PERCENT

OECD COUNTRIES	%	NON-OECD COUNTRIES	%
Australia	8.7%	Argentina	5.2%
Austria	30.0%	Cyprus	30.0%
Belgium	4.6%	Hong Kong	4.2%
Canada	2.0%	India	13.1%
Denmark	23.5%	Israel	15.7%
Finland	6.0%	Jamaica	5.7%
France	24.0%	Korea, Republic of	2.7%
Germany, F.R.	6.6%	Malaysia	1.3%
Italy	7.8%	Mexico	1.3%
Japan	26.5%	Morocco	2.1%
Netherlands	9.8%	Pakistan	0.3%
New Zealand	9.9%	Portugal	5.4%
Norway	2.4%	Singapore	0.9%
Spain	11.8%	Sri Lanka	1.2%
Sweden	3.1%		
Switzerland	6.2%		
United Kingdom	25.3%		
United States	2.5%		
AVERAGE	**11.7%**	**AVERAGE**	**5.2%**

Source: FWA files

H. Potential Demand for Export Credit Insurance and Guarantees

The CBJ survey of exporters covered companies whose export sales total 81% of Jordan's exports, and included all the major non-traditional industries. It identified several problems facing exporters. While financing through commercial banks was available, not all companies could obtain needed finance. Guarantees under appropriate conditions could facilitate receiving required export finance.

Also noted were concerns about payment risks to some countries, and the consequent refusal by some exporters to trade in these markets. Others had experienced requests for deferred payment terms by foreign buyers which they were unwilling to meet due to concern about repayment, absence of letters of credit, or the inability to finance the deferred payment period in Jordan.

Some companies noted the absence of export financing under Islamic principles, which limited their export activity. This apparently referred to the fact that there is currently no way under Islamic financing to participate in the CBJ export credit discount facility.

In the CBJ survey, exporters and bankers apparently showed great interest in the idea of an institution to insure exports, and expressed the belief that this institution would increase production and exports in both the agricultural and industrial sectors. It was thought that this institution would enable commercial banks to extend additional finance to Jordanian exporters through adequately covering commercial and non-commercial risks.

While a systematic survey of exporters to determine the specific market for export credit insurance has not yet been done, the results of the CBJ study and discussions with banks, trade associations and exporters, as well as the experience of other countries suggest that Jordanian exporters could benefit from export credit insurance and guarantees. This appears clearly to be the case for exporters attempting to penetrate industrialized country markets where increasingly sales are made without letters of credit and deferred payment terms are required to be competitive. As noted, several exporters contacted have already experienced such requests.

Many exporters contacted believed that their export sales could be expanded by obtaining insurance on transactions. They were particularly interested in sales to certain Arab countries and new markets in Africa. Two companies exporting to Europe mentioned that they could have made sales in Europe had they been willing to sell without a letter of credit, which their non-

Jordanian competitors were able to do with export credit insurance in their countries.

Another need is for political risk insurance to cover sales to less developed countries that may experience payment delays from time to time. While demand for this type of coverage was often expressed, exporters and bankers were also aware that an export credit insurance program could not effectively function if it only covered high risk markets. Most of the exporters contacted thought that export credit insurance would assist them in penetrating new markets and not just in making additional sales to traditional markets (e.g. Iraq). Obviously these exporters would welcome insurance for their existing high risk markets. Insuring all exports was generally thought possible, were the cost of insurance sufficiently attractive. Such responses are typical of exporters surveyed by FWA in other countries. The existence of substantial trade with high risk markets in the region suggests that the export credit guarantee and insurance agency should offer comprehensive coverage of both commercial and political risks and that it should insist that exporters insure all buyers in a wide range of their export markets.

It should be noted here once again that the existence of trade protocols with several of the countries in the region that have experienced foreign exchange availability problems. It seems unlikely that an export credit guarantee and insurance agency would have to or want to cover all sales to these markets. The agency should restrict its exposure in any one market in order to have a balanced portfolio as is typical of all well-run export credit insurance programs. Some cooperative arrangement with the JCCC relating to the protocols would appear to be a useful approach.

The only export credit insurance currently being offered to Jordanian exporters is through the IAIGC, in which Jordan is a shareholder. The IAIGC is an autonomous regional organization whose membership includes all the Arab countries. Some exporters reported obtaining insurance, but most of those who tried, both exporters and bankers, were unsuccessful. Apparently the IAIGC restricts the amount of exposure to certain countries and that available to Jordan for the Iraq market was insufficient to meet the needs of Jordanian exporters. The IAIGC is a very conservatively run organization that is not known for assuming substantial risk or in easily paying claims. It is unlikely that it will ever be able, or indeed willing, to meet the export credit insurance needs of all of Jordan's exporters. Exploring ways in which a Jordanian export credit guarantee and insurance agency could co-operate with the IAIGC would seem warranted.

Apparently the IAIGC export credit insurance program, established in 1986, has been widely promoted in Jordan and many exporters and bankers mentioned it, and in fact, referred to transaction files that had been submitted. As a result some Jordanian exporters and bankers are somewhat familiar with the concept of export credit insurance, and what it can do to promote exports.

As noted, most exporters believed that export credit insurance could assist them in expanding exports. Most bankers agreed that such facilities would allow them to finance exports and exporters which they had turned down in the past.

A few bankers believed, however, that the commercial banks were meeting the entire need for export finance and that prospects for other Jordanian firms not now being financed or not exporting would have little chance of successfully entering the export market. Several trade association representatives also noted that quality and price of Jordanian goods were critical issues in penetrating new markets and that these issues were more important than financing and risk-reduction. Most of these people also agreed that insurance and guarantees would be useful, but not solve the other export problems. In this regard, it should be noted that export credit insurance and guarantees programs have stimulated exports in a number of countries, both industrialized and developing. They are not a substitute for all export promotion efforts. Co-ordination of export credit insurance and guarantee programs with other export promotion efforts by both government and private business organizations can be useful. Likewise, export credit and guarantee programs are most effective when commercial banks are supportive and use the facilities. It is hardly necessary to say that well-run programs enjoy the confidence of exporters and banks, and therefore are more likely to be effective in expanding national exports.

Islamic banking is also an area which should be explored to meet the needs of Jordanian exporters. Banks in Jordan which operate under Islamic banking practices support sales of Jordanian products in foreign markets. It is thought that they lack sufficient capacity to cover the entire need, however, and that according to some exporters the price of this support is quite high relative to other banking practices. The Islamic Development Bank in Jeddah is currently developing an export guarantee program that could meet part of this need, or support institutions in Jordan which operate under Islamic principles. The export credit guarantee and insurance agency could act a agent on behalf of the Islamic Development Bank to make this facility available to Jordanian exporters. Also, the Islamic legal procedures adopted for the Islamic Development Bank facility could be used to operate a separate fund, associated with the Jordanian export credit guarantee and insurance agency, to meet the needs of exporters who prefer to use Islamic banking practices. The Islamic Development Bank or local Jordanian Islamic Banks might provide resources to operate this fund.

IV. EXPORT CREDIT GUARANTEE AND INSURANCE PROGRAMS

This section of the Report presents proposals for specific export credit guarantee and export credit insurance programs. It is important to note that these are only suggestions for proposed policy guidelines. They are not substitutes for the detailed analysis, planning and development of guarantees and insurance polities that will be offered.

A. Export Credit Insurance Program

Outlined below is a proposed export credit insurance program. The programs suggested for initial implementation vary somewhat from those proposed in the CBJ preliminary study.

This program should be considered only as a preliminary proposal based on available information and limited contacts with the exporting community. Its adoption will depend on further consultations with exporters and commercial banks, refinement of projections taking into consideration specific premium structures, spread of risk covered and reserving policies adopted, etc., as well as drafting of legally enforceable policy instruments, and acceptance by the Board of Directors of the export credit guarantee and insurance agency. The re-insurance or lender of last resort support to be provided by the GOJ needs to be made explicit, preferably incorporated in the law providing for the establishment of the export credit guarantee and insurance corporation. The risks to be assumed by the corporation and the conditions under which the GOJ assumes risk must be specified. These risk considerations will affect policy design, premium structure and reserving policies that are adopted by the export credit guarantee and insurance corporation.

Before export credit insurance can be offered, a number of actions must be taken in addition to developing the export credit insurance coverage to be offered and designing policy instruments, including:

- Trained, capable underwriting staff are in place.
- Underwriting guidelines are set, including internal operating manuals.
- Application forms and other relevant documents are prepared.
- Handbooks for exporters and commercial banks are prepared which explain the insurance coverage and procedures.
- Accounting, control and claims procedures are established.
- Marketing plans are prepared.

Initially offering a single comprehensive short term export credit insurance policy is suggested. This would employ a whole turnover concept, cover 90% of political and commercial risk on all shipments of 180 days or less. Sales to affiliated companies and Confirmed Irrevocable Letter of Credit sales could be exempted. It is recommended that un-confirmed Letter of Credit transactions be covered. Virtually all export sales by private sector exporters would be eligible. Only phosphate, potash and fertilizer exports would be excluded from eligibility.

A policy will also be established for banks, in effect providing them with a guarantee that the foreign buyer will pay their exporter client, so that the bank will receive payment for its financing of the exporter. This is virtually identical with respect to basic terms and conditions with the comprehensive insurance policy for exports. Pre-shipment guarantees provided under the Guarantee Program described below, can be converted to post-shipment coverage.

Once the comprehensive policy is in place, consideration should be given to establishing a second policy to cover the export of services and a third a bond indemnity facility to cover bid, advance and performance bonds for Jordanian exporters of both products and services. Having a service export credit insurance policy is consistent with the Jordanian emphasis on providing services to the region. A number of consulting firms, in particular consulting engineering companies and providers of various management services, are active outside Jordan. Several interviewed stated that concern with payment from foreign contractors of their services had caused them to pass up potential business. Apparently, lack of collateral to support bank guarantee required for bonding purposes is constraining the ability of some Jordanian companies to export. Some services exporters stated that they had declined to pursue certain tenders because of inability to obtain required bank guarantees.

Anecdotal evidence suggests that contractors, at least in the past, had encountered the same difficulties with bonding requirements. This can be high risk business to insure, and policies should be carefully drafted and underwritten. Both the services policy and bond indemnity policies will be transaction specific, rather than comprehensive, due to the varied nature of these transactions. Few lend themselves to a standard policy.

The CBJ suggested the possibility of also offering insurance coverage for medium-term transactions. At the present time, Jordan produces virtually no products that are commonly sold on terms of over 180 days in world markets. This option might be pursued in the future when Jordan produces more capital products that are normally sold on terms of two or more years. Selling goods normally sold on short terms for longer periods, such as the sales to Iraq, should not be encouraged. In such cases, Jordan actually extends term financing to foreign buyers, and it is questionable whether this is a good use of Jordan's financial resources.

The CBJ study also suggests that buyer credits in the form a guarantee for line of credit to foreign banks be offered. This type of program is offered by a number of industrialized countries, primarily for sales to some developing countries. It has the advantage of being fairly easy to administer in that the Jordan Export Credit Guarantee Organization would examine the creditworthiness of the bank rather than that of the individual buyers that might be financed under the line of credit. However, given that a relatively small number of exporters in Jordan might sell to developing country markets outside the region, such a facility may not be used effectively. These lines of credit are not appropriate for industrial markets, where buyers are unlikely to use a specific bank, most likely not their own, just to finance transactions from Jordan. As noted in the case of medium-term coverage, it seems unlikely that it would be useful to set up lines of credit where there are already established trading relationships and trade protocols. Exceptions might be some of the smaller countries that have limited resources, and limited banking facilities. If pursued, short term buyer credits and bank lines of credit are not expected to be a substantial portion of the Jordan Export Credit Guarantee Corporation's business.

A description of a short term export credit insurance program that would be applicable to Jordan is found in Appendix D. It closely resembles the most effective programs currently being offered by successful export credit insurance organizations.

B. Export Credit Guarantee Program

Like the export credit insurance program, the guarantee program outlined here is only a suggestion of an appropriate facility. It is not a substitute for detailed analysis, planning and development of the guarantees to be offered.

The following is a brief outline; a more detailed presentation of the programs features is found in Appendix E. The adoption of this program will depend on acceptance by the Board of Directors of the Jordan Export Credit Guarantee Corporation, drafting of a guarantee instrument that is legally enforceable in Jordan, and basic acceptance in principle by the commercial banks. Further refinement of financial projections for the Corporation may require that the amounts of fees and other conditions be amended.

Before export credit guarantees can be offered, a number of actions must be taken in addition to developing the guarantee conditions and guarantee instrument, including:

- Trained, capable underwriting staff are available.
- Underwriting criteria are set, including internal operating manuals.
- Application forms and other relevant documents are prepared.
- Handbooks for commercial banks and exporters are prepared which explain guarantee coverage and procedures.
- Exporters, and in particular commercial banks are trained through marketing activities such as seminars, workshops and a calling program.
- Accounting, control and claims procedures are established.

Lack of pre-shipment financing can be a barrier to exporting, particularly for smaller and new-to-export companies that lack the collateral and long-term banking relationships that characterize well-established large exporters. Rapidly growing companies also can face such problems. Jordanian exporters contacted indicated that pre-shipment financing was generally treated as regular working capital lines of credit, and that such financing was not transaction based. Bankers indicated that they turned down exporters for pre-shipment most often for lack of a long-term relationship, lack of collateral or a perception that the foreign buyer presented an unacceptable repayment risk. Banks extend all financing with full recourse to the exporter, and the banks retain the entire credit risk on CBJ export credit discount program loans.

Under the Jordan Export Credit Guarantee Corporation's guarantee program, a repayment guarantee is provided to commercial banks for 75% of the value of short-term working capital loans to qualified exporters. The guarantee can apply either to single export related loans or to revolving lines of credit where it can be demonstrated that the credits will be used solely for the production of goods for export. This will normally be demonstrated through the exporter having an Irrevocable L/C or firm export order. In order to obtain a guarantee the credit, underlying the export transaction must be insured or supported by an irrevocable L/C.

The principal of the loan will be covered for up to 75% and interest is covered up to the date of claim payment at the rate on the loan or the rate which commercial banks lend to exporters under the CBJ's export credit discount loan program (currently 4 1/2- 5 1/2%). The exporter guaranteed will automatically be eligible for CBJ financing. The guarantee protects the lender only from default by the exporter. It does not cover the exporter should the foreign buyer default. Export credit insurance will cover this default risk. Commercial banks may also obtain a post-shipment guarantee from the Jordan Export Credit Corporation which provides coverage directly to the bank. With the consent of the Jordan Export Credit Guarantee Corporation, the pre-shipment guarantee can be converted to a post-shipment guarantee with 90% coverage.

The commercial banks will have major responsibilities for administering the guarantees. This will reduce the administrative burden on the Jordan Export Credit Guarantee Corporation and result in a smaller staff being needed to administer the program. The amount of guarantee coverage is 75% of the pre-shipment loan amount, which is higher than some similar developing country schemes, such as India (66.7%) and Malaysia (50%). Other programs such as that of the United States also depend heavily on lenders and cover up to 90%.

It is the intent of the Jordanian Export Credit Guarantee Corporation to provide a guarantee which will result in banks making export loans that require less collateral than presently. This may be achieved by substituting the Jordan Export Credit Guarantee Corporation guarantee for a large portion of the collateral they would normally require to provide pre-shipment export financing, particularly under the CBJ export credit discount program. The Corporation will give heavier weight to the underlying transaction, such as the irrevocable L/C for pending export sales and outstanding foreign receivables than is typically the case with commercial banks. However, if the Corporation finds it necessary, collateral will be taken to support the guarantee.

V. OWNERSHIP, LEGAL AND RISK-SHARING STRUCTURE OF THE JORDAN EXPORT CREDIT GUARANTEE AND INSURANCE AGENCY

Three issues that are critical to the successful operation of export credit guarantee and insurance programs relate to ownership, legal structure and powers, and the assumption of risk. Many different models in these three areas are being used in different parts of the world. No single one can be considered best. Whatever is adopted should reflect the conditions in the country.

A. Ownership Structure

Logically ownership should reflect the relative share of resources contributed and the risk sharing arrangements. The arguments for government ownership are that the government has more resources and has a greater interest in promoting exports in the national interest than does the private sector. Also, since government is likely to assume the greatest share of risk, particularly political risk, it should have the sole or most significant ownership position. By far, most of the export credit guarantee and insurance programs are owned and operated by national governments. Export credit guarantee and insurance programs operate either as government departments such as ECGD in the United Kingdom, ECIS in Cyprus and MITI in Japan, or as autonomous institutions such as the Export-Import Bank in the United States, P.T. ASEI in Indonesia, and EDC in Canada.

Arguments for private sector ownership include involving private companies to gain their expertise and resources, which lessens the government's contribution. If some private sector ownership is sought, it should be broadly based to gain the advantage of many companies' resources. This will also ensure that the facility does not favor shareholder companies over non-shareholder companies and will likely increase exporter confidence in the program. Austria, Tunisia, Egypt, Zimbabwe and Malaysia are among the limited number of schemes with mixed public /private ownership.

Private sector participation is feasible only if these companies are willing and able to commit resources and assume risk. They must have basic financial resources for capital, and if they are to assume a direct management role, the administrative resources to contribute. Likewise, if government lacks administrative and resource capacity, private involvement may be the most useful approach.

Establishment of an autonomous institution to manage export credit guarantee and insurance programs has the advantage of separating these programs from other government and private sector activities which may affect the program's operation, and more readily assure that needed staff and budget resources are available for administration. Creation of an autonomous entity may also reduce the possibility that political concerns will dictate operation of the programs. The major disadvantage of creating a separate organization is that the initial cost is likely to exceed what would be required were the programs established in an existing organization that already has staff and facilities.

Another option is to use solely private sector management of an autonomous organization, whether it is government-owned or jointly-owned. In effect, the operation could be contracted out to a bank or insurance company, and private sector management would act as an agent providing expertise while the advantages of autonomous organization would be maintained. Private sector managers would be compensated for operating the agency. While government may be hesitant to relinquish control in this situation, major decisions with respect to policy, such as types of coverage to be offered, large commitments, and coverage in certain countries could remain with government, and the more routine transactions be decided by the management.

Whatever decision is made with respect to ownership and management, the most important requirement is that management be efficient and able to respond quickly to exporters' needs. Inefficient management will result in lack of confidence by both exporters and banks, and as a consequence, the programs will not be used extensively. Autonomous, high-quality management is a key factor in the success of most export credit guarantee and insurance schemes.

No specific ownership structure for the export credit guarantee and insurance agency has been agreed upon yet. In Jordan several possible structures could be envisaged. These include the following:

- o Government ownership, operating as a department in the CBJ.

- o Government ownership as an autonomous corporation, with ownership by the CBJ, and possibly other government ministries such as the MOTI, Ministry of Finance (MOF), and the (MOP).

- o Mixed public/private autonomous corporation, with ownership by the CBJ, possibly other Ministries representing the public sector, and commercial banks, the Industrial Development Bank (IDB) and insurance companies, and possibly trade associations, representing the private sector.

Having the export credit guarantee and insurance agency as a department in the CBJ is the easiest option as a way to establish the program quickly. The need to organize the private sector participation including incorporation, sale and paying in of shares, establishment of separate offices and hiring of staff can largely be avoided. After the program has been operating for a year or two, an autonomous corporation, with or without private sector participation, could be established. There is some precedent for this approach. The Housing Bank was initially operated from the Central Bank, and the IDB was operated as an Industrial Development Fund before being established as an independent development bank.

The disadvantages of using the Central Bank are that exporters may not perceive a CBJ program as efficient; there is a risk of bureaucratic procedures being implemented that are inconsistent with exporters' need for prompt decisions; and highly qualified people may not be available or willing to assume responsibility for the program in the CBJ, particularly at CBJ compensation levels. Also, other concerns of the Central Bank, such as growth of credit, politically motivated decisions to support certain sectors, counter-productive risk aversion due to potential budget impact, etc., may affect how the guarantee and insurance program is operated. It would be advisable to capitalize the program with its own resources. This would enhance the confidence of banks and exporters in the program. Perceived lack of funds to pay claims has hindered the development of several government-run export credit insurance programs in some developing countries.

The relatively positive reputation of the CBJ for effective operation, combined with the precedent of the Housing Bank being successfully established later as a mixed corporation, make this a feasible option for consideration.

The second option of establishing an autonomous government corporation initially has the merit of setting up an appropriate structure from the beginning. Its funding can largely be set initially, avoiding possible subsequent budget considerations. If government salary scales can be bypassed, an autonomous organization could be operated like a private sector company. Outside influence would be less likely than in a government department. However, the reporting relationship of this entity to the government and responsibilities of various government entities could affect how well an autonomous government agency would be run. The roles of other government ministries that might be involved, and their effective coordination will be important to success. Generally ministerial activity should be minor other than for broad policy matters affecting the organization.

With respect to the issue of private participation compared to total government operation of the export credit guarantee and insurance programs, many such government programs have been successful. One requirement for their success has been operation consistent with private sector practices, and another has been the willingness of government to provide funding resources and other support to the schemes. Where governments are reluctant to provide full support with resources and require dynamic management responsive to exporters' needs, these schemes have not been as successful as could be expected. Even where mixed public/private institutions exist, such as Malaysia and Tunisia, a critical issue has been the reluctance of government to provide real reserve funds to support their risk-sharing responsibilities.

The third option of establishing a mixed, autonomous corporation would appear to be viable, and perhaps the most effective one that would ensure successful operation. In Jordan there is precedent for such organizations (IDB and Housing Bank). Several Arab countries have recently adopted this approach. Tunisia established a mixed corporation in 1984 which has been quite successful. Morocco is switching to this approach after operating a program in a primarily government-owned bank for almost 10 years. Egypt also chose to establish its Export-Import Bank with private sector participation. The successful program in Zimbabwe (ZCIC) is another example of a sound, effectively operated mixed corporation.

The fairly large number of well-established privately-owned financial institutions in Jordan makes a mixed corporation a particularly attractive option. Many of these institutions have experience with mixed corporations through participating in others such as the IDB. Having participation of the commercial banks and insurance companies directly has several advantages, including:

- Participation and commitment from banks will enhance the likelihood that the programs will be used by the banks' clients, and that exporters will have confidence in the programs
- Banks will be more likely to finance insured transactions
- Private capital will provide a substantial portion of initial funding
- Private sector management practices will probably be implemented
- Banks have experience in financing international trade and evaluating credits
- Insurance companies understand insurance principles and have experience and contact with re-insurers in other countries which might reinsure some Jordanian export credit risk.

This approach also has some drawbacks. Private sector banks and insurance companies will understandably refuse to assume all risks. (See risk-sharing below.) Private sector participants will mainly be interested, if through their participation, they can generate additional subsidiary business for themselves. They may be overly conservative, and not look at the larger objective of stimulating exports. Organizing private sector participation can be complex and time-consuming compared with establishing a government corporation. Operating costs may be higher than a comparable government corporation, This cost, however, should be balanced against the expected more efficient operation.

Virtually all banks and exporters interviewed preferred the mixed corporation option to a solely government-run program. While understandably reluctant to make specific commitments to participate, all the financial institutions contacted indicated that they would be willing to participate. They stated that participation would be dependent on the amount of the investment required, and the basic feasibility of the proposal. Even the few banks that were unenthusiastic about the program stated a willingness to participate if most of the other financial institutions did. IDB seemed willing to participate and support the concept as consistent with its objectives of assisting small and medium-sized Jordanian firms.

The Federation of Insurance Companies and two insurance companies were contacted to ascertain their views on participation. All agreed that such a program would be valuable to support Jordanian exporters, and thought that insurance companies could provide useful expertise and contacts. While some companies would perhaps participate in the capital, the expected share could not be large given current resources of the insurance industry. Also, unlike banks which may be able to make additional loans as a result of the programs, insurance companies could not expect to indirectly benefit. Since the export credit insurance agency could not be expected to generate profits for the shareholders in the short run, if ever, insurance company participation would be more akin to supporting the economy of Jordan than to a commercial business investment. In some countries, insurance companies act as agents/brokers selling and servicing export credit insurance. This is particularly useful and cost effective in countries where exporters are widely scattered over a large area which makes marketing to and servicing policyholders by the export credit insurance agency itself difficult. Given the size of Jordan and the concentration of companies in a relatively small geographic area, using insurance companies as agents/brokers would not appear to be necessary, and the need to pay commissions would increase costs with little resulting benefit.

Private sector organizations representing companies, such as the Amman Chamber of Commerce, Chamber of Industry, JCCC, and JTA, all endorsed the concept of a mixed corporation. The current participants in the JCCC as well as the JCCC itself, expressed a willingness to consider equity participation. The support of these organizations will definitely contribute to successful operation of an export credit insurance and guarantee agency. They can have a substantial role marketing the programs to their members.

However, it is not recommended that these organizations participate directly as shareholders, for several reasons. First, an inherent conflict of interest exists when exporter members of an organization can receive benefits from the export credit insurance agency. Second, the objectives of the business organizations and the export credit agency are not the same. While both seek to stimulate exports, the business organizations' objectives are to promote the interests of their members, not to assure the financially viable operation of the insurance agency which is of primary concern to its ultimate success. Third, these organizations generally do not have substantial resources to contribute as capital. Fourth, their staffs are unlikely to be able to contribute needed skills, even though individual members might.

If the mixed corporation option is selected, wide-spread participation by banks will be important. If few banks participate, issues of unfair access to the program and unfair competition will likely arise, as has been the case where a single bank operated the national export credit insurance program. Wide-spread participation also reduces the capital contributions required from each participant, and may allow the government to contribute a smaller share in the initial capital.

One issue to be decided is the proportion of government ownership to private sector ownership. Other jointly-owned companies in Jordan have a majority share with the private sector, which may serve as a precedent. No pattern exists among the mixed corporations in other countries: some have a public sector majority and others a minority. For example, the Malaysian Export Credit Insurance Board (MECIB) is owned partly by government (53.6%), partly by commercial banks (38.4%) and partly by insurance companies (8%). In Singapore, ECICS is 50% owned by government and 50% by banks and insurance companies. The Tunisian export credit agency, Cotunace, has a majority government ownership (40% direct government ownership, 20% Central Bank, 32% commercial banks including three which have majority public ownership, and 8% insurance companies). Government has no direct share in Zimbabwe, but companies in which it has some partial interest own 25% of the shares.

It is not believed appropriate or possible for outside parties to determine at this point the breakdown of shares between various interests in the new corporation. Whatever is decided, all parties should be comfortable with the relative share-holdings, given the risk-sharing structure that is adopted. (See discussion below.) It seems clear that in Jordan, the main share-holder for government would be the Central Bank.

Under the assumption that mixed public/private contributions will be made, some specific way of allocating contributions, in particular among commercial banks, needs to be devised. In Tunisia, the government made a specific commitment for its share represented by several governmental organizations, and the remaining stock was offered to commercial banks and insurance companies. These firms made their own decisions as to the amounts to which they would subscribe. The first issue was oversubscribed, and consequently the size was increased to meet the demand. Shareholders represent a wide cross-section of the financial institutions in the country, as is true in Malaysia. In Zimbabwe, private and government merchant banks and commercial banks, as well as public and private insurance companies are shareholders. Share-holdings by any one institution are restricted to either 6 1/4% or 12 1/2%. This assures that no one institution has a preponderant position, and allows both modest and more substantial investments depending on the investor's preference.

Allowing the banks to choose their own level of participation would be consistent with private sector investment practices. However, to avoid dominance by a small number of companies, share-holdings could be based on some formula like that in Zimbabwe, or it could be based on the size of the participating institution, using, for example, total assets or loan volume. Deposit size or export loan volume would appear to be less effective methods since deposits do not necessarily reflect commercial lending activity and export loan volumes are difficult to calculate and can vary substantially over a short period of time. Size may not be a good criterion to use in Jordan since one bank (Arab Bank) has such a predominant share of the market (estimated to be about 60%). The second largest is substantially smaller. It would not seem advisable to have one commercial bank with a share-holding several times greater than any other commercial bank shareholder. Furthermore, it is unlikely that Arab Bank would want to have such a dominant share and the greater need for a capital contribution. The most effective way to attract participation will be to demonstrate that the export credit guarantee and insurance agency can be run in a financially sound manner.

Some discussion has occurred about creating a Higher Export Council to oversee Jordan's export promotion efforts by formulating the general export policy for the country, suggesting programs and means for implementing them, including administering the trade agreements and other functions now performed by the JCCC. In addition, it would promote exports through managing the export credit guarantee and insurance programs. The Higher Export

Council would be made up of four ministers, the head of the CBJ, the Secretary-General of the MOTI, and the heads of eight associations representing private business interests. A new corporation succeeding the JCCC called the Jordan Export Development Corporation (JEDCO) would be set up supervised by several of the Higher Export Council members. None of the proposed members were from the CBJ, MOF or financial industry institutions. One of the three departments of JEDCO would be involved in the finance, guarantee and insurance of exports. This Finance Department would be supervised by a technical council made up of the Governor of the CBJ, the President of the Jordan Bankers Association, the Minister of Finance and the head of the JEDCO Finance Department.

It is recommended that Jordan's Export Credit Guarantee and Insurance Department be an autonomous corporation with a separate identity, or as an alternative, it be operated from the CBJ. As mentioned above, if export credit insurance and guarantee programs are to be successful, they must have the confidence of the exporters and the banks, and be financially viable. Structures that are cumbersome, and that mix purely promotion activities with financial programs, risk not being run on a financially sound basis. Also, it should be noted that private sector business associations are not a substitute for private sector management or direct ownership by private firms. The business of associations is generally not the running of a financial institution. While there is some merit in the idea of having co-ordination of Jordan's export policies through some arrangement that includes both public and private sector interests, this is far different from actually running an export finance program. While there is some precedent for attaching export credit guarantee and insurance programs to public or quasi-private trade promotion institutions (i.e. Japan and Cyprus, and much less successfully in Australia), a more common situation is to have independent institutions and to link the activity to institutions that have financial responsibilities.

B. Legal Structure

The legal structure proposed for the Jordanian export credit guarantee and insurance agency is an autonomous corporation with mixed public private sector ownership, as was discussed above.

Current law makes no provision for such an entity. Therefore, new enabling law will be required. Several financial institutions already exist in Jordan with mixed ownership (e.g. Housing Bank, Industrial Development Bank). The precedent can be useful in drafting appropriate legislation. Apparently, the process of drafting and creating a law is feasible within a relatively short time frame.

The key provisions relate to the following:

Objectives and Powers: The objectives and powers of the export credit guarantee and insurance corporation should be broadly drawn, with the least amount of detail possible. Several other similar programs have floundered due to having too rigid legislation with respect to such matters as the percentage of coverage offered, the specific policies that could be offered, the premiums that could be charged, cumbersome reporting relationships, excess taxes, requirements to have capital and reserves more suitable to conventional casualty insurers than export credit insurance, inappropriate supervising authorities, and financially inviable restrictions on investments, to name but a few. Including needed flexibility in the law now will undoubtedly reduce problems in the future, when changed conditions require the Corporation to offer other forms of coverage, or indeed make it advisable to enter new lines of business (e.g. leasing coverage, medium-term, domestic credit insurance, factoring, all of which are activities that have been successfully undertaken by some export credit insurers).

Taxes: Like the IDB, the Export Credit Guarantee Corporation should be exempt from all taxes, consistent with its public interest mandate of supporting export expansion. The relatively modest profits expected suggest that the income tax loss to the government would be not be great. In virtually every country in the world, the profits of officially-sponsored export credit insurance or guarantee corporations are exempt, or effectively shielded, from income tax.

Relationship to Government: In an export credit insurance agency, the risk-sharing arrangements are exceptionally important, as is discussed at length below. Preferably, prior to start-up on the Corporation, or in the enabling law, an explicit undertaking by the Government of Jordan to act as lender of last resort (covering so-called catastrophic risk) or re-insurer for all political risk and co-insurer of commercial risk in excess of the Corporation's resources.

It is preferable also, if legally possible, to have the details of the financial arrangements between the Corporation and Government the subject of a separately negotiated agreement, that can be changed by mutual agreement, rather than requiring a change in the law. Examples of this would be provisions for sharing of premium and the process for deciding classification of different country markets. As noted previously, the absence of clear-cut participation by government, including funding of its share of capital or reserve funds, has hindered the operation of several schemes and caused exporters and bankers to have less confidence in their effectiveness.

Legal Rights: The Corporation should have the same rights as the IDB and other financial institutions to borrow, take security, enforce security interests, etc. It should not be necessary for the Corporation to have the right to accept demand deposits.

Islamic Banking: Provision should be made in the law to allow for an Islamic Export Guarantee Program, possibly as an affiliated fund using various Islamic banks' resources. Apparently, the exact mechanism with which an Islamic export guarantee could be offered is not yet in place. The law should have enough flexibility to adopt some Islamic guarantee facility, and at a minimum allow for the organization to act as agent for the Islamic Development Bank export credit guarantee scheme when it is in place.

C. Risk-Sharing Structure

Risk-sharing between the exporter and the guarantor/insurer is fundamental to export credit guarantee and insurance schemes. For commercial risks, in almost all cases the bank obtaining a guarantee or an exporter obtaining insurance will retain a portion of the risk, The rationale is that the commercial bank or exporter, to protect its own interests, will seek to assure repayment, and consequently reduce the risks to the guarantor/insurer. It is proposed that for short term export credit insurance 90% of the risk be held by the export credit guarantee and insurance agency, and that 10% be retained by the exporter. Many export credit schemes in developing countries have initially offered insurance with retention of risk by the exporter of 20-30%. This is then subsequently lowered to 10% or less as experience is gained. Most of the industrialized countries now offer 90% commercial coverage and 95-100% political risk coverage. Given Jordan's current composition of exports and concentration in a few markets, an initially competitive approach would seem to be warranted.

For pre-shipment working capital guarantees, an even smaller guaranteed percentage of 75%, with the bank retaining 25% is recommended. This fairly large retention is being proposed to ensure that the bank looks carefully at the credit, but will not require collateral exceeding 25% of the export credit outstanding, and may in fact look primarily to the guarantee as sufficient protection. This guaranteed amount is somewhat higher than some industrialized country programs and many domestic loan guarantees available in developing countries. The rationale for this percentage is discussed more fully in the section of the report dealing with programs to be offered.

Another way in which export credit insurance schemes have spread risk is to require exporters to insure all their export transactions (whole turnover) or a reasonable spread of risk (a proportion of short-term export business deemed by the insurer to represent a reasonable range of risks with respect to both buyers and countries rather than an adverse selection by the exporter against the insurer). No developing country scheme has started off by permitting the exporters to pick and choose the risks that they want to cover - at least on short term business which is all that is expected to be covered initially. This means that exporters are required to pay premiums on good as well as marginal risk, and thus, contribute to the organization's overall financial soundness.

Another form of risk-sharing relates to how the risks assumed by the programs are shared among participants. The amount of risk assumed by the export credit guarantee and insurance agency is usually related to the available capital and reserves, particularly with respect to commercial risk. Even when the export credit guarantee and insurance schemes are adequately capitalized for normal losses, the government in most developing and industrialized countries has taken responsibility for catastrophic commercial losses (in excess of capital and reserves) and political risk losses. This has been done through a general understanding, but is preferably covered by an explicit coinsurance or reinsurance treaty, or alternatively by a specific law that explicitly states the obligations of government with respect to the export credit insurance and guarantee agency.

Generally political risk losses exceed commercial risk claims in magnitude. Also, political risk losses are likely to occur at one time, requiring large payments. Commercial losses are usually lower, and less likely to occur at one time. However, it should be noted that a large portion of political risk claims are subsequently recovered, albeit over a period of years, while a much smaller percentage of commercial recoveries are realized. Because of the magnitude of potential losses, political risk coverage is usually assumed by government. Few private banks or insurance companies anywhere in the world have sufficient resources to sustain significant political risk losses in one or more countries. Also, private companies have less ability to resolve payment problems with governments of other countries. Because they operate with profit objectives, private sector companies theoretically are less likely to take a wide range of political risks and may charge higher premiums to underwrite selected political risk than the government which has a primary interest in expanding exports of the country.

These factors argue for the GOJ to assume political risk for the export credit guarantee and insurance agency. This is particularly important in the case of Jordan where a large proportion of current exports are to markets which have experienced foreign exchange difficulties. The GOJ is in a better position to deal directly with these countries, as is evidenced by the existing trade protocols. As Jordan's export markets become more diversified, particularly to industrialized country markets, the political risk exposure to the government will diminish. Another factor which circumscribes the political risk to the government should be the balance of the overall insurance portfolio, avoiding any large concentrations in particular high risk markets.

As yet the specific role of the GOJ in risk reduction does not appear to have been fully defined. A specific undertaking by the GOJ to assume political risk losses will facilitate private sector participation, and, help the export credit guarantee and insurance agency to obtain the previously mentioned benefits of such participation.

Experience in other countries suggests that private companies will not assume risk in excess of their capital contributions. Government will have to assume political risk and excess commercial risk. Nowhere in the world have private companies assumed substantial amounts of political risk when participating in export credit insurance and guarantee programs.

For commercial risk, it can be justifiably argued that this risk should be assumed by the export credit guarantee and insurance agency with private sector participation, up to the full amount of the agency's resources. Commercial risks are seen as risks of doing business with the private sector that are not most appropriately assumed by the country's taxpayers through budget allocations. In the unlikely event that the Jordanian export credit guarantee and insurance organization is unable to pay commercial claims from its own resources, the GOJ will have to intervene. Such participation by the government should be spelled out clearly in a law or specific re-insurance agreement with the export credit guarantee and insurance agency.

Another way of sharing risk, in particular commercial risk, is to obtain reinsurance from private reinsurers outside Jordan. Some reinsurers, such as Namur in Belgium, Lloyds in the United Kingdom, Swiss Re in Switzerland and Munich Re in Germany, have participated in reinsurance of commercial risks for developing country export credit insurance schemes. For example, Zimbabwe, Senegal, Tunisia, and India have obtained reinsurance for a portion of their risk. Adverse claims experience in the last few years has made it much more difficult to obtain such reinsurance internationally. While reinsurance occasionally covers a portion of political risk, it is relatively rare that this risk is covered, the cost is high, and limits are placed on reinsured exposure per buyer and per country.

Jordan should explore the possibilities for reinsurance. Given the current export profile of Jordan it is unlikely that substantial reinsurance of even commercial risk will be available at an acceptable cost. Generally, private insurers initially are willing to take only a small portion of the risk and expect a relatively high proportion of premiums as compensation. As the scheme demonstrates effective operation, the percentage reinsured may be increased and the cost decreased. Whether reinsurance would be beneficial to the export credit guarantee and insurance agency in Jordan will require careful analysis to ascertain if the reduction in risk exposure justifies the loss of premium revenue, especially at start-up when such resources are needed to cover administrative costs.

VI. ORGANIZATION AND MANAGEMENT

The export credit guarantee and insurance agency's efficiency and effectiveness will require that it be responsive to the needs of exporters and banks. Cumbersome and time-consuming procedures, slow decision-making processes, and lack of dynamic staff have characterized unsuccessful export credit guarantee and insurance schemes. Therefore, it is very important that the organizational structure be well suited to the tasks to be accomplished, that efficient decision-making procedures be adopted, and that dynamic, well-qualified staff be hired and trained.

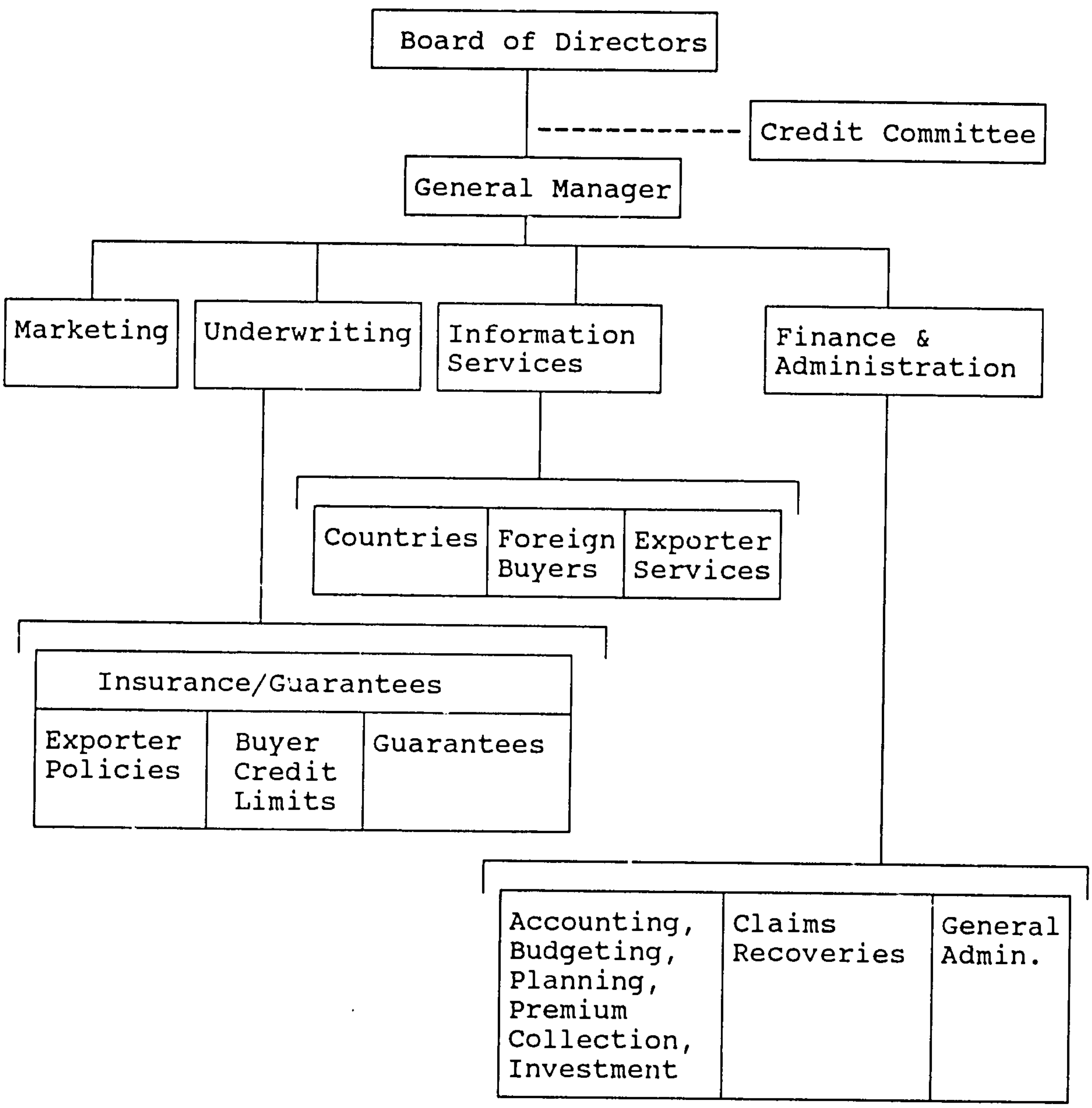
The chart which follows proposes an organizational structure for the export credit guarantee and insurance agency. This structure is similar to those used by most newly created export credit guarantee/insurance institutions. As the volume of business grows, staff will be added as needed, and some functions, such as claims and recoveries, will be operated as separate departments. Any legal services required initially, such as contract wording, and legal proceedings on disputes and claims, could be handled by an outside legal firm. Subsequently it may be necessary to have legal experts on staff.

If Islamic Banking principles are adopted for a portion of activity, or if a separate affiliated fund is established to support Islamic insurance and guarantee activity, it will most likely be necessary to set up a unit to handle this. Legal guidance will need to be sought as to how the Islamic activities relate to the overall activities of the export credit guarantee and insurance agency. The agency should have the initial legal capacity to undertake guarantees and insurance along Islamic principles, although it is expected that this activity will not be offered initially, but will be gradually developed as the agency develops, or the agency will act as agent for the Islamic Development Bank export credit guarantee scheme.

TABLE 10

JORDAN EXPORT CREDIT GUARANTEE AND INSURANCE AGENCY

ORGANIZATION STRUCTURE BY FUNCTION



Role of the Board of Directors

The number of members of the Board of Directors should reflect the relative share-holdings of the participants. Appropriate members would be GOJ representatives such as the MOF, MOP, MOTI and one or more representatives of the CBJ. Private sector representatives could be several commercial bankers from different banks, an insurance company representative and one person from IDB. As an example, Cotunace in Tunisia, which has approximately a 60-40 % government to private sector share-holding, has a 12 member board of directors representing 18 stockholders. The Board members include representatives from three ministries, 2 people from the central bank, four commercial bankers, one development bank representative and one insurance company member.

The major functions of the Board of Directors would be to set overall policy for the organization, determine the types of programs to be offered, select the Managing Director, generally review results of operations and make decisions on the larger buyer credit limits, guarantees and claims. The latter two tasks would be accomplished through a sub-committee set up to consider such matters.

It is strongly recommended that the full Board of Directors not be required to approve all guarantee and insurance policies and payment of claims. This is sub-optimal from the standpoint of operational efficiency and staff development. In order for the export credit guarantee and insurance agency to be responsive to exporters, it must be able to make decisions quickly. Requiring full board approval will slow decision-making, not to mention place an obligation on Board members to meet frequently. Rather, a sub-committee composed of Board members (3-5) should decide on the larger guarantees, exporter policies and buyer credit limits. The General Manager and/or a committee composed of the General Manager and department managers should be granted delegated authority to commit the agency for amounts up to a certain limit and/or meet certain specific criteria. The objective should be that the Board Committee considers less than half the number of cases, say not more than 30-40%. Furthermore, delegated authority can also be extended to staff. This increases staff development and reduces the reliance on the General Manager for decision-making.

Role of the Credit Committee

The Credit Committee would be chosen by the Board of Directors from among its members and would include directors who have credit, banking and insurance experience. The Credit Committee would have authority delegated by the Board to commit the organization for specific amounts of export credit guarantees and insurance acting on recommendations made by the staff. Using a sub-committee structure for major credit decisions will allow for frequent, regular meetings and speed up the decision-making process so as to be responsive to exporters' needs. The Credit Committee would be expected to meet at least once a week.

Role of the General Manager

The single most important factor influencing the success or failure of all new export credit guarantee and insurance organizations has been the character, ability and competence of the General Manager. Because of the uniqueness and importance of the functions performed, it is essential that this individual posses the knowledge, aptitude, background, drive and status required to give the organization credibility from the outset, and encourage active support from the government and the business community.

Because export credit guarantees and insurance is a little known field, the General Manager will have a heavy responsibility to explain the programs and obtain the appropriate level of attention and support for the organization's programs. Furthermore, international finance by its nature entails risks and imposes standards of excellence which may be absent in domestically-oriented business, all of which can further complicate the job of the General Manager. The ability of the General Manager to overcome problems, attract and retain good personnel, motivate subordinates and develop their skills in the face of strong bidding for their talents in the private sector, mark the successful General Manager. Those who have been most successful have had a strong private sector orientation, a background in banking or exporting, a practical approach to problem-solving, and received technical assistance support from outside the organization.

Role of the Underwriting Department

The Underwriting Department would review applications, make credit evaluations and approve or recommend the issuance of export credit guarantees, exporter insurance policies and specific buyer credit limits, including the amount of cover and necessary terms and conditions.

Role of the Marketing Department

An essential element in the success of all new export credit guarantee and insurance schemes has been the extent to which they have undertaken aggressive campaigns to familiarize the export community and commercial banks with their services, including making marketing calls to exporters directly. Failure to incorporate such efforts at the outset can unnecessarily prolong the start-up period when premium and fee income is insufficient to meet administrative expenses.

Because exporting firms do not have a tradition of using insurance to mitigate credit risks, it will be necessary to familiarize them with the advantages to be gained and to invite them to make application. Seminars and workshops can partially educate, but direct calling will usually be required, especially to overcome the reluctance of exporters to discuss their individual businesses in a public forum. Since most of the exporting firms are located in Amman or relatively near Amman, direct calling on virtually the entire exporting community should be feasible. This also obviates the need for branch offices or brokers and agents, which have been a necessity for marketing these programs in many countries.

Role of the Information Services Department

The Information Services Department collects and maintains credit information on exporters, foreign buyers and country conditions. This department also assists exporters with information on foreign buyers, and works with commercial banks and other commercial organizations to obtain information. In coordination with the Underwriting Department, information services evaluates country conditions and makes recommendations as to the amount and conditions of coverage. It also maintains the reference library for the organization and its clients.

Role of the Finance and Administration Department

The Finance and Administration Department initially will have multiple responsibilities. It is charged with prudently investing available funds consistent with the financial needs of the agency and the policy set by the Board of Directors. It is responsible for accounting, collection of premiums, and for claims and recoveries. Annually the accounts will be audited by independent outside auditors. This Department will also provide the management information system (MIS) reports required by management. With input from the other departments, Finance and Administration will prepare annual and multi-year plans and operating budgets. This Department also handles the personnel and general office administrations functions.

Initially the number of staff required to operate the export credit insurance and guarantee agency will be modest. A staff of 16, including the General Manager and a secretary for the General Manager appears to be reasonable. The staff for each department is outlined below, with a brief task description.

Marketing
Manager: Directs marketing effort and assumes major responsibility for conducting seminars, workshops, developing the marketing plan and the calling program. Also will market extensively directly to exporters.
Marketing Specialist: Calls on exporters and participates in running seminars and workshops.
Secretary: (shared with Finance and Administration Department)

Underwriting
Manager: Proposes and monitors underwriting criteria, manages underwriting staff, and actively participates in credit evaluations. Makes recommendations for cover to the General Manager and the Credit Committee. Coordinates with the Marketing and Information Services Departments. Participates in marketing seminars and workshops.
Two Underwriters: Make credit evaluations for guarantees and insurance and recommendations for coverage.
Secretary: (shared with the Information Services Department)

Information Services
Manager: Manages the credit information function, including arranging to obtain credit information from credit agencies, commercial banks, the Berne Union and Jordan's commercial attaches and the JCCC Centers abroad. Controls requests and receipt of credit information. Monitors country conditions and makes recommendations on amount, terms and conditions for coverage. Assists exporters with information requests.
Information Specialist: Requests, maintains and monitors credit information. Assists exporters with information requests and generally supports the Manager.
Secretary: (shared with Underwriting)

Finance and Administration
Manager: Responsible for investment of the export credit guarantee and insurance agency's financial resources according to guidelines established by the General Manager and the Board of Directors. Prepares budgets, as well as annual and multi-year plans, with input from other Departments. Handles accounting, preparation of financial statements and collection of premiums. Initially also handles claims evaluation, makes recommendations on claims payments and undertakes recoveries. Responsible for general administration including personnel, office management, payroll, etc.
Accountant: Chiefly responsible for accounting records, billing, receipt and control of fees and premiums, preparing financial statements.

General Administration Manager: Handles details of personnel and office management such as purchase of equipment and supplies, telephone and other utilities, etc. Handles arrangements associated with training and travel.
Clerk: Supports accountant with record-keeping, billing, etc.
Secretary: (shared with Marketing)
Driver/Messenger

The initial staff could be reduced by as much as three by delaying hiring the clerk in the Finance and Administration Department, the Information Specialist, and the Marketing Specialist. In this instance, in the early stages the underwriting staff and the marketing staff could be used interchangeably until the programs are fully operational. This cross-training could also be beneficial to the agency. If this phased approach is adopted, it is important that marketing not be neglected, as this is the key to early successful, financially viable operation of the agency.

General qualifications for professionals are noted below. All professionals would be expected to have a university degree and some related professional and technical experience. All are described in terms of private sector experience. Public sector related, relevant experience could be substituted for private sector experience, if the persons showed capacity to function according to private sector standards.

General Manager: Mentioned above.

Marketing
Manager: Experienced in marketing financial services, ability to easily interact with senior company executives.
Marketing Specialist: three years banking or insurance professional experience, and interest and aptitude for marketing.

Underwriting
Manager: Banker with six or more years' experience in commercial credit evaluation, including export finance. Management experience at the level of a bank officer.
Two Underwriters: Two bankers with two to four years commercial credit evaluation experience. Experience with evaluation of export loans would be preferred.

Information Services
Manager: Trained economist with international and administration experience.
Information Specialist: Banker or other financial institution professional with minimum of two years' experience, preferably in international financial area.

Finance and Administration

Manager: Experienced financial professional with knowledge of investment and accounting, with management experience.

Accountant: Financial accountant with at least two years experience in financial institution or insurance company accounting.

General Administration Manager: Experienced in office management and personnel administration.

Clerk: Junior level bookkeeper.

One of the major difficulties in successfully managing export credit and insurance schemes in developing countries has been problems with the quality of personnel and their permanence in the organization due to government ownership and the consequent imposition of public employee remuneration and performance standards. This is a particular difficulty with export-import banks and export guarantee and insurance organizations where the staff must be skilled in many of the same areas in which their private banking counterparts are proficient. Disparities in salaries and other benefits have led to high turnover rates in such governmental agencies and/or sometimes to the employment of individuals with less ability to meet more demanding performance standards of the private banking community. It appears that there may be a gap of about 40% in the salaries paid to CBJ employees compared to their private sector banker counterparts.

Reducing disparities in salaries has increased organizational stability and responsiveness in the more successful developing country institutions. Some have improved their responsiveness to the export community by establishing sound systems to measure staff performance, relating it to the organization's objective of facilitating exports, and recognizing proficiency by awards, promotions, raises and other benefits. For these reasons, it will be important to offer salaries and benefits which are in line with those offered by the private sector in order to attract and hold talented, dynamic staff. This will increase the likelihood of early successful operation of the Jordanian export credit guarantee and insurance agency. If initially established in the CBJ, these qualifications, salary and benefits standards will form a solid base for transformation to an independent organization. This also suggests that if the CBJ operates the agency, staff should also be recruited from different financial institutions including private commercial banks and insurance companies.

VII. FINANCIAL OPERATING PROJECTIONS

During the first few years of operation, export credit guarantee/insurance organizations generally do not make profits. Until a sufficient volume of business is generated, fee and premium income will not be sufficient to cover operating expenses, the primary component of which is staff salaries. This will occur even if no claims payments are made.

In order to minimize these accumulated losses, the export credit guarantee and insurance agency must undertake significant marketing efforts that will result in building premium income as quickly as possible. This underlines once again the importance of having dynamic, well-trained staff that can market, respond quickly to exporters' requests for coverage and underwrite effectively. Profitable operation will be necessary after the start-up period to bolster reserves, and increase the ability of the agency to support more export sales, as well as attract additional capital funding, loan resources and reinsurance.

The following operating projections for the export credit insurance and guarantee agency represent a most likely scenario, albeit a conservative one. An optimistic and three less favorable scenarios are then summarized and compared with the most likely case. The most optimistic case projects sharply higher insurance and guarantee volumes, while the less favorable ones indicate the effects of higher claims, higher administrative costs and lower volumes of exports being supported.

Absent a more detailed survey of exporters, and considering the start-up performance of such schemes in other developing countries, it is reasonable to propose that the Jordanian export credit guarantee and insurance agency will guarantee and insure about 1.0% of national exports in the first year, 1.5% in the second, 2.0% in the third, 4.0% in the fourth and 6.0% in the fifth year. This is somewhat faster growth than experienced in some Far Eastern economies that have a much larger export base, but considerably slower than that experienced by Cyprus and Tunisia, two countries in the area that have somewhat similar export patterns and products. Cyprus insured over 5% of exports in its first year of operation, and 30% by the fifth year. Tunisia covered over 4% of total exports in the first full year of operation and about 7% of eligible exports (i.e non-traditional). Thus the projected volume of coverage can be considered conservative and attainable given the response of exporters and bankers contacted for this study. Table 11 shows the percentages and amounts of exports to be supported by the agency during the first five years of operation.

The amount of coverage that is projected is somewhat lower than the JD 35 million suggested by the CBJ study, or 14% of national exports, for the 1987 base year when exports totaled JD 248.8 million.

The exports projected to be covered by the agency in the first year are equal to approximately a third of the amount of export credits that were extended under the CBJ export credit discount program in 1988.

TABLE 11

PROJECTIONS OF EXPORTS SUPPORTED, 5 YEARS
(U.S.$ millions)

	Yr1*	Yr2	Yr3	Yr4	Yr5
Total Domestic Exports	1,050	1,156	1,289	1,439	1,590
% Covered	1.0%	1.5%	2.0%	4.0%	6.0%
Total Non-Trad. Exports	507	584	687	804	921
% Covered	2.1%	3.0%	3.8%	7.2%	10.4%
Total Exports Gt'd/Insured	10.5	17.3	25.8	57.6	95.4
Total Exports Gt'd/Insured in JDs	8.4	13.8	20.6	46.1	76.3

* Year 1 base assumed to be exports projected for 1990.
** Exchange Rate of U.S. $1 = JD 0.8.

At this time, it is almost impossible to project the proportion of guarantees to insurance coverage. Insurance is expected to be by far the largest volume of business compared to pre-shipment guarantees. For purposes of these preliminary projections, 20% of exports covered are assumed to be for guarantees and the rest for insurance.

As proposed in the section of this report on programs to be offered by the export credit guarantee and insurance agency, insurance premiums are assumed to range from 0.5% to 1.0% for an average of 0.6% of export value. Guarantee fees are assumed to 1.0-2.0% per annum and guarantees are projected to be outstanding for an average of 120 days. Premium and fee income projections in U.S.$ are shown in Table 12. The projections are repeated in Jordanian Dinars in Table 14 on projections of revenue and expenses.

TABLE 12

PROJECTIONS OF PREMIUM AND FEE INCOME, 5 YEARS
(U.S.$ 000s)

	Yr1*	Yr2	Yr3	Yr4	Yr5
Fees (000s)	10.5	17.5	26.0	57.5	95.5
Premiums	50.4	82.8	123.6	276.6	457.8
Total Fees/ Premiums	60.9	100.3	149.6	334.1	553.3

Claims and Recoveries

Claims can not be predicted with any certainty. Export credit insurance, unlike many other forms of insurance does not lend itself to making projections based on specific actuarial assumptions. One approach used to estimate claims is to assume that over the long term they average a percentage of fee and premium income generated each year. A reasonable percentage to use under this approach is to estimate that 50% of premium and fee income will be paid in claims. As noted, most political claims can be expected to be recovered over time, while a much smaller percentage of commercial claims are recovered. These projections assume that recoveries average 50% of claims paid and that these recoveries are realized in the year following the payment of the claim. Estimated claims and recoveries are shown in Table 13.

TABLE 13

PROJECTIONS OF CLAIMS AND RECOVERIES, 5 YEARS
(U.S.$ 000s)

	Yr1	Yr2	Yr3	Yr4	Yr5
Claims	(30.4)	(50.2)	(74.8)	(167.1)	(276.7)
Recoveries	00.0	15.2	25.1	37.4	83.5
Net Claims	(30.4)	(35.0)	(49.7)	(129.7)	(193.2)

Pre-Operational Expenses and Fixed Assets

The estimates which follow assume that an autonomous, mixed public/privately owned export credit guarantee and insurance corporation is established. Therefore, such establishment expenses as the rental of offices space, furniture, fixtures, office equipment, computers, a vehicle, etc. are included and treated as start-up expenses. If procurement of office equipment, computers, vehicles, is included in any technical assistance provided to the new corporation, establishment costs to the corporation would be considerably reduced.

The export credit agency will need to have a minimum of 4 telephone lines, including one for a facsimile machine. To service exporters adequately, and do required credit investigations, sufficient telephone services will be essential.

Initially, one vehicle will be needed, primarily to be used for marketing, but will also serve as the General Manager's car.

While the initial volume of business will probably not require computer systems, virtually all export credit agencies have found that computer systems designed specifically for their operations are required once the volume of business begins to grow. Because of the time needed to develop custom software or to adapt software in use at other export credit agencies, purchasing computers and developing the requisite programs should take place soon after establishment. Computerized operations considerably reduce the paperwork burden and limit the need for additional staff as the agency grows. Importantly, the needed information for management can be provided through well designed MIS systems, that will allow the agency to evaluate effectively its risk portfolio and make sound decisions with respect to premium, reserving and other key policies. Adequate skills exist in Amman to undertake the necessary programming in both English and Arabic. Technical assistance will be needed for systems design as the particular requirements of export credit insurance and guarantee agencies are not well known.

In addition, salaries and general administrative expenses incurred while the organization is gearing up and staff is being trained can be considered a pre-operating expense. One can assume this is equal to one half of annual projected salaries, benefits, and most operating expenses (less auditing and some credit information costs). Training , including travel abroad, is assumed to be provided from technical assistance resources.

Start-up costs totaling JD 141,100 are summarized below.

Estimated establishment costs include (in JD):

Furniture and Fixtures	30,000
Computers and Office Equipment	40,000
Vehicle	20,000
Total Fixed Assets	90,000
1/2 year of Salary/Admin. Expense	51,100
Total Start-up Costs	141,100

Operating Expenses

Salaries and Benefits: A rough estimation of salaries and benefits are JD 12,000 for the General Manager, JD 7,200 for Department Managers, JD 4,800 for Underwriters and the Marketing Specialist, JD 3,000 for the Accountant and Information Specialist, JD 2,500 each for the Clerk and the Secretaries and JD 1,200 for the Driver/Messenger. The annual total for the staff of 16 is projected at JD 77,200. A 25% addition to staff is projected, spread over years 4 and 5. It is the experience of similar new export credit insurance and guarantee agencies that additional staff is not needed until a very rapid build-up of business volume occurs, at which time premium and fee income is also increasing. An overall increase of 7.5% per annum on total salaries is projected.

General Administrative Expenses: These expenses include rent, telephone, telex, and fax charges, other utilities, vehicle maintenance, office supplies, travel, audit fees and the cost credit investigations. It is assumed that 300 square meters of office space is rented at JD 37.5 per square meter, including service charges. Thus initial rent is projected at JD 11,250 per year.

The cost of credit information could be defrayed by making modest charges to exporters, but this would be unlikely to cover the total cost and has not been included in these projections. Since the actual first year's volume of requests for insurance coverage is not known, it is assumed that JD 8,000 will be needed in the first year, particularly to help build a library of reference sources. In subsequent years this amount is increased by a percentage equal to one-half of the percentage increase in fee/premium income. This approach is used because the largest increase in these expenses relates to credit information and claims administration which are tied to the volume of business. These expenses do not grow as fast as fee/premium income because in many cases files already contain needed information or only less costly updating rather than new information is required.

Depreciation: Depreciation is projected at JD 15,000 per year assuming vehicle and computer depreciation at 20% per year. and furniture and fixtures at 10% per year. No new fixed asset purchases after start-up are projected in the first 5 years.

Investment Income

Available funds are assumed to be invested at 7.5% per annum. Interest calculations are made on the prior year's capital and reserve balance plus one-half of the profit (loss) for the year. No interest is considered to have been earned prior to beginning operation.

Table 14 shows five year projections of revenue and expenditures in Jordanian Dinars, based on the assumptions outlined above.

TABLE 14

FIVE YEAR PROJECTION OF REVENUE AND EXPENSES
(In Thousands of Jordanian Dinars)

	Yr1	Yr2	Yr3	Yr4	Yr5
Operating Revenue					
Fees	8.4	14.0	20.8	46.0	76.4
Premiums	40.3	66.2	98.9	221.3	366.2
Total Fees/ Premiums	48.7	80.2	119.7	267.3	442.6
Operating Expenses					
Claims	(24.3)	(40.2)	(59.9)	(133.7)	(221.4)
Recoveries	00.0	12.2	20.1	29.9	66.8
Net Claims	(24.3)	(28.0)	(39.8)	(103.8)	(154.6)
Operating Profit	**24.4**	**52.2**	**79.9**	**163.5**	**288.1**
Administrative Expense					
Salaries & Benefits	77.2	83.0	89.2	107.9	130.5
General Admin.	30.0	34.2	38.6	48.7	57.7
Depreciation	15.0	15.0	15.0	15.0	15.0
Total Admin.	122.2	132.2	142.8	171.6	203.2
Net Operating Profit (Loss)	**(97.8)**	**(80.0)**	**(62.9)**	**(8.1)**	**84.9**
Investment Income	248.3	260.2	274.4	292.3	317.1
Profit (Loss)	**150.5**	**180.2**	**211.5**	**284.2**	**402.0**
Cum.Surplus (Def.) on Operation*	(238.9)	(318.9)	(381.8)	(389.9)	(305.0)
Cum.Surplus with Inv.Inc.	**9.4**	**(58.7)**	**(107.4)**	**(97.6)**	**12.1**
Capital & Reserves**	**3,509.5**	**3,689.7**	**3,901.1**	**4,185.3**	**4,587.3**

* Includes JD 141,100 in pre-operating expenses
** Assumes initial paid-in capital of JD 3.5 million

Under these projections, the export credit guarantee and insurance agency will not show an operating profit until the fifth year. However investment income will cover cash needs and increase the capital and reserve base to almost JD 4.7 million, which is adequate to cover the volume of business that has been projected. The extra reserve coverage over minimum requirements needed to cover the volume of business is large enough to provide a cushion in the event of higher claims. It also provides the base for continued expansion of coverage.

The results of several different scenarios are shown in the tables below. The most likely case, which was discussed above is referred to as A.

In the favorable, best case scenario (B), it is assumed that two times the most likely case scenario projections of export volume are insured and guaranteed during the first five years of operation. This would be consistent with the experience in Cyprus for example. Other assumptions remain the same including, that claims and recoveries represent the same percentages of premiums and fees as in the most likely scenario, no additional staff is needed, and no additional administrative costs are incurred.

Under the third scenario which is less optimistic, one half the amount of exports under the most likely scenario are supported by insurance and guarantees (C). Other assumptions are not changed. This could occur if the programs were not well designed and administered to meet exporters needs and/or not aggressively marketed. As has been noted, some of the least successful export credit insurance and guarantee agencies have suffered from lack of dynamism, particularly in the area of marketing. Other problems have been excessive bureaucracy and reluctance to pay claims, making the programs unattractive.

The percentages of Jordanian exports insured and guaranteed under these scenarios are presented in the following table.

TABLE 15

PERCENTAGE AND AMOUNT OF EXPORTS SUPPORTED FOR VARIOUS SCENARIOS OF FINANCIAL OPERATING PROJECTIONS

	Yr1*	Yr2	Yr3	Yr4	Yr5
Total Domestic Exports(US$mn)	1,050	1,156	1,289	1,439	1,590
A. Most Likely	1.0%	1.5%	2.0%	4.0%	6.0%
B. High volume	2.0%	3.0%	4.0%	8.0%	12.0%
C. Low Volume	0.5%	0.8%	1.0%	2.0%	3.0%
Total Non-Trad. Exports(US$mn)	507	584	687	804	921
A. Most Likely	2.1%	3.0%	3.8%	7.2%	10.4%
B. High Volume	4.2%	6.0%	7.6%	14.4%	20.8%
C. Low Volume	1.1%	1.5%	1.9%	3.6%	5.2%
Total Exports Gt'd/Insured (JD millions)					
A. Most Likely	8.4	13.8	20.6	46.1	76.3
B. High Volume	16.8	27.6	42.2	92.2	152.6
C. Low Volume	4.2	6.9	10.3	23.1	38.2

Two other variations are presented that adjust two other factors that are difficult to project with certainty: (D) claims are increased by 50% with all other assumptions remaining the same; and (E) administrative costs are 50% higher than projected for the most likely case.

TABLE 16

NET OPERATING PROFIT (LOSS) BEFORE INVESTMENT INCOME FOR VARIOUS SCENARIOS OF FINANCIAL OPERATING PROJECTIONS
(In Thousands of Jordanian Dinars)

	Yr1	Yr2	Yr3	Yr4	Yr5
A. Most Likely	(97.8)	(80.0)	(62.9)	(8.1)	84.9
B. High Volume	(73.5)	(27.7)	17.1	155.6	373.1
C. Low Volume	(110.0)	(106.1)	(102.8)	(89.8)	(52.2)
D. High Claims	(109.9)	(94.1)	(83.8)	(59.5)	7.6
E. High Admin.	(158.9)	(146.1)	(134.3)	(93.9)	(16.7)

The high volume scenario results in profits on operations in the third year, rather than in the fifth year under the most likely scenario. Low volume and high administrative costs have much greater impact on operating profitability than increased claims. This is consistent with observations made elsewhere in this report that the financial viability, and indeed feasibility, of export credit insurance and guarantee agencies depends significantly on having sufficient volume of business to cover administrative costs, as well as to provide resources to reserves.

On a cumulative basis, only the high volume scenario reaches breakeven in operations during the first five years. The cumulative operating deficit for the most likely projections begins to decline rapidly in the fifth year.

TABLE 17

CUMULATIVE SURPLUS (DEFICIT) ON OPERATION*
FOR VARIOUS SCENARIOS OF FINANCIAL OPERATING PROJECTIONS
(In Thousands of Jordanian Dinars)

	Yr1	Yr2	Yr3	Yr4	Yr5
A. Most Likely	(238.9)	(318.9)	(381.8)	(389.9)	(305.0)
B. High Volume	(238.9)	(266.6)	(249.5)	(93.9)	279.2
C. Low Volume	(238.9)	(345.0)	(447.8)	(537.6)	(596.8)
D. High Claims	(238.9)	(333.0)	(416.8)	(476.3)	(468.7)
E. High Admin.	(238.9)	(385.0)	(519.3)	(613.2)	(629.9)

* Includes JD 141,100 in pre-operating expenses

When investment income is considered (assuming identical initial capital of JD 3.5 million for each scenario), all result in yearly profits. The high volume scenario naturally shows substantially greater profits than the others on this basis.

TABLE 18

PROFIT (LOSS) WITH INVESTMENT INCOME*
FOR VARIOUS SCENARIOS OF FINANCIAL OPERATING PROJECTIONS
(In Thousands of Jordanian Dinars)

	Yr1	Yr2	Yr3	Yr4	Yr5
A. Most Likely	150.5	180.2	211.5	284.2	402.0
B. High Volume	175.7	236.4	300.6	466.8	727.5
C. Low Volume	137.8	152.2	167.0	193.0	239.2
D. High Claims	137.9	164.6	187.7	227.0	313.6
E. High Admin.	87.1	106.9	127.1	178.6	272.1

* Assumes initial paid-in capital of JD 3.5 million, less JD 141,100 in pre-operating expenses

On a cumulative basis, net profits (including investment income) in the low volume, high claims and high administrative expenses scenario remain negative through the five year period. In fact under the low volume and the high administrative scenarios the cumulative deficits continue to grow through the fifth year. Only the most likely and the high volume scenarios reach cumulative profitability in the first five years of operation (in the fifth and third years respectively). In the next section of this report, variations are made in the capital levels to cover required reserves relative to the volume of business. The high volume scenario necessitates a higher level of reserves, and consequently a higher initial capitalization.

TABLE 19

CUMULATIVE SURPLUS WITH INVESTMENT INCOME FOR VARIOUS SCENARIOS OF FINANCIAL OPERATING PROJECTIONS
(In Thousands of Jordanian Dinars)

	Yr1	Yr2	Yr3	Yr4	Yr5
A. Most Likely	9.4	(58.7)	(107.4)	(97.6)	12.1
B. High Volume	10.3	(2.5)	34.0	217.3	633.6
C. Low Volume	8.9	(86.7)	(178.0)	(254.8)	(298.3)
D. High Claims	8.9	(74.3)	(145.3)	(189.8)	(162.7)
E. High Admin.	7.1	(132.0)	(257.3)	(340.7)	(341.1)

VIII. CAPITAL AND RESERVE REQUIREMENTS

As noted in the previous section of this Report, an initial capital of JD 3.5 million would be sufficient to meet the requirements for the five first years of operation, after which the export credit agency would operate profitably.

As has been discussed in the ownership and risk-sharing section of this report, it will be important that capital be paid-in at the onset. The capital will be needed to both pay start-up costs and also to be invested so that the income can support the capital/reserve position. Also, it has been the experience of export credit insurers that "callable capital" often is not easily forthcoming when it is needed to pay claims. Contributors are naturally reluctant to participate when problems exist. The United States is a notable example where after calls on capital were made on the private sector insurance company holders of "callable capital" in FCIA, they withdrew as risk participants and now act only as agents for the Export-Import Bank.

Consistent with the operating projections, the capital and reserve requirement projections assume that 20% of business is guarantees and the remainder insurance. The amount at risk at any one time is assumed to be a maximum of one third of the guarantee volume (average length of loan 120 days or less) and one quarter of the insurance volume (average sales term of 90 days). Shorter terms are assumed for insurance which covers post-shipment financing to the foreign buyer versus guarantees which cover pre-shipment financing to the Jordanian exporter. The average terms suggested are similar to those currently extended, except for the case of Iraq where terms up to two years are granted. The maximum contingent liability that the export credit guarantee and insurance agency would cover is 75% of the guaranteed loans and 90% of the value of the insured exports, as is proposed in the Export Credit Guarantee and Insurance Program section of the Report.

Capital and reserves required are one fifth of the maximum contingent liability, which assumes that a 5:1 ratio of maximum liability to reserves is acceptable. This conservative ratio is consistent with the practice of several export credit guarantee and insurance agencies including Malaysia and Singapore, as well as the IAIGC in Kuwait.

Table 15 summarizes the capital and reserve requirements.

TABLE 20

CAPITAL AND RESERVE REQUIREMENTS
(In JD millions)

	Yr1	Yr2	Yr3	Yr4	Yr5
Guaranteed Exp.	1.7	2.8	4.1	9.2	15.3
Insured Exports	6.7	11.2	16.6	36.8	61.0
Total Exports Gt'd/Insured	**8.4**	**13.9**	**20.6**	**46.1**	**76.3**
Amount Insured Exports at Risk (Max. Outstanding)					
Guarantees(1:3)	0.6	0.9	1.4	3.1	5.1
Insurance (1:4)	1.7	2.8	4.2	9.2	15.3
Total Amount. at Risk	**2.3**	**3.7**	**5.6**	**12.3**	**20.4**
Maximum Contingent Liability (Max. Insured Amount Outstanding)					
Guarantees(75%)	0.5	0.7	1.1	2.3	3.8
Insurance (90%)	1.5	2.5	3.8	8.3	13.8
Total Max.Contingent Liability	**2.0**	**3.2**	**4.9**	**10.6**	**17.6**
Capital & Reserves Required (5:1)	**0.4**	**0.6**	**1.0**	**2.1**	**3.5**
Available Capital & Reserves	**3.5**	**3.7**	**4.0**	**4.3**	**4.7**

As the above Table shows, initial capitalization at JD 3.5 million is sufficient to meet the needs of the export credit guarantee and insurance organization under the most likely scenario.

Table 21 indicates the required capital and reserves under the five scenarios presented in the Financial Operating Projections section of this report. Table 22 shows available capital and reserves assuming the same JD 3.5 million capitalization for all five scenarios.

TABLE 21

CAPITAL & RESERVES REQUIRED
FOR VARIOUS SCENARIOS OF FINANCIAL OPERATING PROJECTIONS
(In Millions of Jordanian Dinars)

	Yr1	Yr2	Yr3	Yr4	Yr5
A. Most Likely	0.4	0.6	1.0	2.1	3.5
B. High Volume	0.8	1.3	1.9	4.2	7.0
C. Low Volume	0.2	0.3	0.5	1.0	1.8
D. High Claims	0.4	0.6	1.0	2.1	3.5
E. High Admin.	0.4	0.6	1.0	2.1	3.5

By comparing Tables 21 and 22, it can be determined whether or not capital and reserves are adequate.

TABLE 22

AVAILABLE CAPITAL & RESERVES*
FOR VARIOUS SCENARIOS OF FINANCIAL OPERATING PROJECTIONS
(In Thousands of Jordanian Dinars)

	Yr1	Yr2	Yr3	Yr4	Yr5
Initial Capital of JD 3.5 million					
A. Most Likely	3.5	3.7	3.9	4.2	4.6
B. High Volume	3.5	3.8	4.1	4.5	5.3
C. Low Volume	3.5	3.6	3.8	4.0	4.2
D. High Claims	3.5	3.7	3.8	4.1	4.4
E. High Admin.	3.4	3.6	3.7	3.9	4.1
Initial Capital of JD 5 million					
B. High Volume	5.1	5.5	5.9	6.5	7.4
Initial Capital of JD 2 million					
C. Low Volume	1.9	1.9	2.0	2.0	2.1

* Includes JD 141,100 in pre-operating expenses.

Both the High Claims and the High Administrative Scenarios require the same level of capital and reserves as the Most Likely Scenario. JD 3.5 million is adequate capitalization to meet the needs for the first five years of operation under these three scenarios.

Under the High Volume Scenario, JD 3.5 million is not adequate. A higher level of JD 5 million in capital would be sufficient. Even if the volume of exports supported under the high volume scenario were somewhat lower, this additional capital could provide a cushion in the event claims and/or administrative expenses were higher than projected.

For the Low Volume Scenario, capital requirements total only JD 2 million. This lower level of capitalization would be covering a very small amount of business, would result in cumulative deficits increasing beyond the first five years of operation, and would not allow for much growth beyond five years.

In addition to maintaining a maximum 5:1 ratio of outstanding contingent liabilities (insurance and guarantees) to capital and reserves, the export credit guarantee and insurance agency should restrict exposure in particular markets. Initially it would probably be prudent to limit exposure to a single country to 10-15% of the total amount outstanding, or such limits could apply to all countries classified as "C" or "D" markets.. Such limits can be adjusted as experience is gained, reserves are built up and the destination of covered exports changes. The exact limits for managing exposure require more refinement than is possible at this stage of a feasibility study. It should, however, be kept in mind that managing the composition of the portfolio and outstandings relative to the capital and reserve position of the organization are a fundamental aspect of running a successful export credit guarantee and insurance corporation.

Also, as has been noted previously, re-insurance possibilities should be explored. Reinsurance that is obtained at an appropriate price can increase the agency's ability to support exports without the need for additional capital resources. Reinsurance for a new organization cannot be expected to be easy to obtain. The IAIGC and regional re-insurance organizations as well as European reinsurers should be approached for reinsurance possibilities.

Previously in the Report, the possibility of incorporating Islamic banking principles as part of the agency's activities was mentioned. The feasibility of doing so should be investigated. In particular, cooperation with the Islamic Development Bank, the Jordan Islamic Bank and other similar organizations should be explored. When the Islamic Development Bank begins operating its Islamic guarantee facility, perhaps the agency could handle all Islamic guarantee operations on behalf of the Islamic Development Bank, and thereby assist Jordanian firms to gain access to this scheme.

In many countries, the national export credit guarantee and insurance organization manages a "national interest account" on behalf of the government. This covers sales to markets that the export credit organization thinks cannot be covered, but on the basis of the overall benefit to the economy, the government feels that sales should be supported. Sales of commodities on terms of more than one year to some of the least developed countries may fall in this category. Other than for phosphates, potash and fertilizers, no products would seem to be sold in sufficient quantity to developing countries outside the region. For countries in the region, it is questionable whether the Jordanian Government should go to great lengths to facilitate extension of credit in the region, particularly since it already facilitates trade to Iraq through the CBJ export credit discount program, and deals with some payment problems through trade protocols, and no doubt some trade with these countries will be insured by the export credit guarantee and insurance corporation.

IX. IMPLEMENTATION TIMETABLE, AND MARKETING PROGRAM

A. Implementation Timetable

The following is a summary of key steps to basic implementation through start-up. Three Phases are noted: (1) Approval and Legal Establishment of Corporation; (2) Set-up of Operations, Development of Policies and Procedures, Training, and Preliminary Marketing (3) Commence Operations and Complete Program and Operational Development

Phase I: Approval and Legal Establishment of Corporation
(6 MONTHS)

Presentation of USAID Report to Central Bank
Decision by Government to Proceed

Formation of Working Committee or Joint Committee of Public/Private Sector as Founders Group
(e.g.CBJ, MOF, Specific Banks/Insurance Cos.)

Determine Share-Holding & Risk-Sharing Structure
Draft Legislation, & Articles of Incorporation

Contract for Technical Assistance

Approve Legislation

Convene Potential Shareholders
Obtain Preliminary Commitments from Shareholders

Search for Managing Director

Appoint Managing Director
Purchase Shares, by Government/Private Companies
Pay-in Capital Contributions

Convene Board of Directors
Conclude Agreements with Government

Phase II: Set-up of Operations, Development of Policies and Procedures, Training, and Preliminary Marketing

(12 MONTHS)

Obtain Office Space, Furniture/Fixtures, Equipment

Hire Key Staff

Review and Analysis of Previous Studies, Evaluation of Current Situation and Preparation of Detailed Implementation Plan

Draft Policies, Forms
Draft Manuals, Handbooks

Make Arrangement for Credit Information

Prepare reserving, investment policies

Prepare Marketing Plan
Prepare Marketing Materials

Design Accounting, and Computer systems

Begin Training of Key Staff at Other Agencies

Conduct Mail, Seminar, Calling Pre-Marketing Campaign

Phase III: Commence Operations and Complete Program and Operational Development (9 MONTHS)

Commence Operation

Conduct Intensive Marketing Campaign

Establish Contacts with Berne Union

Explore Reinsurance Possibilities

Continue Staff Training Abroad and in Jordan

Complete Computer Design

Complete Procedures for Claims, Recoveries

Design Additional Policies

B. Marketing Plan

As has been repeatedly stated in the Report, marketing is absolutely essential to success of export credit guarantee and insurance programs. Sufficient volume must be guaranteed and insured to generate premium income sufficient to cover operating expenses and contribute to reserves for claims. Export credit guarantees and insurance are not well known in Jordan, and both exporters and bankers will need to be educated as to the benefits of these programs. Implementing a Marketing Plan in Jordan is easier than in many countries due to the concentration of companies in and around Amman and the small size of the country.

It will be essential to convince the bankers to utilize the programs and to urge their clients to use them. Therefore, one of the first tasks should be to establish contact with the bankers and hold seminars to familiarize them with the programs.

Another key aspect to marketing export credit insurance is to make direct calls. Media and seminars make people aware of the programs, but do not by themselves sell policies. Most exporters are reluctant to disclose much about their needs, problems and business activities in a public forum. Direct calls are necessary to get policies in force and premium/fees collected. The best publicity is informing exporters that claims have been paid. The following are the basic steps for a marketing effort:

- Identify exporting companies, and potential exporters
- Target key prospects
- Prepare marketing material for exporters and banks
- Schedule and plan seminar series for exporters and separate seminar series for bankers
- Publicize seminars and programs in media, invite targeted exporters and bankers by mail and in-person calls
- Hold seminars
- Mass mailing to exporters
- Calling campaign on targeted exporters
- Continue calls and follow-ups
- Publicize initial policies, and especially first claims that are paid

X. TECHNICAL ASSISTANCE AND TRAINING

A. Technical Assistance

In order to insure that the export credit guarantee and insurance agency to serve Jordanian exporters' needs is established and continues to operate on a sound basis, it will be necessary for external technical assistance to be provided to help design policies, procedures and operating systems, as well as to train personnel to administer the fund. This section of the report recommends a technical assistance program addressing the areas to be covered, the types of assistance required, and the time-frame for providing assistance.

Export credit guarantees and insurance is a highly specialized field. The CBJ, commercial banks and insurance companies appear to agree that expertise in this area is not currently available in Jordan and that this expertise will need to be developed to operate the export credit guaranty and insurance agency as a financially viable scheme that promotes expansion of exports from Jordan.

Assistance is proposed specifically in the areas of development of specific guarantee and insurance policies, portfolio structuring, premium and reserving strategies, credit investigation techniques, policy administration, claims and recovery procedures, marketing programs, manpower planning and staff training, and accounting/management information systems. It will be particularly important to assure that sound portfolio structuring and underwriting principles are applied so as to have a balanced pool of risks, that will stimulate export expansion while maintaining an acceptable level of risk for the agency. Also critical will be the establishment of appropriate levels of premiums and fees, as well as adequate capitalization and appropriate reserving policies, and exploring of re-insurance options, so as to assure the viable financial operation of the agency.

A two year program of assistance is suggested, with the technical assistance starting mid-way through Phase I, becoming most extensive during the establishment period (Phase II), and continuing for at least the first six months after the corporation begins operation. The program includes a full time advisor for two years. This person should have had extensive experience as an executive with a successful export credit guarantee/insurance organization. Second, nine person-months of short term assistance by different experts will provide highly specialized advice on various technical aspects of program operation. The short term assistance will be concentrated in the first year under the technical assistance contract when the details of the operation, policies and procedures are being developed and the agency begins operation. Several short term experts as a team might provide assistance at the same time before start up. Training for management and staff of the agency at other successful guarantee and insurance organizations, as well as at relevant courses abroad, will complete the technical assistance effort. This training will occur primarily prior to the agency commencing operation.

The cost of the technical assistance program is estimated to be US$738,000 over the two year period, including US$638,000 for consultant services and related expenses, and US$100,000 for staff training. If procurement of some equipment and materials can be included, a further US$110,000 would be needed, for at total of US$848,000.

USAID has expressed interest in funding the technical assistance for the export credit guarantee and insurance agency in Jordan. The World Bank has indicated that if the agency goes forward, it will be considered an integral part of its assistance to the GOJ's export-oriented development strategy, by promoting additional policy and institutional measures, such as the export credit guarantee and insurance agency, but no direct funding is contemplated.

To assure that the technical assistance program is effectively implemented, it is suggested that a firm be selected to provide these services. A firm will be best able to coordinate all aspects, select qualified experts and assure that the assistance is provided when it is needed. The firm/organization that implements the technical assistance program should have extensive experience with developing and administering such schemes, provide experts that have hands-on experience, and have consulting experience in developing economies.

The firm would be chosen through standard proposal and bidding procedures utilized by the organization which funds the technical assistance. Draft terms of reference for the technical aspects of the assistance program are laid out at the end of this section of the report.

When the GOJ decides to go forward with the export credit insurance and guarantee agency, it will be important to recognize that technical assistance is required prior to starting operation, and indeed very early on in the process of establishment. For example, as mentioned above, having a well designed, flexible legal statute and structure is critical to long term success of the institution, and several of these programs have floundered with inadequate and inappropriate legislative mandates. Thus, it will be important to proceed quickly with choosing and funding of the technical assistance. However, for the technical assistance to be effective, it should not start until commitments have been made by the GOJ, including the government's provisions for initial funding have occurred, agreement in principle by potential shareholders has been obtained, and a specific timetable for recruiting top management and providing office facilities has been set. It must be clear that all parties intend to proceed with implementation and are committed to moving forward. The technical assistance should continue throughout the period of setting up operations, development of policies and procedures, training and preliminary marketing, and on through the commencement of operations and complete program and operational development.

Components of the Technical Assistance to the Export Credit Guarantee and Insurance Agency

The technical assistance would cover the following areas mentioned below. All activities will emphasize transfer of knowledge to and development of the export credit guarantee and insurance agency's management and staff.

- Review and analysis of government export policy, structure of exports, previous studies, access to export finance and export finance problems of exporters, to ascertain and confirm the need for specific insurance and guarantee coverage. Using knowledge of such schemes in other countries, the review will serve as the base for detailed implementation of the export credit guaranty and insurance agency.

- Assist in preparing an action plan for pre-shipment guarantee and post-shipment insurance/guarantee system. The action plan would include basic design of these programs concentrating on the main functions and a statement of general policies and procedures for each program.

- Risk-Pooling

  - Prepare coverage, premium and reserve guidelines that maximize program attractiveness and assure financial soundness. The objectives of these recommendations will be to assist as many exporters as possible, spread risks equitably and achieve a balanced book of business. Particular attention is given to various collateralization and collection possibilities between pre-shipment guarantees and post-shipment guarantees/insurance.

  - Explore reinsurance, both domestic and international options, to reduce export credit guarantee and insurance agency risk exposure and increase capacity to provide guarantees and insurance with given available resources.

  - Establish contacts with Berne Union, to obtain additional sources of information and technical cooperation.

o <u>Credit Investigation and Underwriting</u>

- Prepare policy forms including legal guarantee and insurance instruments, applications and approvals.

- Prepare underwriting guidelines, including an internal operating manual for analysis of both pre-shipment guarantees and post-shipment guarantees/insurance.

- Assist in arranging sources of credit information, both internationally and domestically.

o <u>Policy Administration</u>

- Prepare policy administration guidelines, including an operating manual covering administrative procedures, payment of fees and premiums, accounting, reporting, budgeting, monitoring, auditing and evaluation.

- Prepare forms for reporting by policy holders of collateral, shipments, premiums, etc. Prepare internal forms required for accounting, treasury and management information systems.

- Assist in evaluating, designing and installation of computerized systems to handle premium and fee calculation, preparation of financial statements,etc.

o <u>Claims and Recoveries</u>

- Prepare claims and recoveries guidelines for the internal operating manual covering general principles, role of attorneys and collection agents, use of collateral, etc.

- Prepare forms including notices of default, requests for claims payments, notices of recoveries.

- Assist in arranging external and domestic recovery mechanisms.

o <u>Manpower Planning and Staff Training</u>

- Advise on personnel selection, personnel needs, position descriptions.

- Analyze requirements and prepare training plan, including on-the-job instruction, formal training courses, and visits to export credit guarantee/insurance organizations.

- Assist in arranging external training.

o <u>Accounting/Management Information Systems</u>

- Help prepare accounting system, either manual or computerized as needed.

- Analyze needs for management information systems (MIS), and prepare and implement an MIS plan.

o <u>Marketing</u>

- Prepare marketing plan, including strategies to interest trade associations, banks, press, etc.

- Design marketing materials such as handbooks for exporters and banks, audio-visual materials for seminars, workshops, etc.

- Organize and conduct marketing seminars.

- Prepare plan, organize and implement training program for exporters on mechanics of export credit guarantee and insurance.

(Optional Component)

o <u>Materials and Equipment Procurement</u>

- Purchase of mini-computer hardware, software and peripherals.

- Printing of marketing material, advertisements, etc.

- Purchase of automobile for calling program to exporters, bankers and other business activities.

Cost of Technical Assistance Program

Estimates of the cost of the technical assistance program are shown below.

Professional Services	Person-Months	Cost
Long-Term Advisor in Guarantees and Insurance Management	24	$ 400,000
Short-Term Advisors (1-2 months each)		
- Guarantee/Insurance Policy Specialist		
- Credit/Underwriting Specialist		
- Claims and Recovery Specialist		
- Manpower Planning/Training Specialist		
- Accounting Specialist		
- Marketing Specialist		
- Information Systems Specialist		
- Technical Assistance Specialist		
Total-Short Term	9	$ 150,000
Total Professional Services	33	$ 550,000
Reimbursable Expenses		
- Travel (International)		$ 30,000
- Local per diem, travel		$ 43,000
- Telephone, telex, fax, translation, etc.		$ 15,000
Total Reimbursables		$ 88,000
Management Training		
- Training at export credit organizations		$ 30,000
- University and technical school courses		$ 60,000
- Instructional and reference materials		$ 10,000
Total Management Training		$ 100,000
Total Technical Assistance		**$ 738,000**
(Optional Component)		
Procurement		
- Computer, peripherals, software		$ 55,000
- Printing, Advertising, etc.		$ 22,000
- Vehicle		$ 33,000
Total Procurement		$ 110,000
Total Technical Assistance and Procurement		**$ 848,000**

B. Training Program

Several types of training will be required to establish a fully functioning export credit guarantee and insurance organization.

The General Manager and key Department Managers should spend several weeks with various export credit agencies to obtain practical experience with the operations of successful organizations. This training should be phased, but concentrated in Phase II when programs, policies, procedures, etc., are being established. As part of the Technical Assistance, these visits with other export credit agencies will be arranged and coordinated. It is estimated that four people will be trained at other export credit agencies for periods of approximately 4-6 weeks each.

In addition, university level specialized courses in trade finance, financial analysis will be arranged, particularly for the underwriting department. This will be phased over 2-3 years, since it requires that staff be away from the organization for several months.

Seminar courses in specific aspects of export credit institution management can be tailored to the needs of the Jordanian Corporation or combined with participants from other agencies, which provides the benefit of sharing experiences among practitioners in this specialized field. Such training would be expected to total about 4-6 weeks in total, with several people participating for one or two weeks each.

As part of the Technical Assistance, in-house training in credit analysis, and use of credit-scoring, MIS, accounting and other systems implemented at the Corporation will be provided. It is anticipated also that programs on selling techniques and effective presentations will be required to assist with the marketing effort.

Along with training, an informational requirement exists for reference materials on such topics as credit and country risk evaluation, trade finance, sources of credit information, directories of banks and companies. In addition, as the volume of business grows, access to various data bases, particularly for access to credit information, will be needed.

APPENDICES

A. LIST OF PERSONS CONTACTED

B. MAJOR JORDANIAN EXPORTS, 1983-87

C. DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS, 1985-1987

D. A SHORT TERM COMPREHENSIVE EXPORT CREDIT INSURANCE PROGRAM FOR JORDAN

E. AN EXPORT CREDIT GUARANTEE PROGRAM FOR JORDAN

F. TECHNICAL ASSISTANCE ON ESTABLISHMENT OF AN EXPORT CREDIT GUARANTEE AND INSURANCE CORPORATION IN JORDAN: EVALUATION CRITERIA AND TERMS OF REFERENCE

APPENDIX A

LIST OF PERSONS CONTACTED

Banks and Other Financial Institutions

Arab Jordan Investment Bank, S.A.
  M.J. Qassim, Assistant Deputy General Manager, Finance
Finance & Credit Corporation
  Dr. Maher Shukri, Managing Director
Citibank, N.A.
  Yazid A. Mufti
Jordan Islamic Bank
  Mousa A. Shihadeh, General Manager
Arab Bank, Ltd.
  Munzer Fahoum, Assistant General Manager
Jordan Kuwait Bank
  Radwan Darwish, Deputy General Manager
Middle East Insurance Co.
  Sami Gammoh, Vice Chairman General Manager
  Jamal E. Madbak, Manager, Reinsurance Dept.
Jordan Investment & Finance Corp.
  Sameh Faraj, Assistant General, Manager
Jordan-Gulf Insurance Co., Ltd
  Ibrahim Al Ayed, Chairman & Managing Director
Bank of Jordan
  Bassam Atari, General Manager
  Mohammad Anwar [illegible]leh, Credit Manager
  Ziad F. Ifram, Manager Planning & Development
Cairo Amman Bank
  Samir Y. Mansour, Manager, Main Branch
Industrial Development Bank
  Rajab S. As-Saad, Deputy General Manager

Trade Associations

Jordan Commercial Centers Corporation (JCCC)
  Ghazi J. Diab, General Manager
Jordan Trade Association
  Halim F. Abu-Rahmeh, Executive Manager
Amman Chamber of Industry
  Khaldun A. Abu-Hassan, Chairman
  Ali T. Dajani, Advisor
Federation of Jordanian Chambers of Commerce
  Mohammad M. Asfour, Chairman
  Amin Y. Husseini, Secretary General

<u>Exporters</u>

Aladdin Industries Co. Limited-Jordan
    Kamal Kakish, Managing Director
Arab Electrical Industries
    Mansour E. Ghishan, Managing Director
Arab Potash Company
    Ali Yousef Ensour, Managing Director
    Dr. Wanas Hindawi, Marketing Manager
    Jafer M. Salem, Marketing, Europe-Africa & the Americas
Jordan Clothing Co.
    Jad K. Makdah, Managing Director
Bitarco
    Jamal M. T. Bitar, General Manager
Arab Center for Pharmaceuticals and Chemicals
    Ph. Adnan A. Faraj, Managing Director
Arab Pharmaceutical Manufacturing Co, Ltd
    Dr. Ma'an Shuqair, General Manager
Khalifeh Industrial Company
    A. F. Khalifeh, President
Jordan Industrial Investments Corp.
    Dr. Zarif Baradi, Assistant General Manager
Eagle Clothing Co.
    Abu Taha, Managing Director
World of Plastic
    Hamlim R. Abdin, Managing Director
Jordan-Kuwait Company for Agriculture and Food Products
    Hani K. Hunaidi, General Manager
Global Carpet & Rug Industries
    Abdulla Warrayat, General Manager
Adnan Sha'lan and Company, and Sha'lan & Khadra Co.
    Fawaz Sha'lan, General Manager and Director
Jordan Minerals Establishment "Rafiq Burghli & Co."
    Ahmad Fawaz, Manager
Specialized Furniture Est.
    Omar Ma'ani, General Manager
ServiceMaster Middle East
    Tuma C. Yaghnam, President, Middle East
Masar Engineering, Ltd.
    Sameh Saifi, Managing Partner
Jouzy and Partners Consultants
    Neddy Jouzy

Government of Jordan

Central Bank of Jordan
- Dr. Mohammad Hourani, Deputy Governor
- Dr. Michel I. Marto, Deputy Governor
- Dr. Jamal Salah, Director, Research and Studies Department
- Jalil F. Bdaiwi, Assistant Director, Research & Studies Dept.
- Othman S. Salameh, Senior Economist, Research & Studies Dept.
- Qasem Said al-Lubi, Islamic & Arab Economy Section, Research & Studies Dept.
- Zayyan Zawaneh

Ministry of Trade and Industry
- Mohammed Bani-Hani, Director of Industry
- Asem Al Hindawi, Director of Economic Cooperation
- Loay Saleh Mismar, Company Registrations

Ministry of Planning
- Dr. Rima Khalaf
- Eyad Jamal Kodah, Economic Researcher

International Assistance Organizations

International Trade Center (ITC), UNCTAD/GATT
- Alex Koupparis, Senior Trade Promotion Adviser and Project Co-ordinator, Export Development Project/Amman

United States Agency for International Development (USAID)

Lewis P. Reade, Director, USAID, Amman
Richard E. Rousseau, Project Officer, USAID, Amman
James E. Dempsey, USAID, Amman
Khalid A. Al-Naif, Senior Consultant

TABLE 1

APPENDIX B

MAJOR JORDANIAN EXPORTS, 1982-1987
($ Millions)

Commodity:	1982	1983	1984	1985	1986	1987
TOTAL Domestic Exports	526.8	441.1	679.8	648.2	644.8	734.5
MINERAL INDUSTRY EXPORTS	185.9	206.3	352.8	347.4	376.4	398.5
Phosphate Rock	162.1	142.2	181.2	157.8	185.2	180.1
Chemical Fertilizers	14.2	59.2	114.6	77.7	82.9	89.2
Crude Potassium Salts	0.6	0.3	38.8	78.4	99.8	82.7
Black Cement	0.0	0.0	7.6	15.2	7.7	30.7
Inorg Chemicals (carbonates, silicates)	3.1	3.3	8.3	4.1	8.0	14.8
Other minerals, Marble, Building Stone	6.0	1.4	2.3	4.3	4.9	1.2
MANUFACTURED EXPORTS	192.7	110.3	186.7	174.1	123.5	193.7
Pharmaceuticals	24.4	23.4	29.9	36.3	44.0	54.9
Plastics and products thereof	19.6	15.7	21.1	14.5	16.6	35.4
Iron/Steel Manufactures	25.5	6.3	13.6	13.5	13.4	17.7
Wool	1.7	0.0	3.6	18.3	3.4	16.2
Cotton	2.6	5.0	8.1	6.6	4.0	14.8
Paper products	8.5	5.0	7.3	9.6	9.1	14.8
Soap, Detergents, Polishes	10.8	5.2	14.6	4.1	11.7	11.2
Articles of wood, doors	14.8	8.5	21.9	22.3	3.4	4.1
Clothing	17.3	6.9	32.5	29.2	2.3	3.8
Stone, Asbestos Articles	13.1	13.2	11.5	5.8	4.0	3.8
Varnishes, Tanning, Dying Chem, Paints	6.8	7.2	5.5	3.8	0.9	3.5
Aluminium manufactures	2.6	2.5	4.4	2.0	2.5	3.2
Electrical Machinery & Goods	1.1	0.6	0.3	0.8	1.7	3.2
Boilers, machinery, appliances	5.7	2.2	2.5	3.0	1.7	2.7
Glass/glassware	3.4	1.9	3.9	0.8	1.4	2.4
Furniture	20.2	2.2	2.6	1.8	2.3	0.9
Leather goods	7.7	0.3	0.3	0.3	0.3	0.6
Ceramic products	7.1	2.5	2.9	1.5	0.6	0.3
AGRICULTURE & AGRIBUSINESS EXPORTS	103.9	88.7	103.4	91.4	107.5	86.5
Vegetables	49.7	45.7	45.6	39.6	34.6	40.1
Fruit	26.4	19.8	21.1	18.5	24.0	15.4
Dairy Products, Eggs	0.9	7.2	3.9	8.4	5.1	12.3
Tobacco	13.9	9.6	10.4	4.3	3.7	8.9
Animal fodders, oil cakes	2.6	1.1	18.2	17.3	35.7	5.0
Processed fruit/veg. products	6.2	4.1	3.4	2.8	4.0	3.5
Beverages	4.3	1.1	0.6	0.5	0.3	0.3
ALL OTHER EXPORTS	44.3	35.5	37.0	35.3	35.4	55.8

Commodity:	Individual Commodity Exports as % Total 1982	1983	1984	1985	1986	1987
TOTAL Domestic Exports	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
MINERAL INDUSTRY EXPORTS	35.3%	46.8%	51.9%	53.6%	58.7%	54.3%
Phosphate Rock	30.8%	32.2%	26.7%	25.9%	28.7%	24.5%
Chemical Fertilizers	2.7%	13.4%	16.9%	12.0%	12.9%	12.1%
Crude Potassium Salts	0.1%	0.1%	5.7%	12.1%	13.9%	11.3%
Black Cement	0.0%	0.0%	1.1%	2.3%	1.2%	4.2%
Inorg Chemicals (carbonates, silicates)	0.6%	0.7%	1.2%	0.6%	1.2%	2.0%
Other minerals, Marble, Building Stone	1.1%	0.3%	0.3%	0.7%	0.8%	0.2%
MANUFACTURED EXPORTS	36.6%	25.0%	27.5%	26.9%	19.1%	26.4%
Pharmaceuticals	4.6%	5.3%	4.4%	5.6%	6.8%	7.5%
Plastics and products thereof	3.7%	3.6%	3.1%	2.2%	2.6%	4.8%
Iron/Steel Manufactures	4.8%	1.9%	2.0%	2.1%	2.1%	2.4%
Wool	0.3%	0.0%	0.5%	2.8%	0.5%	2.2%
Cotton	0.5%	1.1%	1.2%	1.0%	0.6%	2.0%
Paper products	1.6%	1.1%	1.1%	1.5%	1.4%	2.0%
Soap, Detergents, Polishes	2.0%	1.2%	2.1%	0.6%	1.8%	1.5%
Articles of wood, doors	2.8%	1.9%	3.2%	3.4%	0.5%	0.6%
Clothing	3.3%	1.6%	4.8%	4.5%	0.4%	0.5%
Stone, Asbestos Articles	2.5%	3.0%	1.7%	0.9%	0.6%	0.5%
Varnishes, Tanning, Dying Chem, Paints	1.3%	1.6%	0.8%	0.6%	0.1%	0.5%
Aluminium manufactures	0.5%	0.6%	0.7%	0.3%	0.4%	0.4%
Electrical Machinery & Goods	0.2%	0.1%	0.0%	0.1%	0.3%	0.4%
Boilers, machinery, appliances	1.1%	0.5%	0.4%	0.5%	0.3%	0.4%
Glass/glassware	0.6%	0.4%	0.6%	0.1%	0.2%	0.3%
Furniture	3.8%	0.5%	0.4%	0.3%	0.4%	0.1%
Leather goods	1.5%	0.1%	0.0%	0.0%	0.0%	0.1%
Ceramic products	1.3%	0.6%	0.4%	0.2%	0.1%	0.0%
AGRICULTURE & AGRIBUSINESS EXPORTS	19.7%	20.1%	15.2%	14.1%	16.7%	11.8%
Vegetables	9.4%	10.4%	6.7%	6.1%	5.4%	5.5%
Fruit	5.0%	4.5%	3.1%	2.9%	3.7%	2.1%
Dairy Products, Eggs	0.2%	1.6%	0.6%	1.3%	0.8%	1.3%
Tobacco	2.6%	2.2%	1.5%	0.7%	0.6%	1.2%
Animal fodders, oil cakes	0.5%	0.2%	2.7%	2.7%	5.5%	0.7%
Processed fruit/veg. products	1.2%	0.9%	0.5%	0.4%	0.6%	0.5%
Beverages	0.8%	0.2%	0.1%	0.1%	0.0%	0.0%
ALL OTHER EXPORTS	8.4%	8.1%	5.4%	5.4%	5.5%	7.5%

Source: GOJ Statistics and USAID

TABLE 3

DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
24/2/B	CIGARETTES	TOTAL	519.4	1,715.8	313.2	1,297.1	1,134.3	3,016.6
		TANZANIA			0.6	2.5		
30/3/A/2	MEDICAMENTS	TOTAL	4,033.0	12,833.6	4,715.3	12,667.4	5,484.6	15,914.2
		LIBYA	1,183.9	537.9	236.3	800.1	372.8	825.8
		MOROCCO	0.5	6.0				
		SUDAN	15.0	93.1	17.4	155.7	85.2	287.8
		GABON		0.1				
		NIGER	0.8	9.0				
		NIGERIA	8.9	83.1			1.9	26.0
		CYPRUS	1.4	10.0	1.[illegible]	11.9	0.3	6.0
		ALGERIA			1.[illegible]	5.9	68.4	96.8
		TUNISIA			43.5	104.1	58.7	231.2
		TANZANIA			0.1	2.0		
		AUSTRIA			0.4	9.9		
		BELGIUM			1.8	7.6		
		CANADA			2.9	21.5		
30/3/B	VETERINARY MEDICAMENTS	TOTAL	394.2	1,464.2	812.0	2,735.9	1,174.6	2,719.2
		LIBYA					1.4	12.2
		SUDAN					0.2	0.2
31/2/I	MINERAL/CHEMICAL FERTILIZERS AZOTIC, OTHER THAN UNDER 31/2/A-H	TOTAL	37[illegible],452.3	30,534.1	417,293.0	28,934.5	422,783.3	29,854.8
		TURKEY	16,016.0	951.4				
		INDIA	230,781.3	18,920.0	176,390.0	11,259.5	10,140.0	547.2
		PAKISTAN	28,750.0	2,085.5			112,500.0	7,316.2
		MALAYSIA	3,300.0	253.4			10,150.0	659.8
		INDONESIA					10,481.0	572.9
		LAOS	3,150.0	241.9				
		CHINA	20,000.0	1,712.0	31,500.0	2,331.3	52,326.0	3,735.5
		TAIWAN	1,500.3	128.4				
		ITALY	14,985.0	1,250.4	80,379.0	5,429.9	88,839.2	6,542.6
		FRANCE	9,200.0	655.5	24,300.0	1,580.0	31,015.0	2,390.0
		ETHIOPIA			26,525.0	1,845.0		
		KENYA			5,000.0	345.0		
		RWANDA			4,600.0	469.3		
		AUSTRALIA			2,205.0	157.1		
		YUGOSLAVIA			800.0	164.0	7,284.4	703.8
		AUSTRIA			3,000.0	270.0		
		BELGIUM					11,883.0	722.0
		GERMANY, WEST					197.5	22.0

Source: GOJ Statistics and USAID

DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
		IRELAND					5,355.0	350.0
		ROMANIA					8,842.0	554.7
		GREECE					3,150.0	204.8
		USA					1,974.0	159.0
		NICARAGUA					16,500.0	1,072.5
32/9/B	VARNISHES, SHOE POLISHES, TANNING MATERIALS	TOTAL	2,788.0	1,332.7	658.1	242.7	1,821.6	1,145.2
		LIBYA					300.0	50.0
35/3/A	GELATIN AND DERIVATIVES	TOTAL	6.8	27.4	77.7	303.8	38.7	264.7
		CANADA	6.8	27.4	27.1	128.0	7.4	43.5
		USA			10.1	14.3	2.5	21.9
		CYPRUS					0.8	7.2
		UNITED KINGDOM					0.1	1.3
		GREECE					0.6	6.3
		ITALY					0.4	5.4
		PAKISTAN					0.2	2.0
36/6/A	MATCHES (GROSS)	TOTAL	1,000.0	70.0			19,672.1	1,008.6
		TUNISIA					145.6	10.3
37/7/A	EDUCATIONAL FILMS	TOTAL					0.0	19.5
		ALGERIA					0.0	19.5
38/11/B/5	DISINFECTANTS, INSECTICIDES	TOTAL	220.1	64.3	181.1	69.2	177.7	92.3
		TUNISIA			10.8	9.1		
38/18/B	SOLVENTS & THINNERS	TOTAL	23.3	13.0	293.7	103.0	56.6	13.5
		MOROCCO			50.4	15.0		
39/7/B	PLASTIC HOUSEHOLD ARTICLES	TOTAL	1,757.7	1,652.0	1,223.2	973.9	672.7	452.6
		TUNISIA					24.9	35.4
39/7/H/3	OTHER PLASTICS	TOTAL	3,124.3	2,623.9	268.7	237.9		
		UK	0.1					
		CANADA	0.5	4.0				
39/7/H/4	OTHER PLASTICS	TOTAL			2,433.1	1,998.0	4,126.9	2,479.4
		TUNISIA			6.8	11.2	46.2	51.3
		CYPRUS			16.2	12.7		
41/1/B	CALFSKIN	TOTAL					17.5	14.0
		TURKEY					17.5	14.0
41/1/C	GOAT SKINS & KID	TOTAL	534.4	184.7	401.0	192.5	344.7	226.9
		TURKEY	358.3	86.7	128.1	74.7	69.0	38.1
		[illegible]	[illegible]	[illegible]				

APPENDIX C
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DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
41/1/D	SHEEP/LAMB SKIN IN THE WOOL	TOTAL	1,066.1	261.8	692.5	316.7	883.9	604.8
		TURKEY	358.3	86.7	446.9	189.7	638.8	465.6
		ITALY	37.8	10.0				
		FRANCE	13.0	5.0				
		GERMANY					0.3	1.4
41/2/A	CALF LEATHER	TOTAL					23.1	15.9
		CYPRUS					23.1	15.9
41/3/A	SOFTENED LEATHER, SHEEP & LAMB	TOTAL	18.0	27.3			7.0	22.0
		TURKEY	18.0	27.3				
		ITALY					7.0	22.0
41/3/B	OTHER SHEEP/LAMB LEATHER	TOTAL			326.9	130.8		
		TURKEY			286.0	118.8		
41/4/B	GOAT AND KID LEATHER	TOTAL			36.0	10.8	72.2	65.3
		TURKEY					72.2	65.3
42/2/A	LEATHER TRAVEL GOODS	TOTAL	6.1	22.7			4.5	25.7
		TUNISIA					0.7	5.0
42/2/E	OTHER TRAVEL GOODS	TOTAL	23.5	65.3	88.8	83.1	93.1	124.5
		TUNISIA					15.5	41.8
		SIERRA LEONE AND SENEGAL					0.1	0.2
		GERMANY					0.2	0.4
44/27/B	TOILET ARTICLES/WOOD DECOR.	TOTAL			0.7	14.0		
		TUNISIA			0.7	14.0		
44/28/D	OTHER WOOD ARTICLES	TOTAL			11.2	6.1		
		TUNISIA			5.3	3.0		
		UK			0.3	0.5		
48/10/B	CIGARETTE PAPER	TOTAL			7.8	10.9	7.2	9.0
		TURKEY			7.3	9.5	7.2	9.0
48/15/B	GLUE SHEETS/ROLLS OF PAPER	TOTAL	15.9	29.6	29.3	35.7		
		TUNISIA	9.9	8.4				
48/18/B	NOTE BOOKS	TOTAL					542.5	274.6
		SUDAN					0.2	0.1
48/21/D	SANITARY TOWELS OF PAPER	TOTAL	177.8	107.6	298.6	190.6	538.6	318.9
		MOROCCO			15.9	20.0	22.0	27.4
		TUNISIA			47.5	50.1		

DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
49/1	PRINTED MATERIALS	TOTAL	400.4	346.0	280.9	241.8	296.2	222.3
		SUDAN	0.4	0.5			1.6	2.6
		TUNISIA	1.7	1.0	0.6	0.8	2.8	3.1
		SIERRA LEONE & SENEGAL	0.5	0.3				
		TURKEY	1.0	1.0	3.6	9.8		
		UK	1.9	2.0				
		GERMANY, FDR	2.2	1.9	0.5	0.1		
		USA	7.0	9.0				
		FRANCE			3.3	3.3	0.2	0.3
		SWITZERLAND			0.6	0.5	0.7	1.0
		ALGERIA					3.6	2.3
		LIBYAN ARAB REPUBLIC					0.2	0.3
		MOROCCO					1.8	2.7
		SOMALIA					0.8	1.3
		MAURITANIA					0.5	0.9
		INDIA					0.5	1.1
49/11/A	PRINTED MATERIALS FOR PUBLICITY AND ADVERTISING	TOTAL			0.2	11.8		
		ALGERIA				9.1		
		UK				0.3		
51/4/A	WOVEN MANMADE FABRICS	TOTAL	21.6	28.1	64.3	107.7	44.1	81.6
		HUNGARY			2.7	2.0		
		TUNISIA					3.5	4.0
		UNITED STATES					0.2	0.3
58/2/B	OTHER THAN CARPET	TOTAL			526.7	509.7	169.8	310.3
		ALGERIA			500.0	344.8		
		TUNISIA			12.4	64.0	20.5	88.4
		DENMARK			0.1	0.1		
61/1/C	MEN & BOYS, COTTON OUTER GARMENTS	TOTAL	170.1	775.2	7.5	18.8		
		USA			1.0	5.9		
61/1/F	MEN & BOYS OTHER OUTER GARMENTS	TOTAL	996.8	5,159.1	14.3	36.0	109.6	298.4
		TUNISIA					10.4	30.4
		GERMANY	0.6	5.0	0.1	0.7	0.2	0.8
		NETHERLANDS					0.5	4.1
		UNITED STATES					2.3	6.9

DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
73/3	IRON/STEEL SCRAP	TOTAL	2,919.5	67.4	1,871.5	64.6	389.2	36.3
		TURKEY					12.6	2.7
		INDIA					50.0	2.5
		ROMANIA					17.0	1.1
		GREECE	1.0	0.1				
		UNITED KINGDOM			25.0	2.5		
		JAPAN	2,720.5	40.4	1,600.0	50.0		
73/10/C	IRON & STEEL RODS	TOTAL					53.0	21.0
		SUDAN					2.4	0.5
73/13/B	IRON & STEEL SHEETS	TOTAL	84.2	36.8	248.0	118.8	80.8	30.1
		LIBYA					40.8	20.0
73/24	COMPRESSED GAS CYLINDERS	TOTAL	733.2	138.8	474.5	204.3	1,144.5	482.0
		TURKEY			21.0	6.0		
73/36/B	COOKERS	TOTAL	358.2	523.8	1,268.3	1,707.5	1,764.7	2,195.0
		TUNISIA	9.6	18.0	9.5	11.0		
73/36/C/1	GAS SPACE HEATER	TOTAL	85.6	269.3	33.4	105.4	39.7	170.0
		TUNISIA	0.4	0.1	7.5	29.0	7.0	20.0
73/38/A/2	OTHER DOMESTIC ARTICLES OF IRON/STEEL	TOTAL	422.0	806.9	656.7	1,315.0	117.3	83.6
		TUNISIA			1.6	4.4	6.5	13.0
		TANZANIA			5.6	8.3		
		GREECE			0.2	0.3		
73/40/E	OTHER IRON/STEEL ARTICLES	TOTAL	19.8	9.1	60.4	22.1	101.0	29.5
		TUNISIA			4.5	11.5		
74/1/D	COPPER SCRAP	TOTAL	1,203.5	219.4	602.7	85.6		
		GERMANY, FDR	78.5	27.5	25.0	2.5		
		NETHERLANDS	313.0	47.1	100.0	7.5		
		INDIA			223.6	32.9		
		JAPAN			132.5	26.4		
		TAIWAN			57.6	3.0		
		ITALY			50.0	10.0		
		BELGIUM			12.0	2.5		

DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
74/19/E/1	COPPER RADIATOR PARTS	TOTAL					3.7	12.0
		TUNISIA					3.7	12.0
76/1/B	ALUMINIUM WASTE/SCRAP	TOTAL	3,245.5	392.8	3,076.2	509.2	2,325.1	763.5
		TURKEY	16.0	7.1			33.2	10.2
		INDIA	54.0	54.0	290.0	36.0		
		JAPAN	1,655.3	230.3	1,539.0	316.9	1,917.6	657.7
		ROMANIA					34.7	4.0
		NETHERLANDS	925.0	89.5	1,180.0	146.8	300.0	82.5
		ITALY	20.0	3.0				
76/8/A	ALUMINIUM DOORS AND WINDOWS	TOTAL	71.4	191.4	50.8	176.9	64.7	95.1
		TUNISIA	14.7	39.3			2.4	3.5
76/15/A/2	ALUMINIUM KITCHEN POTS	TOTAL	249.5	257.9	192.1	164.4	221.4	169.8
		TUNISIA					13.6	39.0
79/1/B	ZINC SCRAP	TOTAL	120.0	21.5	386.6	29.9	100.0	7.5
		INDIA	120.0	21.5	114.6	15.2	100.0	7.5
		SPAIN			50.0	2.0		
		GERMANY, FDR			150.0	6.0		
82/11/C	RAZOR BLADES	TOTAL			13.2	59.7		
		TUNISIA			1.5	7.2		
83/15	ELECTRODES	TOTAL	33.1	5.7	42.5	7.6	100.7	10.5
		ROMANIA					52.7	2.1
84/12	AIRCONDITIONING EQUIPMENT	TOTAL		.	31.6	32.9	5.9	17.1
		UNITED STATES					0.1	0.1
84/15/A	REFRIGERATORS & EQUIPMENT (NO.000S)	TOTAL	4.8	527.0	0.4	76.0	0.2	33.8
		TUNISIA			0.3	61.6	0.2	31.8
		TANZANIA				2.2		
		USA				0.3		
84/22/G	PARTS FOR LIFTS	TOTAL	28.3	69.4			4.2	33.6
		GERMANY, FDR	0.7	0.5				
84/40/B	MACHINERY FOR LAUNDRY, DRY CLEANING MANUF. LINOLEUM, ETC	TOTAL	3.2	169.2	2.7	61.6	9.4	338.0
		TUNISIA			0.5	9.0	4.5	106.1

DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
84/61/B	PARTS FOR TAPS	TOTAL			16.4	25.9		
		TUNISIA			16.4	25.9		
85/1/B	ELECTR. GENERATORS, MOTORS, CONVERTERS, ETC	TOTAL			7.7	7.6	12.1	17.3
		TUNISIA			0.3	1.0		
		BULGARIA			1.2	1.7		
85/12/E	ELECTR. HEATING EQ., DOM.	TOTAL			11.9	10.8	8.0	6.2
		TANZANIA			3.7	6.0		
85/17/B	ELECTRICAL BELLS	TOTAL			2.7	8.7	7.9	27.6
		TUNISIA			2.7	8.7		
85/19/B	OTHER ELECTRICAL APPARATUS	TOTAL			152.5	360.2	282.4	660.6
		TUNISIA			0.4	1.1	6.6	35.0
		CYPRUS					C.7	2.3
87/6/A/1	NEW MOTOR VEHICLE PARTS	TOTAL	191.4	464.1	138.5	224.3	219.9	426.7
		TUNISIA			8.6	16.5	8.2	18.0
87/13/A	BABY CARRIAGES	TOTAL	29.2	19.1	7.0	17.4	14.5	32.4
		GERMANY, FDR	1.2	3.0	3.0	7.1	3.1	7.2
		TUNISIA			4.0	10.3	4.2	9.2
90/3	EYEWEAR FRAMES	TOTAL					8.6	244.4
		TUNISIA					0.1	5.1
94/3	OTHER FURNITURE/PARTS	TOTAL	710.4	483.1	1,150.3	763.5	418.5	291.1
		MOROCCO	1.7	2.0				
		TURKEY	2.0	2.0	0.5	0.1		
		INDIA	2.0	1.5				
		UK	0.2	0.4			2.0	1.5
		SWEDEN	2.5	3.0				
		USA	3.9	3.8				
		MOROCCO					0.7	0.6
		SUDAN					0.5	0.5
94/4/A	MATTRESS SUPPORTS	TOTAL					4.2	14.9
		TUNISIA					4.0	14.8

DOMESTIC EXPORTS OF MANUFACTURED GOODS TO NON-TRADITIONAL MARKETS

BTN CODE	COMMODITY	COUNTRY	1985 QUANTITY (MTs)	1985 VALUE (JD 000's)	1986 QUANTITY (MTs)	1986 VALUE (JD 000's)	1987 QUANTITY (MTs)	1987 VALUE (JD 000's)
97/3	TOY MODELS	TOTAL	7.7	18.7				
		TUNISIA	6.9	17.2				
98/3/A	BALL PENS	TOTAL	20.3	300.6	37.9	703.3	16.8	832.0
		TUNISIA					1.1	13.7
99/1	PAINTINGS, DRAWINGS, ETC BY HAND	TOTAL			2.7	7.1	3.1	21.5
		FRANCE			2.3	6.5		
		ALGERIA					1.3	2.0
99/3	SCULPTURES AND STATUARY	TOTAL					2.0	21.7
		TUNISIA					1.4	13.3
		GERMANY					0.0	0.4
99/6	ANTIQUES OVER 100 YEARS	TOTAL	7.9	14.2	10.7	20.0	8.4	12.9
		AUSTRALIA		0.5	1.1	1.2		
		UK	0.2	0.2	2.5	6.4		
		ITALY	0.1	0.1	6.4	10.0		
		FRANCE	0.2	0.7	0.1	100.0		
		SWITZERLAND	1.2	0.8	0.2	750.0		
		USA	6.0	11.1	0.4	1.5	3.1	7.3
		GERMANY					2.8	2.8
		NETHERLANDS					1.3	1.5

NOTE: Totals for each commodity include shipments to traditional markets.

APPENDIX D: A SHORT TERM COMPREHENSIVE EXPORT CREDIT INSURANCE PROGRAM FOR JORDAN

Features of the Export Credit Insurance Program

Program Purpose: The export credit insurance policies offered by the Jordan Export Credit Guarantee Corporation are designed to reduce exporters' risks in selling to foreign buyers and enhance their competitive position through insuring that the exporter will receive payment for sales on deferred payment terms to buyers in other countries. This insurance also can facilitate the exporter being able to obtain financing from commercial banks to support export sales. The insurance covers both losses from commercial and political causes. Through this reduction of risk, exporters are encouraged to expand export activity and seek new markets for their products.

Policies Offered: Short term comprehensive export credit insurance policies are offered. This policy covers failure of a foreign buyer to pay for goods purchased from the exporter which are produced in and shipped from Jordan. The insurance will reimburse the exporter for non-payment due to certain defined commercial and political causes up to 90% of the value of the shipment. Shipments will be insured up to the maximum amount for which a specific buyer credit limit has been approved by the Jordan Export Credit Guarantee Corporation, not to exceed the invoice value. The exporter retains the payment risk for the remaining 10%. Transactions with terms of up to 180 days can be covered. Consignment sales coverage can also be obtained.

The exporter must insure all export sales or most sales representing a reasonable spread of risk except those made against advance payment or on confirmed irrevocable letter of credit terms. Insurance coverage is based on the exporter paying a premium on export sales covered, which would normally range from 0.5% to 1.0% and might average 0.6% of the value of the shipment. The specific premium rate for each exporter reflects such factors as the nature of the business, the type of products, the firm's experience in exporting, the export markets and the volume of covered export sales. A maximum liability limit for each policy-holder is set. The rights to proceeds of the insurance policy may be assigned to a commercial bank to support the extension of loans to the exporter.

Eligible Exporters: All private sector exporters of goods produced in and shipped from Jordan are eligible to apply for an export credit insurance policy. The exporter must be willing, however, to insure with the Jordan Export Credit Guarantee Corporation shipments representing a reasonable spread of risk.

Eligible Exports: All products produced in and shipped from Jordan are eligible, including raw materials (except phosphates, potash and fertilizers), primary goods, agricultural products, consumer goods, consumer durables, and other manufactured products. Products covered must have some value added in Jordan, generally at least 40% consistent with the requirement for access to the Export Credit Discount Program made available by the Central Bank of Jordan. Sales to companies affiliated with the exporter are not eligible for coverage, except for political risk. Sales on irrevocable letter of credit terms also can be covered for political risks only. The Jordan Export Credit Guarantee Corporation may not cover sales to some countries or limit coverage to sales on certain terms and conditions. Sales in all readily convertible currencies may be covered. The risk of loss due to exchange rate change is not covered.

Policy Documents: An export credit insurance policy is issued to the exporter ('Insured') by the Jordan Export Credit Guarantee Corporation ('Insurer'). The policy is normally for one year and can be renewed. The policy contains the terms and conditions which apply to the insurance. These include:

o Insurance Contract

- Export sales covered
- Maximum liability
- Disclosure requirements and actions to minimize loss
- Requirements to observe conditions

o General Conditions

- Definitions of terms in the policy
- Duration of insurance
- Credit limits
- Risks covered
- Declarations by the insured
- Premium
- Conditions for withdrawal of cover
- Limits and exclusions to the liability of the insurer
- Allocation of payments from the buyer
- Dates loss is recognized and claims will be paid
- Assignment of the policy to third parties
- Disputes
- Recovery procedures
- Currency conversion

o Specific conditions which could be included relative to

- Political risk only for certain transactions
- Consignment cover
- Sales to associated or subsidiary companies (political risks only)
- Sales of services performed abroad.

Risks Covered: The following commercial and political risks are covered from the date of shipment from Jordan by the export credit insurance policies.

o Commercial Risks

- Insolvency of the buyer
- Protracted default in payment for goods accepted within four months of the due date for payment
- Failure or refusal of the buyer to accept goods shipped, where such failure or refusal does not arise as a result of any breach of contract by the Insured

o Political Risks

- Restrictions on payment remittances imposed by the government in the buyer's country or any other government action which prevents or delays payment to the exporter
- War, revolution or civil disturbances in the buyer's country
- Natural disasters such as cyclones, floods, earthquakes, volcanic eruption or tidal wave which prevent payment in whole or in part
- Cancellation of valid import license or new import licensing restrictions in the buyer's country
- Cancellation or non-renewal of an export license
- Any payment failure where the buyer and/or guarantor is a public entity (national or other government authority)

The following risks are not covered:

- Commercial disputes between the buyer and seller, or failure or refusal of the buyer to perform under the contract arising from any fault of the insured
- Exchange rate fluctuation
- Loss or damage to goods which can be covered by commercial insurers

Credit Limits: Export credit risks are covered subject to approval by the Jordan Export Credit Guarantee Corporation of a specific credit limit on each foreign buyer. This credit limit is the maximum amount that will be paid under the policy for non-payment by this buyer. Except for small amounts which are covered automatically if the exporter obtains required credit information (discretionary credit limit), the Jordan Export Credit Guarantee Corporation must issue a Buyer /Credit Limit for the insurance to be in force.

The exporter requests a specific Buyer Credit Limit from the Insurer. The Insurer will evaluate the foreign buyer and grant a specific amount of coverage based on this examination. The evaluation takes into account such factors as the credit standing, the experience of the exporter and other insureds with the buyer, the financial condition of the buyer and the amount of insurance already outstanding for other insureds when deciding what Buyer Credit Limit to approve. The amount approved may also be affected by a maximum limit set for the Jordan Export Credit Guarantee Corporation's overall export credit insurance exposure worldwide, and maximum limits set for particular countries or complete refusal of coverage in some markets. Likewise maximum limits may be set for exposure to a single foreign buyer.

The Jordan Export Credit Guarantee Corporation will make every effort to process quickly all requests for Buyer Credit Limits. These credit limits are generally valid for one year, but can be increased and/or renewed. Coverage may be withdrawn at any time upon written notice to the Insured. Any shipments made after receipt of such withdrawal notice are not covered.

Premium Rates: The premium rates are related to the risks involved and are set for each exporter based on such factors as spread of risk, volume of exports covered, and experience of the exporter, including loss experience. A single premium rate is applied to all covered sales by the exporter. The premium rate ranges from 0.5% to 1.0% and averages 0.6% of the contract price. Shipments are not covered if the premium for those shipments has not been paid.

The exporter must pay premium equal to one month's estimated premium or the minimum annual premium (JD 100) whichever is greater upon issuance of the policy. Thereafter the exporter must declare shipments within 15 days after the end of the month in which shipment occurred, and pay the premium owed based on the rate stipulated in the policy. In the case of small exporters, the Jordan Export Credit Guarantee Corporation can calculate the premium based on the shipment reports submitted.

Application Procedure: The exporter completes an application form and submits it to the Jordan Export Credit Guarantee Corporation, with a non-refundable application fee (JD20). The application requests general information about the exporter's business, and specifically about exports, including information on such areas as export markets, products to be exported, export experience and typical export credit terms. A representative sample of, or all foreign buyers on which the exporter wants buyer credit limits, can be submitted for pre-approval along with approval of the policy. The application form is simple and easy to complete. Jordan Export Credit Guarantee Corporation personnel will be available to assist exporters.

Assignment of Policies: All exporter policy proceeds may be assigned, with the consent of the Jordan Export Credit Guarantee Corporation, to commercial banks or other authorized financial institutions to support extension of export loans.

Payment of Claims: In the event of non-payment, the insured must report payments past due for 30 days or more and monthly thereafter as long as the payment is not received.

A claim may be filed immediately if the buyer is determined to be insolvent and the claim will be paid within one month after the insolvency is declared, or four months past the due date, whichever is earlier. In cases of protracted default, claims can be made 60 days after non-payment (up to 180 days after non-payment) and are payable four months from the due date. In cases where a dispute exists between the buyer and the exporter or the goods have not been accepted, consideration of the claim can be delayed until the dispute is settled or the insurer can determine that the exporter is not at fault and that pursuing the buyer further would not be useful. Payment of transfer delay claims will require evidence that the buyer has made payment in local currency and complied with necessary exchange control regulations.

Recoveries: Recoveries are shared pro-rata between the Insurer and the Insured, based on their respective shares of the loss, net of recovery expenses.

APPENDIX E: AN EXPORT CREDIT GUARANTEE PROGRAM FOR JORDAN

Features of the Export Credit Guarantee Program

Program Purpose: The Export Credit Guarantee Program seeks to expand Jordan's exports by encouraging commercial banks to make pre-shipment export loans to Jordan's businesses to support production of exports. Lack of pre-shipment financing can be a barrier to exporting, particularly for smaller and new-to-export companies that lack the collateral and long-term banking relationships that characterize well-established large exporters. Rapidly growing companies also can face such problems. Jordanian exporters contacted indicated that pre-shipment financing was generally treated like regular working capital lines of credit, and that such financing was not transaction based. Bankers indicated that they turned down exporters for pre-shipment most often for lack of long-term relationship, lack of collateral or a perception that the foreign buyer represented an unacceptable repayment risk. Banks extend all financing with full recourse to the exporter, and the banks retain the entire credit risk on CBJ export credit discount program loans.

Program Description: Under the Jordan Export Credit Guarantee Corporation's guarantee program, a repayment guarantee is provided to commercial banks for 75% of the value of short-term working capital loans to qualified exporters. The guarantee can apply either to single export related loans or to revolving lines of credit where it can be demonstrated that the credits will be used solely for the production of goods for export. This will normally be demonstrated through the exporter having an Irrevocable L/C or firm export orders. In order to obtain a guarantee the underlying export transaction must be insured or be supported by an irrevocable L/C.

The principal of the loan will be covered for up to 75% and interest is covered up to the date of claim payment at the rate on the loan or the rate which commercial banks lend to exporters under the CBJ's export credit discount loan program (currently 4 1/2- 5 1/2%). The exporter that is guaranteed will automatically be eligible for CBJ financing. The guarantee only protects the lender from default by the exporter. It does not cover the exporter should the foreign buyer default. Export credit insurance will cover this default risk. Commercial banks may also obtain a post-shipment guarantee from the Jordan Export Credit Corporation which provides coverage directly to the bank. With the consent of the Jordan Export Credit Guarantee Corporation, the pre-shipment guarantee can be converted to a post-shipment guarantee with 90% coverage.

Eligible Exporters: The program is expected to assist firms make export sales which would not occur without the guarantee that enabled the exporter to obtain funds to produce goods for export. The exporter's commercial bank must certify that the loan would not be made without the Jordan Export Credit Guarantee Corporation guarantee.

Eligible Lender: Any financial institution operating in Jordan which is allowed to provide export credit loans through the CBJ Export Credit Discount Program can participate in the Jordan Export Credit Guarantee Corporation guarantee program. The bank must have the ability and resources to service the loan, and the capacity to register collateral and collect loans according to established procedures in Jordan.

Eligible Uses of Guaranteed Loan Proceeds: The exporter can use the financing secured with the Export Credit Guarantee to purchase either finished products or material, products, services, and labor to produce goods for current export sales. The purpose of the loan must be clearly stated in the application for the Guarantee. Loan proceeds cannot be used to repay existing debt regardless of the source (e.g. commercial bank or trade credit).

Security/Collateral: The amount of the guaranteed loan generally will not exceed 75% of the value of the collateral. Property, plant and equipment, personal guarantees, as well as goods purchased with loan proceeds and accounts receivable including foreign accounts receivable (like L/Cs) may be considered as acceptable collateral. Inventory will only be considered as collateral for the amount of its cost or liquidation value, whichever is lower. Foreign accounts receivable on terms of confirmed irrevocable letters of credit and receivables which have export credit insurance will normally be considered as acceptable collateral. Past due receivables and receivables from affiliated companies are not eligible security. For some closely held companies, personal guarantees of the principals may be required. By giving a variety of choices of collateral, it is hoped to broaden the number of exporters who can use this program.

The applicant for a guarantee must provide the Corporation with an adequate description of the collateral and the rationale used for its valuation. The Jordan Export Credit Guarantee Corporation will normally require that the commercial bank obtain a first lien position of the collateral for the benefit of the Corporation and the lender. In some cases, a shared first lien position with an existing lender will be considered. All collateral will be evaluated on a case by case basis. The commercial bank will be required to monitor the value of the collateral on a regular basis until the amounts under the guaranteed loan are paid in full.

Coverage: The Jordan Export Credit Guarantee Corporation Guarantee covers:

- Up to 75% of the principal amount of the loan
- Interest up to the date of the claim payment at the loan rate or the CBJ's export credit discount rate, whichever is lower
- The maximum amount of guarantee exposure to a single export will not exceed 10% of the capital and reserves of the Corporation, and the maximum limit will normally be substantially lower than 10%.
- The commercial bank retains the risk on 25% of the loan principal and excess interest. If the lender obtains any security for its risk retention, it is shared with the Corporation in the same ratio as it shares the risk on the loan amount. The maximum maturity of the guarantee shall be 270 days, but normally will not be granted for more than 180 days, and ceases when the loan is repaid.

Application Procedure: The commercial bank will make the guarantee application to the Jordan Export Credit Guarantee Corporation, using the guarantee application for with supporting documentation. Commercial banks will be required to submit their own credit analysis and describe disbursement and payment procedures.

The Application will require information on

- Name and address of the lender
- Name and address of the borrower/exporter
- Name and address of guarantor(s)

Supporting documentation will generally include:
- Brief history of the borrower and guarantor, including date organized, legal status and description of operations and major shareholders.
- Borrower's signed and audited financial statements (if available) for three years.
- Recent credit reports or references (at least 2).
- Short biography of principal owners and senior management.
- Signed personal financial statements of guarantors.
- Brief description of the use of the proceeds of the guaranteed loan, including foreign buyer and export markets to the extent known.
- Description of available collateral, its valuation and how collateral will be maintained/monitored. Foreign receivables include terms of sale and whether or not insured.
- Any other information the applicant believes is relevant.

Guarantee Agreement: The Guarantee Agreement will set forth the general terms and conditions of the Jordan Export Credit Guarantee Corporation guarantee to the commercial bank. When the lender fulfills the conditions precedent (e.g. obtains security interest for collateral), the guarantee will be in force. Any loans disbursed prior to the guarantee being in force will not be covered by the guarantee.

Fees: The Jordan Export Credit Guarantee Corporation will charge fees for the pre-shipment guarantee as follows:

- Application Processing Fee: A non-refundable application fee of JD 20 is payable upon submission of each application.
- Usage Fee: The lender pays a guarantee fee equivalent to 1.5% per annum on the outstanding guaranteed loan balance. A simple fee payment mechanism, such as a single payment in advance should be adopted. If loan balances are outstanding under the guaranteed loan subsequent to the expiration date of the guarantee, usage fees must continue to be paid until the balance under the guarantee is reduced to zero. A minimum usage fee of JD 50 will be charged even if this exceeds 1.5% of the guaranteed amount for the period during which the guarantee is outstanding.
- The commercial bank will be responsible for calculating and submitting the fees. If fees are not paid according to the terms of the Guarantee Agreement, the guarantee will be forfeited.

Non-Payment: Delinquencies. The commercial bank is required by the guarantee to report to the Corporation within 30 days any payment delinquencies and report on the status of the delinquencies on a monthly basis thereafter. No further loan disbursements may be made until the delinquency is resolved. Any information received that indicates a possible loss, even if a delinquency has not occurred, should be reported promptly to the Corporation.

Claims: The lender has 90 days after a default (failure to pay principal or interest as scheduled in the loan agreement for more than 30 days) to submit a claim. The claim should describe the actions the commercial bank has taken to minimize the loss including demand on guarantors.

Reschedulings: No reschedulings, acceleration of debt, or legal action can be undertaken by the commercial bank without consent of the Jordan Export Credit Guarantee Corporation. Requests to undertake such actions should be explained by the lender with adequate documentation to support the request.

Payment of Claims: Claims under the guarantee will normally be paid four months after the due date of the delinquent payment from the exporter (protracted default), where the commercial bank has submitted a claim in a timely manner and all the conditions of the guarantee have been fulfilled. In the event of insolvency of the exporter, claims under the guarantee will be paid within four months after the due date of the payment or one month after the loss has been legally admitted in the appropriate legal forum as owing to the Corporation or the commercial bank, whichever is sooner, provided that the claim has been submitted properly and other conditions of the guarantee have been met.

Recoveries: All recoveries shall be shared pro-rata on the basis of the percentage of risk born by the commercial bank and the Corporation. The commercial bank shall take whatever steps are expedient or necessary or which the Corporation shall require to effect recoveries. Expenses incurred by the commercial bank with the consent of the Corporation to effect recoveries are a first charge against any amounts received.

F. TECHNICAL ASSISTANCE ON ESTABLISHMENT OF AN EXPORT CREDIT GUARANTEE AND INSURANCE CORPORATION IN JORDAN: EVALUATION CRITERIA AND TERMS OF REFERENCE

EVALUATION CRITERIA

The following are suggested evaluation criteria for the technical proposal. These criteria would be included in the letter request for proposals (RFP), to which the Terms of Reference would be annexed.

- The experience of the firm/organization in the fields of pre-shipment export credit guarantees and post-shipment insurance and guarantees, especially in developing countries (30 points).

- The adequacy of the proposed approach and work plan in responding to the Terms of Reference (25 points).

- The qualifications and competence of the personnel, both long and short term, proposed to carry out the consultancy (35 points).

- The design and suitability of the program to train and transfer skills to export credit guaranty and insurance personnel (10 points).

The curriculum vitae of the senior personnel proposed to undertake each area of the consultancy should be provided (sample CVs may be included). All will be required to be fully proficient in the English language. The personnel will be evaluated using the following criteria.

- General qualifications including professional, technical and academic credentials (30 points).

- Relevant practical experience for specific tasks, including experience consulting in developing countries. Senior level experience in management of export credit guarantee and insurance organizations will be advantageous (50 points).

- Experience in training and skills transfer, particularly in developing countries (20 points).

TERMS OF REFERENCE

Draft Terms of Reference (TOR) for the technical assistance program are proposed on the following pages.

TERMS OF REFERENCE FOR CONSULTANT ASSISTANCE TO IMPLEMENT AN EXPORT CREDIT GUARANTEE AND INSURANCE CORPORATION IN JORDAN

Background

In August 1988, the Government of Jordan announced a series of measures designed to increase exports and encourage investment. As part of these measures the Central Bank of Jordan was requested to do a feasibility study for the establishment of an export credit guarantee and insurance agency. The study, which was completed in January 1989 supported the creation of a new agency which would provide a range of insurance and guaranty services to Jordanian exporters and banks aimed at expanding exports from Jordan and reducing the large trade deficit. Subsequently USAID funded a study by a firm specialized in export guarantee and insurance programs to confirm the feasibility of establishing the export credit guarantee and insurance agency in Jordan, and to make preliminary recommendations on programs, personnel, funding and institutional arrangements for such an agency.

The new agency would provide export credit guarantees and export credit insurance to facilitate the ability of exporters, in particular exporters of agricultural and manufactured products trying to export to new markets, to reduce risks of non-payment for exports from Jordan by foreign buyers, and obtain needed pre- and post-shipment financing. Guarantees to commercial banks would be provided to assist exporters to obtain working capital export loans and increase access of these firms to the export credit discount program offered by the Central Bank of Jordan. Export credit insurance would cover both commercial and political export credit risks.

The export credit guaranty and insurance agency will be established as an autonomous corporation with government and private sector ownership. The export credit guaranty and insurance agency will begin operations with capital provided by the Government, private commercial banks and insurance companies. It will be directed by a Board of Directors composed of representatives of the public and private sector shareholders.

The export credit guarantee and insurance agency has been the subject of two studies, one by the Central Bank of Jordan and the other a preliminary feasibility study funded by USAID. These studies found that some exporters were not obtaining needed export working capital, due to lack of collateral or to banks' perceptions of the risks associated with repayment by foreign buyers, and that export risk reducing measures such as export credit insurance were believed by exporters and commercial banks to be useful incentives to increasing exports from Jordan, particularly for penetrating new markets. The feasibility study suggested that a mixed public/private organization would be appropriate for Jordan, given its strong private sector orientation. The need for sound financial management, along the lines of other successful export credit guarantee and insurance organizations, was stressed, as was the need for appropriate risk-sharing, and risk reducing measures, and adequate capitalization. General guidelines were proposed for both pre-shipment guarantees and post-shipment guarantees/insurance. The latest study was completed in August 1989 and is being reviewed by the Government of Jordan.

Objective

The primary objective of the consultancy services is to provide a comprehensive technical assistance program to the proposed export credit guaranty and insurance agency in its organizational and early phases of operation. The technical assistance will cover all relevant areas to set-up and operate of export credit guarantee and insurance programs. This would include assistance regarding appropriate policies and procedures, organization and management, financial structure and legal framework. Training and transfer of information to management and staff is a primary objective of this technical assistance effort.

Approach

The proposals from the consulting firm/institution should demonstrate the approach that will be adopted to build a viable guarantee/insurance agency. It should be clearly recognized that the export credit guaranty and insurance agency in Jordan intends to offer both pre-shipment export guarantees to facilitate access of small and medium-sized firms to working capital for export production, and post-shipment guarantee/insurance coverage to reduce both political and commercial risks. These two programs present different risks and have different policy and procedural requirements. However, it is important that consistent policies and procedures be adopted, and that staff be well versed in common elements between the two. Likewise, both present similar needs for accounting, management information systems, operating manuals, and marketing materials. The programs are to be operated so as to be financially viable yet provide incentives that result in increased volume of exports from Jordan. The approach should be consistent with that of the most successful export credit guarantee/insurance programs in operation, yet be adapted, if necessary, to meet the specific circumstances of the economy in Jordan and the region, and particularly the needs of the agricultural and manufactured export sectors.

Description of Tasks

o Assess the current requirements for export credit guarantees and insurance to ensure programs are targeted to needs. Consultants will need to review previous studies, assess current programs that assist exporters including the Central Bank of Jordan's Export Credit Discount Program, and consult with officials, commercial bankers, and exporters. This assessment will form the framework for design of specific guarantee and insurance coverage and will result in a targeted action plan for program implementation.

o Provide Specialized Technical Advice in areas required to ensure effective, efficient operation of the export credit guaranty and insurance agency. This will include strategies to pool risks and reduce risks consistent with assisting exporters, yet allow for financially viable operation. This will entail developing appropriate policies, procedures, and controls, in areas such as specific fee and premium structures and reserving policies, underwriting guidelines, claims and recoveries procedures, accounting and management information systems.

o Provide advice on management and organization structure to most effectively operate the export credit guaranty and insurance agency. Advise on a program to encourage participation in the guarantee and insurance programs by both commercial banks and exporters.

o Provide training for management and staff to ensure adequate skill levels to effectively and efficiently operate the export credit guaranty and insurance agency.

(Optional Component)

o Procure computer hardware peripherals and software, marketing materials and vehicle for the export credit guaranty and insurance agency. (This would be optional at the choice of the technical assistance funding organization.)

Institutional Arrangements

The consultants shall be advised and assisted by the Central Bank of Jordan and the export credit guaranty and insurance agency founding committee until a Board of Directors has been established at which time the Board will assume this role. Consultants will be provided with adequate office space including telecommunication facilities, and secretarial and clerical services by persons proficient in English.

Time Schedules and Reports

The consultants shall prepare and submit the following reports to the export credit guaranty and insurance agency and to the funding agency (insert appropriate names). All reports shall be prepared in English, and three copies provided to the export credit guaranty and insurance agency and three to the funding agency.

Report	Approximate Due Date (months from starting date)
Initiation Report (assessment of needs)	3
Progress Reports	every 4 months
Draft Final Report(s)	22
Final Report(s)	24

The Initiation Report shall contain an assessment of the current needs for export credit pre-and post-shipment guarantees and insurance. It should also report on progress to date and indicate any major deviations from the terms of reference including staffing and organizational problems, outline work expected to be completed during the next four months. The Progress Reports shall summarize the work completed in the preceding four months and outline expected accomplishments during the next four month period. These progress reports shall indicate any unforseen conditions that would affect the progress and quality of the work. The Final Report should summarize the main achievements of the program, evaluate progress to date and suggest any future activities which should be undertaken to ensure continued successful operation of the guarantee and insurance programs. The Final Report also should take into consideration the comments on the Draft Final Report received from the export credit guarantee and insurance agency and the funding agency, and incorporate those comments which the consultants consider appropriate.

Technical Assistance Cost Proposals

The consultants shall suggest the total cost of implementing the technical assistance program as a financial proposal separate from the technical proposal. Also, this financial proposal shall describe how these costs will be allocated with respect to professional services and reimbursable expenses (and procurement if this option is funded through the technical assistance program).

If these costs exceed US$800,000 (or US$900,000 including procurement), the technical proposal should indicate priority items that can be achieved within the stipulated financial limit.