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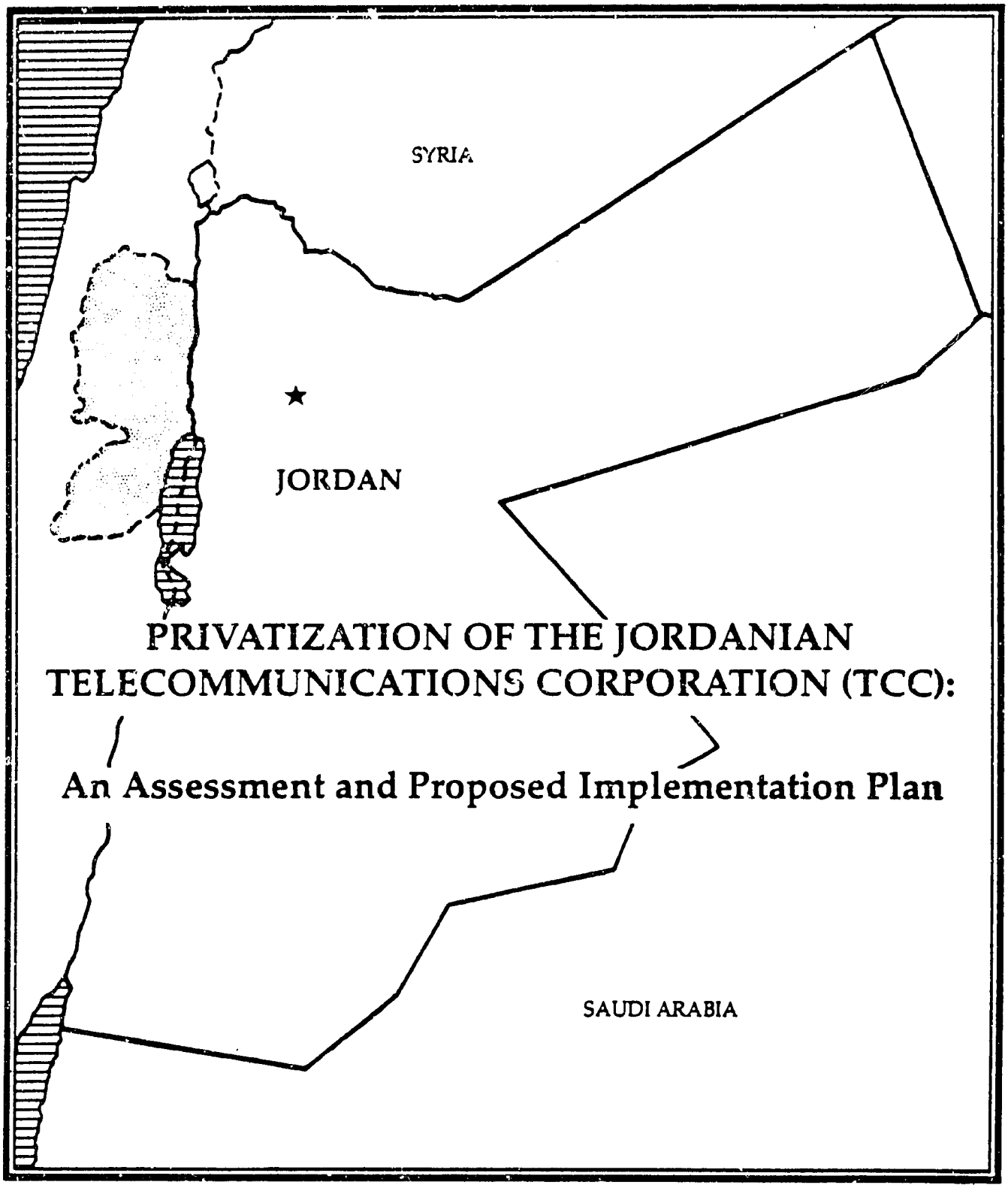

PRIVATIZATION OF THE JORDANIAN TELECOMMUNICATIONS CORPORATION (TCC):

An Assessment and Proposed Implementation Plan

April 1988

CENTER FOR PRIVATIZATION
2000 Pennsylvania Ave., N.W.
Suite 2500
Washington, D.C. 20006

HASHEMITE KINGDOM OF JORDAN

PRIVATIZATION OF THE TELECOMMUNICATIONS CORPORATION

An Assessment and Proposed Implementation Plan

This Plan was drawn up following
visits to Jordan in early 1988 by:

James Alleman
Basil Al-Rahim
Douglas W. Delaney
Nadeem Maasry
Alexander C. Tomlinson
and
John L. Wilson

Center for Privatization
2000 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

April 1988

CENTER FOR PRIVATIZATION

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* * *

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James H. Alleman is Policy Planning Manager for GTE Service Corporation, Stamford, Connecticut. He was born in Anderson, Indiana, in 1941. He received his BA and MA in Economics from Indiana University, and his PhD in Economics from the University of Colorado. Dr. Alleman's fields of specialization include regulatory economics, price theory, industrial organization, international telecommunications economics, econometrics and macroeconomics.

Basil Al-Rahim is a partner in the American Investment and Management Co., Washington, D.C. He was the Executive Director for four years of Dar Al-Amanah, a diversified holding company in Saudi Arabia, responsible for investment programs covering portfolio management, corporate finance, planning and new product development. He has four years' experience at the Gulf International Bank, Bahrain. He holds a BA in Economics from the American University of Beirut.

Douglas W. Delaney is former Vice President, International, and former Chairman of the Board and Chief Executive Officer of Bell Canada International. In addition, he has held posts such as Vice President of Marketing, and Vice President of Administration for Bell Canada. In his 37 years with the firm, he managed a $2.8 billion contract for the organization and management of the Saudi Telephone System. Earlier in his career he was responsible for a variety of management functions including developing performance requirements and the introduction of digital switching at Bell Canada. He has a BA in Political Science, and an MBA in International Business from McMaster University, Canada.

Nadeem Maasry is President of the NIMR Corporation, an investment firm in Washington, D.C. He also serves as a consultant on international finance in the Middle East and Europe. For 12 years he was President of Financial General Bankshares, Washington, D.C., and has previously held executive positions in financial institutions including the International Bank of Washington, D.C.

Alexander C. Tomlinson is the former Executive Director of the Center for Privatization. He is a graduate of Haverford College and Harvard Business School. He spent 32 years in investment banking, retiring in 1982 as Chairman of the Executive Committee of The First Boston Corporation. Prior to the formation of the Center in 1985, he was President of the National Planning Association in Washington, D.C.

John L. Wilson is a senior partner and Chairman of the Rate Regulated Industries Group, Arthur Young International. He has 17 years' experience in the rate regulation of utilities, specializing in management information and accounting systems. He was formerly Revenue Planning Manager of the General Telephone Company of the Southwest. Wilson is a Certified Public Accountant, and holds a BS in Industrial Adminstration and an MBA in Finance.

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EXECUTIVE SUMMARY

This report is submitted in response to a request by the Telecommunications Corporation (TCC) of the Hashemite Kingdom of Jordan, through the U.S. AID Mission in Amman, that the Center for Privatization submit a plan, including a Scope of Work identifying the specific tasks to be performed, for the privatization of the TCC. It is based on interviews with key individuals in the TCC and in the public and private sectors of Jordan at various dates in January through March 1988, and a review of financial and operating statistics and other documents provided by the TCC.

It is recognized that the TCC has already taken initial steps toward ultimate transformation of the company to a stock corporation wholly owned by the Government of Jordan, with complete autonomy to operate as an independent commercial entity. This program, generally referred to as "commercialization" as distinguished from privatization (or reduction of Government ownership), will take two or three years to complete and will require enabling legislation and the establishment of a regulatory framework in substitution for direct control by the Ministry of Transport and Communications.

Furthermore, it will be necessary to substantially restructure and modernize the TCC to ensure that it can function

as a financially viable commercial enterprise in the private sector, and operate at a level commensurate with international telecommunication standards. This will entail, for example, a complete overhaul of the financial accounting system, installation of a modern computer system, reassessment of the rate structure, organizational restructuring, redesign of the personnel policies and procedures, and the development of a series of customized training programs for TCC employees. Technical assistance in carrying out these aspects of the modernization program is described in this report.

The report also contemplates that steps leading to the sale of shares to the private sector ("Privatization") should be undertaken on a parallel track, preparing for the time when commercialization has advanced to the stage where privatization can take place. These steps include (1) selection of an international merchant or investment banking firm as financial advisor; (2) the undertaking of a valuation of the TCC as a commercial entity; (3) the launching of a public awareness program to build Government, employee and public confidence in the privatization process; (4) the design of the terms of an offering of stock to employees; (5) the development of a marketing program for the shares; and (6) the pricing for shares offered to employees, the public, and perhaps foreign institutions. It is proposed that these steps be completed so that an actual stock offering could take place as early as mid-

year 1989. At that point, it is expected that the necessary legal steps would have been taken, and the 1988 financial statements, prepared on an accrual basis, would be available together with the auditors' opinion without the qualification which has applied to statements heretofore. The necessary financial de-coupling from services provided by other ministries should likewise be complete; other elements of the commercialization program might still be underway, but their completion is not deemed necessary prior to a sale of shares.

The task of preparation is formidable, and is likely to consume a considerable amount of time, expense and human resources from both Jordan and abroad. Nevertheless, it is recommended that the Government of Jordan proceed with actual privatization at the earliest possible time (mid 1989). H.M. King Hussein has strongly endorsed the initiation of a privatization program; the Five Year Plan (1986-1990) advocates a more prominent role for market forces and private initiative in the nation's economic affairs; the public appears receptive to a new approach to extending and enhancing the country's telecommunications system, and the international donor community has indicated a willingness to provide the requisite technical and financial assistance. Placing stock in the hands of employees at an early date will provide them with the motivation to support and speed the modernization program to completion. At the same time, the successful sale of a significant share

interest in an important national enterprise should strengthen Jordan's capital markets and facilitate further privatization of other entities. It is estimated that an amount in the area of $JD 30 to $JD 40 million could be raised in this initial sale of the TCC shares. It is also recommended that additional public offerings of Government-owned shares would be made until the Government has divested its equity interest in the TCC.

The following tabulation summarizes the consulting services recommended in this report. It includes the provision for a senior consultant experienced in top management supervision of operations and a senior privatization expert who would make periodic visits to Amman to provide oversight and advice and serve to energize the project and help maintain its momentum.

CONSULTING SERVICES

Description	Person Months Total	Person Months Portion Foreign	Estimated Cost(U.S.$)
Finance and Accounting	10	0	$ 200,000
Organization & Personnel Studies	15	11	275,000
Financial Advisor	14	14	*
Public Relations Advisor	7	0	80,000
Legal Advisors	10	0	*
Regulation Advisor	2	2	45,000
Supervision and Coordination in Jordan	15	15	325,000
TOTALS	73	42	$ 925,000

* Assumed to be compensated by the TCC or the Government of Jordan and not included in total.

INTRODUCTION

State-owned and managed enterprises are often inefficient, insensitive to market requirements, fettered by bureaucratic restrictions and a drain on the Government's resources. State-owned enterprises are often monopolies or near monopolies, and consequently there is a fear that should these enterprises come under private sector control, the public would suffer high prices and poor service. This is a misguided perception, as demonstrated by the fact that most of the best performing telecommunications systems in the word are privately owned.

From a study of the performance and operations of the Telecommunications Corporation (TCC) of Jordan, it is apparent that this enterprise would become substantially more effective in meeting the public needs for service, efficiency and profitability if it were privatized. Privatization would, of course, involve a host of changes such as reorganization, external financing, increased investment, enhanced training and so on. Nevertheless, the sooner the TCC is privatized, the sooner the benefits will be realized.

In order to make privatization possible, management has already embarked on a program designed to commercialize the TCC in both form and substance so that it will be structured in a way that it can survive and prosper when privatized.

In considering the transformation of the TCC into a new private company, it is recommended that the new company take or assume ownership of all the assets of the TCC. This company should be responsible for voice, data and image telecommunications services throughout the Kingdom of Jordan. It should also have the right to sell or lease voice, data and image systems, public and private networks, and all forms of terminal devices including PBX, key, data terminals, computer networks and station equipment. In view of the size of the market, it is not deemed appropriate to initially plan for competition in the supply of basic network services. It is contemplated, however, that the TCC will be subject to regulation to protect the public interest.

THE PRIVATIZATION CLIMATE IN JORDAN

PRIVATIZATION DEFINED

In Jordan, the definition of privatization takes on different meanings depending on with whom one talks; usually it is different than the meaning currently used in Europe. When the topic was first discussed in the Jordanian society it meant private ownership. This was somewhat controversial, and it appears that the focus has shifted somewhat. The term is frequently used to mean autonomy from the Government, but not private ownership.

In this report the term is used to mean the process of transformation of ownership over time from the Government to the private sector, the ultimate goal of which will be a transfer of majority ownership to the private sector. At an early point in this process the Board of Directors may include a majority of private sector individuals, even if the Government still has control, exercised only in limited areas seen to be protective of strategic or other national interests. Ultimately, the Government may still retain control over price structures, price levels and/or return on equity through regulation.

Another term used extensively is "commercialization", and in the TCC it tends to be synonymous with privatization. However,

in this paper it is used to describe the process whereby autonomy from Government is to be achieved through conversion of the TCC into a commercial corporation (whether under the general commercial law or by special legislation) which will be managed as an independent entity with its own assets, officers, employees, board of directors, access to capital markets, etc., but with all shares still held by the Government. It is intended to signify the attainment of a more efficient operation and an internal structure more akin to a private company, i.e., an accrual accounting system, an effective management organization, a well-developed management information system, and well-managed personnel policies, etc. The private sector is expected to be represented on the Board of Directors, even though the company's stock shares are held by a single owner, the Government. In Jordan it is often seen a prerequisite for privatization.

OBJECTIVES OF THE JORDANIAN GOVERNMENT

In announcing its intention to proceed with privatization (which contemplated the sale of shares at some point) the Jordanian Government did not expand on the subject to indicate its objectives (see "Public Uncertainty about Privatization" below). However, it is reasonable to assume they are similar to those of other Governments which have shown interest in the subject. These are generally all or most of the following:

- to reduce the burden of international debt
- to provide access to borrowed capital for worthwhile enterprises
- to provide funds through sale of shares to meet other Government requirements
- to encourage improvement of services and more effective development of the business being privatized through management incentives and freedom from bureaucratic restrictions and waste
- to assure the most effective use of limited national resources
- to stimulate development of the capital market and the private sector generally
- to attract expatriate capital or the return of flight capital
- to reduce the national bureaucracy and narrow the focus of Government activity to improve effectiveness
- to broaden the ownership base of business
- where appropriate, to enhance the nation's access to investment from abroad

PUBLIC UNCERTAINTY ABOUT PRIVATIZATION

Based on interviews with a broad cross section of individuals in the public and private sectors, there appears to be considerable confusion and uncertainty about the concept of privatization in Jordan. (It should be noted that this is true in virtually all countries where the concept has recently gained currency.) The public is concerned, for example, about how public enterprises will be sold, who will benefit from the sales, and the effect on the nation's security and scarce resources. Those with a vested interest in the outcome of privatization, of course, worry about the subsequent impact on their personal lives. And others worry that privatization is simply a scheme to transfer the nation's wealth and resources from one wealthy elite (Government) to another (a few wealthy investors).

On the other hand, there is equally strong public sentiment that privatization holds the potential to provide the nation with substantive benefits, including more rapid economic growth and a revitalized private sector. In particular, it is believed that the public would be generally supportive of the privatization of the TCC. Although there is understandable uncertainty about the outcome, it appears that the public expects that privatization will result in better customer relations, more timely installation of additional lines and telephones, and a higher level of overall performance and a general lowering of costs.

Within the financial community there appears to be widespread support for privatization generally and in the particular case of the TCC. However, market participants note a number of concerns, such as the poor availability of TCC service, the inordinately high rates for international service and the company's poor access to capital affecting its ability to take advantage of the industry's latest technology.

PRIVATIZATION OF THE TCC: A TIMELY MOVE

A number of indications suggest that this is an opportune time to undertake the privatization of the TCC. The political will exists, as evidenced by the public support expressed by the King, the Prime Minister, and official pronouncements in the most recent Five Year Plan. The public, dissatisfied with the current availability and cost of telecommunications services, would welcome a restructuring that holds the potential for major improvements. The financial community, although understandably wary until the restructuring occurs and the valuation process is complete, is confident of its ability to sell the shares of a restructured TCC. And the company itself is likely to support the process, provided the Government is able to give assurances to the employees and management that they will not emerge from the process in a worse financial condition. As this report

demonstrates, the commercialization program should create a far stronger company, better equipped to serve the Jordanian public and compete internationally.

COMMERCIALIZATION: PROLOGUE TO PRIVATIZATION OF TELECOMMUNICATIONS IN JORDAN

FRAMEWORK

Considering the size of the Jordan domestic market and the capital intensive nature of telecommunications networks, it would not be advisable to allow competition in the network services market at this time. Consequently, during the transition to commercialization and privatization the TCC should be permitted to retain its monopoly franchise for network services. The only exception to this policy should be to allow competition for enhanced network services such as messaging which would utilize the basic TCC network facilities. This should be allowed only after the TCC has been privatized.

The terminal equipment market is currently competitive and should remain so. The new privatized TCC should be able to continue to compete in this market. In fact, it should become more aggressive to ensure that both the residential and business market segments are well served. As new terminals including data, imaging, conferencing, etc., become available, the TCC should provide leadership in meeting the needs of the market.

In total, the demand for both network and terminal telecommunications services should grow as the economy of Jordan

grows. This will provide opportunities for both the TCC and its competitors.

The following sections examine the situation of the TCC as it relates to commercialization and privatization beginning with a brief assessment of the telecommunications market in Jordan.

DESCRIPTION OF THE MARKET

Jordan has a technically well-developed telecommunications network, even though some of the country's more remote regions are not served. However, the TCC recently began a major expansion of the rural telecommunications infrastructure, which should markedly improve the penetration of service. Also, an internationally funded expansion program is underway that will include the installation of an additional 80,000 lines by 1992.

Although the TCC has registered profits in recent years, the company is encountering serious customer dissatisfaction due to the extremely high cost of international service; for example, customers regularly devise means to avoid using the TCC for international calls. This is particulary significant because approximately 70% of the TCC's total revenues are generated from international service (see table below). Evidence from other countries suggests that the elasticity of demand for

international phone services is fairly high. Thus, if the TCC rates could be reduced and were more competitive with those in other countries, demand would increase and revenues would be likely to increase.

TELECOMMUNICATIONS CORPORATION
REVENUE AND NET INCOME
Year Ended December 31, 1986 and 1987
(In millions of Jordanian Dinars)

	1986	1987
Operating Revenues:		
International	$JD 29.4	$JD 27.5
Domestic	11.2	11.2
Other	0.9	0.6
Total Operating Revenues	41.5	39.3
Operating Expenses		
Depreciation	6.0	5.5
Other Operating Expenses	11.1	10.9
Total Operating Expenses	17.1	16.4
Operating Income	24.4	22.9
Other Expenses		
Foreign Exchange Loss	2.5	1.3
Interest Expense	3.3	1.1
Net Income	18.5	20.5

TCC OPERATING DIFFICULTIES

The TCC management are currently working to overcome a number of operating difficulties which impact negatively on service to their customers and frustrate their staff. These difficulties include:

- A lack of adequate management systems

- Shortage of tools and work vehicles
- Inadequate facilities to meet demands for service in various areas, i.e., held orders
- Inadequate training
- An organizational structure that fails to facilitate effective management and excellence in service to the TCC's customers
- Constraints on effective management due to Government personnel regulations

To be effective, as a service-providing company ought to be, it is imperative that the TCC be reorganized and incorporated so as to have the managerial freedom to satisfy its mandates. The various steps to make this possible are set forth in subsequent sections of this report.

In this connection, it should be recognized that the current organization and management (O & M) project instituted by the TCC and Swedtel at the district level is necessary to the operational success of the TCC. It is essential that this activity be increased and enhanced so that the objectives of the project can be realized as soon as possible. Both the TCC personnel and Swedtel representatives have made good progress at Irbid and will with executive support make good progress throughout the Kingdom.

A characteristic of state-owned enterprises everywhere in the world is Government interference in operations which has an adverse effect on profitability. The TCC is no exception. It appears that TCC business decisions often are influenced by political considerations (e.g., rate changes, supply purchases, location of new network installation, etc.). When the TCC is able to operate like a commercial enterprise, free of political interference in day-to-day operating decisions, the company's profitability should be enhanced.

REGULATION

Having in mind that commercialization and privatization will eliminate direct control by Government, and that the TCC's monopoly status will continue, it is recommended that a regulatory commission be established as part of the enabling legislation. This should be inaugurated immediately upon creation of the new TCC, or in any event at the time when shares are sold to employees and the public.

The regulatory commission should be an independent body appointed by the cabinet for a period of five years with the exception that the first commission will serve for an initial five years. Subsequently, one of these five commissioners should be replaced each year over the following years so that on a

continuing basis only one commissioner will be replaced each year. Consequently, future commissioners will serve for a five year period only.

This commission should have responsibility with regard to regulated services and the authority to review them for rate structure and service to ensure that the new company serves the public and Government interests effectively and at the lowest cost consistent with reasonable profitability and rewards in the form of higher profitability resulting from increased efficiency and high levels of performance.

The new company should have the right to appeal the commission's decisions to the Cabinet. The Cabinet should retain the authority to consider these appeals and if they so decide, to overturn the Commission's decisions.

In those cases where the new company wishes to appeal a Commission's decision on a point of law, they should be permitted to seek redress through the courts.

It is recommended that the regulatory requirements be kept to the minimum to provide adequate freedom of action and to build a successful company providing modern services. Specifically, the rate of return approach to regulation should be avoided.

A consultant experienced in telecommunications regulation (and deregulation) could be helpful to the legal advisors and the Cabinet in forming the regulatory policies and developing the legislation and implementation of the regulatory Commission.

KEY PARTICIPANTS IN THE PROCESS

The task of restructuring and privatizing the TCC will involve a multiplicity of institutional actors, each with a separate set of responsibilities. One of the earliest and most important decisions that the Government must make is the designation of an individual or entity who will have the overall responsibility for coordinating and managing the work of these various participants. For example, at various points along the planned path the following institutions will have major tasks to perform:

- Government Ministries and Departments
- Telecommunications Corporation
- Lawyers
- Accountants and Consultants
- Banks
- Stock Brokers
- Marketing and Media Specialists

ISSUES TO BE ADDRESSED

The sections below identify the specific steps that must be taken. Particular attention should be given to the proper sequencing of these tasks, which will be critical to the success of the undertaking.

Altering the Legal Framework

There is an immediate need to begin preparation of the requisite decrees and the enabling legislation that will create the legal framework to regulate and monitor a restructured and privatized TCC. Due to the complexity and sensitivity of this task, an independent outside counsel has been appointed. As indicated above, one of his tasks will be to define the objectives, policies and procedures of a new telecommunications regulatory authority that will be responsible for establishing and maintaining the rate structure, and for monitoring the activity of this new, private sector monopoly. For example, the new authority must ensure that prices and TCC profits are reasonable and competitive (internationally), and that the company operates efficiently.

At the same time, a second team of attorneys (presumably in-house) will need to provide legal counsel to the TCC on a number of essential internal tasks. For example, in preparation for the

TCC's new corporate status, there must be a complete revision of the Articles of Association and the corporate By-Laws. In addition, once the TCC employees are no longer a part of the civil service, there will be need for new rules and regulations governing employee relations. This, of course, will require the services of a highly skilled local corporate lawyer and a personnel expert.

Decoupling the TCC from Government

In order to commence operations as a commercial enterprise, the TCC must become an independent legal corporate entity and sever its operating ties with the Government. This will require the newly created enterprise to perform a number of important functions that heretofore were provided by the Government, such as customer billing, maintenance of cash deposits and banking relationships, and social security.

The principal Government departments that currently perform functions linked to the TCC are the Ministries of Finance, Planning and Public Works, and the Central Bank and the Civil Service. In order for the privatization of the TCC to proceed, linkages with these public sector departments ought to be severed, or, in a few cases, adjusted.

The Ministry of Finance has control over the TCC's capital and operating budgets. In addition it is in charge of negotiations with creditors and repayment of foreign loans. The TCC is not permitted to negotiate directly with its creditors.

The Central Bank has considerable control over the accounts of the TCC. It holds all the TCC cash accounts; i.e., it receives for deposit all customer payments and disburses funds to meet all the TCC liabilities, including the TCC's payroll. It is responsible for issuing letters of credit and for payment or receipt of international settlements.

The following is a checklist of the functions currently in the hands of other Government offices which need to be transferred to the control of the TCC Board to enable it to act as an independent private enterprise.

Ministry of Finance:

1. Capital Budgets
2. Current Expense Budgets
3. Expenditure Authorizations
4. Number of Employees and Hiring
5. Commercial Loan Negotiations
6. Loan Repayments

Ministry of Planning:

1. Development Plan Approval
2. Drawdown and Disbursement of Loans
3. Soft Loans Capital Budget

Ministry of Public Works:

1. Procurement and Tendering

Central Bank:

1. Cash Accounts
2. Receivables Collection
3. Payables
4. Letters of Credit Issuance
5. Payroll
6. International Settlements

Civil Service:

1. Employee Salary Levels and Grades
2. Employee Regulations
3. Pensions and Benefits

While the above transfers are essential for privatization, it is not necessary that all functions be decoupled. During the initial phase of commercialization, the Treasury Department and personnel functions need to be organized and established to facilitate the assumption of these functions by the new entity is established. Billing services performed by the Royal Scientific Society (RSS) are a data service paid for by the TCC. Decoupling billing from RSS is not necessary to a separate entity. In fact, until the TCC does obtain its own computerized billing system, it will need to maintain the link with RSS as a back-up system for a limited time.

Accounting and Finance

The necessary measures to shift to an accrual accounting system are well under way. It is expected that by April, 1989 the accounting group will be able to produce monthly accrual based financial statements and will have improved their systems sufficiently to permit the outside auditors to lift the qualification of their opinion based on weaknesses in internal controls. Accordingly, at April, 1989 the TCC will have in place sufficient internal controls and will be using generally accepted accounting principles (GAAP) which would be a requirement for an offering prospectus. This would mark completion of what we have termed Phase I of finance and accounting activities relating to commercialization, and would make possible a first public sale of

stock at an early date thereafter. In order to achieve its targets by April, 1989 the TCC must complete programs already initiated in the following areas:

1. Fixed assets reconciliation to ledger accounts
2. Updating and computerization of the fixed asset ledger and controls
3. Upgrading testing and reconciliation procedures in billing and traffic studies
4. Decreasing the time between rendering of service and bill distribution
5. Accounts receivable aging and service cut-off programs
6. Procedures for accruing monthly international and other non-local revenues

There is a risk that achievement of the TCC goals could be delayed beyond April, 1989 due to lack of computer support. Computer (PC) hardware and software are critical to being able to accomplish requirements in fixed assets and receivables. The TCC needs four PC computers and accompanying software having a cost of approximately $U.S. 20,000. The requisition for these is reportedly bogged down in bureaucratic red tape.

Commercialization is extremely important to the TCC. A director of commercialization should be designated to spearhead the process. There will be several complex projects needed to be

undertaken or completed after initial privatization that may falter without strong managerial attention. See Appendix E for a recommended structure to oversee commercialization of all the TCC. It should be recognized that this organizational structure is for a large telecommunications company and is for illustrative purposes only. However, the functional requirements would be the same.

In general, the accounting and financial organization is supervised by recently hired personnel from the private sector. They appear to have made significant progress over the past few months and are obviously capable people. Opportunities for improvements still exist which will enhance the TCC's productivity, internal controls, managerial control and ability to function like a commercialized telephone operation. Improvement and developmental opportunities include:

1. Automation of the financial accounting systems
2. Update and modernization of the fixed asset accounting system
3. Standardization of accounting policies and procedures
4. Improvements in work methods and performance of personnel
5. Review and analyses of pricing in a competitive environment to maximize revenue realization
6. Standardization of payment policies and priorities

7. Restructuring of the financial organization
8. Development of management budget systems with the ability to track performance by cost/profit center

The TCC is moving toward its goals of commercialization in a systematic manner. However, the TCC lacks in depth resources and technical knowledge that will be necessary once it moves into the more complex aspects of commercialization. Outside assistance will be required. Technical outside consultants should be individuals with prior telephone operating company experience. It is expected that these will be foreign consultants.

It might be desirable to have a general advisory consultant to assist in screening technical consultants and be responsible for building the teams from industry as well as assisting the TCC to achieve deliverable products during the process, rather than after the fact. This could very well be a local accounting firm with international (e.g., U.S.) affiliation which is not already employed by the TCC.

Appendix C is an outline of tasks required for Phases I, II and III of commercialization work in finance and accounting, together with an estimate of consulting required, as well as potential costs for a total MIS system "package" (under U.S. $2 million, including training, but excluding hardware) available for purchase from vendors in the U.S. and elsewhere. Software

for translation of the package into Arabic is also available, or it may be that the MIS system in use for telecommunications in Saudi Arabia, which is fully operative in Arabic, can be obtained.

Appendix D is a time-flow chart for these tasks.

Capitalization of the New Corporation

1. When the new corporate entity is established, the financial records will need to reflect shareowner equity, i.e., common stock capitalization. At the date of incorporation, the amount of capitalization of the Government's equity, based on GAAP, should be the amount recorded as shareholders' equity unless the financial statements are qualified (1) regarding the realization or impairment of assets or (2) because internal controls affecting fixed assets have material weaknesses which have not been corrected. Absent the above qualifications, there are no indications of overvaluation. To the contrary, some of the assets have been fully depreciated but are still contributing to earnings. Further, a material amount of the fixed assets are relatively new and their values are not in question.

2. For purposes of testing the amount of financial capitalization, net profits adjusted for commercial operations, such as income taxes, can be capitalized to yield a present value

of future earnings. For example, the average of 1985-1986 net profits of $JD 19.5 million, adjusted for income tax of 40% and benefit provisions previously maintained by the Government (assumed to be the equivalent of raising taxes to 45%), if capitalized at 10% yield a capitalized value of $JD 107 million, or very close to what the books presently show. At this time, the book equity capitalization appears to be reasonable. A more refined test should be prepared after 1988.

Determination of Tariffs for Telecommunication Services

The responsibility for tariffs for all telecommunications products and services should be under one corporate officer such as "Assistant Vice President Marketing" as shown in the "typical organization structure" shown in Appendix E. This management position should have responsibility for:

- Marketing strategy
- Market surveys and studies including elasticity of demand
- New product development
- Product life cycle management
- Pricing of competitive products and services
- Tariffs for regulated services

The person appointed to this position should have an early opportunity to meet with peers in other telecommunications companies to gain knowledge of concepts, various models, practices and procedures.

Management and Organizational Structure

To facilitate the incorporation, subsequent privatization, and optimization of the telecommunications system in the Kingdom of Jordan, it is recommended that a reorganization plan be developed for full implementation by April 1, 1989. This plan can be developed effectively by instituting the following plan of action by April 30, 1988:

1. Form a steering committee consisting of knowledgeable representatives from legal, personnel, public relations, finance, operations, planning, engineering, and traffic. In addition, an outside consultant familiar with the latest telecommunications organizational structures and the human relations aspects of organizational change should be added to this committee as an advisor.

2. Charge this committee with the responsibility for developing a proposal for reorganization complete with implementation plan by June 30, 1988.

3. Present this plan to H.E. the Director General on or soon after June 30, 1988 for his input and approval.

4. Present this plan as approved by July 31, 1988 to H.E. the Minister of Communications and Transportation for input and approval to proceed by September 30, 1988.

5. Begin implementation October 1, 1988.

It would also be advisable to select the members of the Board of Directors, predominantly from the private sector, by December 31, 1988, so that various subcommittees of the Board could be organized to deal with the myriad strategic and policy issues which will require the attention of the Board.

A typical organizational structure which would facilitate commercialization and privatization of the TCC is shown in Appendix E.

Personnel Policies and Practices

As part of the reorganization implementation plan development, task forces should be formed of TCC personnel and consultants to:

1. Develop personnel policies and practices to meet the needs of the new organization
2. Draw up employees communications concerning the purpose, benefits and goals of the new structure
3. Develop management training courses applicable to the human relations, management and administrative requirements of the new service and profit-oriented organization
4. Prepare job descriptions for all management jobs
5. Develop a salary and benefit plan based on the new job descriptions and designed to attract and retain qualified and motivated management personnel
6. Develop new job descriptions and a wage and benefit plan for non-management positions
7. Recruit new managers and reassign present managers as required

This work program should start by May 31, 1988, based on preliminary organizational study input and should proceed so as to complete by September 30, 1988. It is readily apparent that for this work program to succeed, a decision by the reorganization steering committee as to the organizational structure to be chosen must be made by May 31, 1988. This reorganization plan is obviously ambitious and consequently it will require top management support to be successful.

There will be significant consultancy requirements for the organization study and the development of personnel policies, training, job descriptions and remuneration. We estimate that five consultants will be required over a period of seven months. The skill requirements are as follows:

- Personnel policies and practices
- Organizational structures and implementation
- Management and administrative training
- Preparation of job descriptions and job evaluation
- Salary, wage and benefit plans

It is expected that two of these consultants can be obtained locally.

PRIVATIZATION: THE OFFERING OF SHARES

TIMING

The sale of shares to the private sector need not await the completion of all commercialization steps. It is, however, dependent on two of them. The legislation creating a new stock company and vesting it with the assets, liabilities, management, employees and financial autonomy (including decoupling) must be complete. Also, it is highly desirable that the transition to an accrual basis of accounting be complete (together with satisfactory fixed asset valuations) so that the auditor's opinion will no longer include the present qualification. We believe it is reasonable to anticipate that both these requirements will be met by the time the auditor's opinion relating to the 1988 financial statements is available, i.e., about April 1, 1989. We are assuming that by that time the various internal reforms will at least be in process and the regulatory framework will be designed (and presumably included in the legislation). Clearly, the share price will depend to a large extent on the public's perception of the TCC's capacity to operate efficiently and its understanding of potential regulatory limitations, if any.

The various steps that need to be taken to prepare for privatization, some of them well in advance of actual sale (and

which could be undertaken looking toward a sale as early as mid-1989), follow.

SELECTION OF FINANCIAL ADVISOR

Due to the complexity of certain aspects of the privatization process, such as valuation and pricing, the services of an experienced international investment or merchant bank should be retained after a careful consideration of the qualifications of various candidates. Selection criteria should include previous experience in preparing companies for privatization, understanding of the telecommunications business, and the willingness of the bank to participate in the eventual underwriting of the TCC's shares. It would be important for the foreign financial advisor to develop a working relationship with the domestic banks to be involved, to ensure that the local banking community begins to acquire the skills that are required to perform these tasks.

A PUBLIC AWARENESS CAMPAIGN

Privatization cannot succeed without broad support and understanding. However, the countless unknowns that surround the privatization process create serious misgivings among staff,

other Government employees and the general public. Thus an essential task, which must be undertaken promptly, is to demystify the privatization process and mobilize widespread public support. A coordinated mass education campaign should be planned, to begin once the draft legislation is completed and specifics are known, which would include the use of television(?), radio, press conferences, special video productions, and customized briefing sessions for key interest groups. The public must become convinced that the privatization of the TCC has the potential to benefit them personally as well as the nation at large.

A number of specific groups should be targeted for special attention:

Prospective Shareholders: A key Government objective is to undertake a public offering that will distribute the TCC shares to a broad and diversified segment of the Jordanian population, to many of whom the stock market is an enigma. Although they may be endowed with substantial liquidity, they will be wary of risking their savings in a process they do not understand. A well-structured publicity campaign can overcome this suspicion and create a groundswell of public support for the TCC privatization and the concept of stock ownership.

The TCC Staff: Considerable evidence from other countries suggests that successful implementation of the TCC privatization scheme can only occur if the employees of the company support the process. But this key group is understandably suspicious of a process that could have profound implications for their future welfare. Thus, it is imperative that their suspicions be allayed and that they become enthusiastic supporters of a privatized TCC.

Government Workers: As noted earlier, the TCC is closely linked at the present time to a number of Government ministries. Particularly at the senior levels it is important to obtain the support of people in these ministries so that they will cooperate and assist during the difficult transition from Government department to private company for the TCC and for future privatizations.

VALUATION

The purchase of equity in a company depends on the value that prospective investors place on the future earnings capacity of the company, discounted to their present value. This value will be highly dependent upon alternative investment opportunities with commensurate risks as perceived by the investors.

The first step in the privatization process, therefore, is to conduct a systematic analysis of the company, its assets and its prospective earnings stream for the purpose of determining its value in financial terms. Although the methodology for conducting this analysis is well-established, it is a highly complex process. It is strongly recommended that the foreign financial advisor participate in this exercise. It cannot be too strongly emphasized that this valuation must be related to the worth of the company's assets and earnings as a going concern, and not purely a book value based on accounting records or an asset appraisal based on original cost or replacement cost, whether or not depreciated. The past investment in assets is rarely a reliable measure of the value of a business to be realized through its operation over time.

PRICING THE SHARES

The valuation exercise will serve as an important guide to Government officials in approving offering prices to the various classes of investors (public, employees, institutions). Determining the share price is always a delicate task, but is particularly sensitive and potentially controversial when the sale of highly prized Government assets are at stake. If the share price is set too high, for example, there is the risk that

the offering will be undersubscribed and deemed a failure by the public. If, on the other hand, the shares are significantly underpriced, the Government runs the risk of a public outcry that the nation's valued assets are being auctioned at cut-rate prices. Again, it is strongly recommended that the foreign financial advisor, drawing on experience with similar transactions elsewhere, be a participant in the pricing decision. Moreover, the Jordanian banks must also be directly involved, as they will bear some responsibility for the outcome.

OFFERING STOCK TO EMPLOYEES

As noted earlier in this report, it is advisable to create an attractive stock purchase opportunity that would be available to all full-time TCC employees on an allocation basis to be determined. The terms of these arrangements should be sufficiently attractive to serve as an inducement for employee participation, particularly if they are required to hold the shares for a stipulated period of time. Experience with employee ownership in other countries suggest that the offering of discounted shares to employees with payment on an installment plan can be important to ensuring their support for the privatization process. Some consideration should be given to establishment, by legislation, of these or other benefits to

encourage and facilitate employee purchases in the TCC and other cases.

OFFERING SHARES TO OTHER GOVERNMENT EMPLOYEES

It also may be worthwhile to consider offering less discounted shares to non-TCC Government employees, such as civil servants and armed forces personnel. This option should be carefully studied to determine whether its potential positive effect on attitudes of the bureaucracy toward the Government's overall privatization program justifies the cost.

MARKETING PROGRAM

Going beyond the public awareness program described above, it will be imperative to undertake a major marketing campaign to inform and educate the public specifically about the TCC and the mechanics of participating in a public stock offering. Government officials should be directly involved in the design and implementation of this effort, as should the foreign financial advisor having had previous experience in this type of activity. It should be coordinated with the work being carried out with a more general privatization focus by the public relations firm orchestrating the campaign.

One of the most important objectives for the Government is to distribute the shares of TCC as widely and as equitably as possible. At the same time, this important goal must be balanced with the Government's need to maximize the amount of capital raised for itself or for the newly privatized enterprise. In order to achieve these objectives the Government should employ a variety of financing techniques. In addition to distributing some of the shares to employees, the Government will conduct a public share offering, drawing on the services of a select group of financial institutions. The Amman Stock Exchange is sufficiently well-developed to served as an efficient intermediary for this process, and local banks have indicated a strong interest in participating.

It is hoped that the public offering will attract a diverse group of investors. The critical mass will come from local individual investors who become convinced that the TCC shares are an acceptable investment. Also, a number of local corporations may be expected to participate in the sale. And finally, Jordanian nationals living abroad should be specifically targeted. As a group, this latter category of prospective investors is wealthy, knowledgeable about financial markets, and continues to have a stake in the country's growth and development. As Jordanian citizens there are no legal impediments to their participation in the offering.

Continuing study and advice from bankers and others, together with an assessment and close monitoring of public investor interest stimulated by the marketing campaign, will determine the appropriate size of an initial public offering. There are only limited precedents to go by. However, it is understood that a very sizable offering of shares of the Jordanian Fertilizer Company was heavily oversubscribed by over 150,000 purchasers, where individual allocations were well below their indicated interest. Most other offerings have been relatively small. At the same time, the number of potential shareholders in Jordan (up to 600,000 depending on how the figures are constructed) is large in relation to the population (about 3 million), and there is reason to believe this will be a particularly popular investment choice reflecting conservatism and a perceived lack of investment alternatives. While analogies with developed countries can be misleading, it is believed to be significant that in the U.S. the "Telephone Company" (AT&T) has for many years had far more shareholders than any other corporation because of its recognized stability and long-term profit potential.

We believe it is not unreasonable to expect that an initial public offering in Jordan of $JD 20 to $JD 30 million (in addition to the TCC and other Government employee shares) could be highly successful, if the Government chose to do that much

when evidence at the time supports this view. It should be kept in mind that a public offering of the size envisaged for the TCC is likely to serve as an important stimulus to further development of the local capital market, believed to be an important goal for the Government, and should facilitate other privatization steps.

Upon further study, it also may be decided to place some TCC equity by conducting a private placement. In this case, a select group of institutional investors would be targeted to purchase substantial blocks of the TCC shares. These might be large domestic institutions, such as the Housing Bank, the Pension Fund and the Arab National Bank. A decision also may be made to offer small blocks of shares to individuals or institutions from other Arab nations. The latter category could include: General Organization for Social Insurance (GOSI SA), Saudi Industrial Development Fund, National Industries Corp., Kuwait Investment Office, Arab Fund for Social and Economic Development, KFTCIC, Gulf International Bank, Arab Banking Corp., etc. Such a placement, possibly coupled with an international public offering (see below), could aggregate an additional $JD 15 to $JD 20 million.

Finally, consideration may be given to attracting a foreign technical partner that would invest in the TCC and provide the company with needed management and technical assistance during

the crucial start-up years. A carefully selected, reputable technical partner also would enhance the attractiveness of the public offering.

It is envisioned that successive public offerings of shares would be made until the Government has divested its equity interest in the TCC.

APPENDIX A

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This Bibliography is divided into five sections: Jordan, Miscellaneous, Privatization, Telecommunications and the Telecommunication Corporation (TCC) citations, the latter is sub-divided into General and Internal working memoranda citations

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APPENDIX A

CONTACTS

Banks and Institutions

Petra Bank
Dr. Ahmad Ghalabi
GHMN/GM

Jordan National Bank
H.E. Abdulkader Tash
GHMN/GM

Dr. Adulrahman S. Toucan
DGM

Cairo Amman Bank
Mr. Jawdat Sha'sha'a
GHMN/GM

Jordan Arab Investment BAnk
Mr. Abdubader Al-Kadi
GHMN/GM

Mr. Amer Salti
DGM

The Housing Bank
Mr. Zuhair Khoury
GHMN/GM

Amman Financial Market
Dr. Hashem Sabbagh
MGHMN/GM

Mr. Ibrahim Bilbeisi
DGM

Minister of Communications
H.E. Abdul Mohsen Al-Husaini

Minister of Planning
H.E. Dr. Taher Kanaan

Minister of Finance
H.E. Dr. Hanna Odeh and Staff

Royal Scientific Society
Dr. Jawad A. Anani
President

Dr. Yousef Nusseir
Director, Computer Systems Department

Ministry of Planning
Mr. Saif Zahir
Chief, Telecommunications and Information Sector

Mr. Moussa Abumaizar
Deputy to Dr. Rima Khalaf

Central Bank
Mr. Hassein Al-Kalsom
Governor

The World Bank
Mr. David P. Lomax
Chief, Telecommunications, Electronics and New Technology Development Division Industry Department

Dr. Mohsen Khalil

Mr. Jerald Bottex

USAID Staff

Lewis P. Reade
Director

Richard E. Rousseau
Project Officer

Jim Dempsey

Doug Robertson

Bassam Khatib

Ibrahim L. Ghawi
Financial Advisor

TCC's Management Staff

H.E. Mohyeddin Al-Husseini*
Chairman, Board of Directors

H.E. Eng. Mohammad Shadid Ismail*
Director General

Eng. Walid Al-Dweik
Assistant Director General for Governances

Eng. Akef Harb
Assistant Director General for Operations

Eng. Afram Jamil
Assistant General for Development

Mr. Suliman Hafiz*
Assistant Director General for Finance and Administration

Mr. Mohammad Bataineih*
Administrative Manager

Mr. Zakie Makhamrieh
Financial Manager

Eng. Walied Taifour*
Planning Department Manager

Mrs. Aida Dahdah*
Director General Office Manager

Mr. Walied Hejazi*
Chief of Registration Section

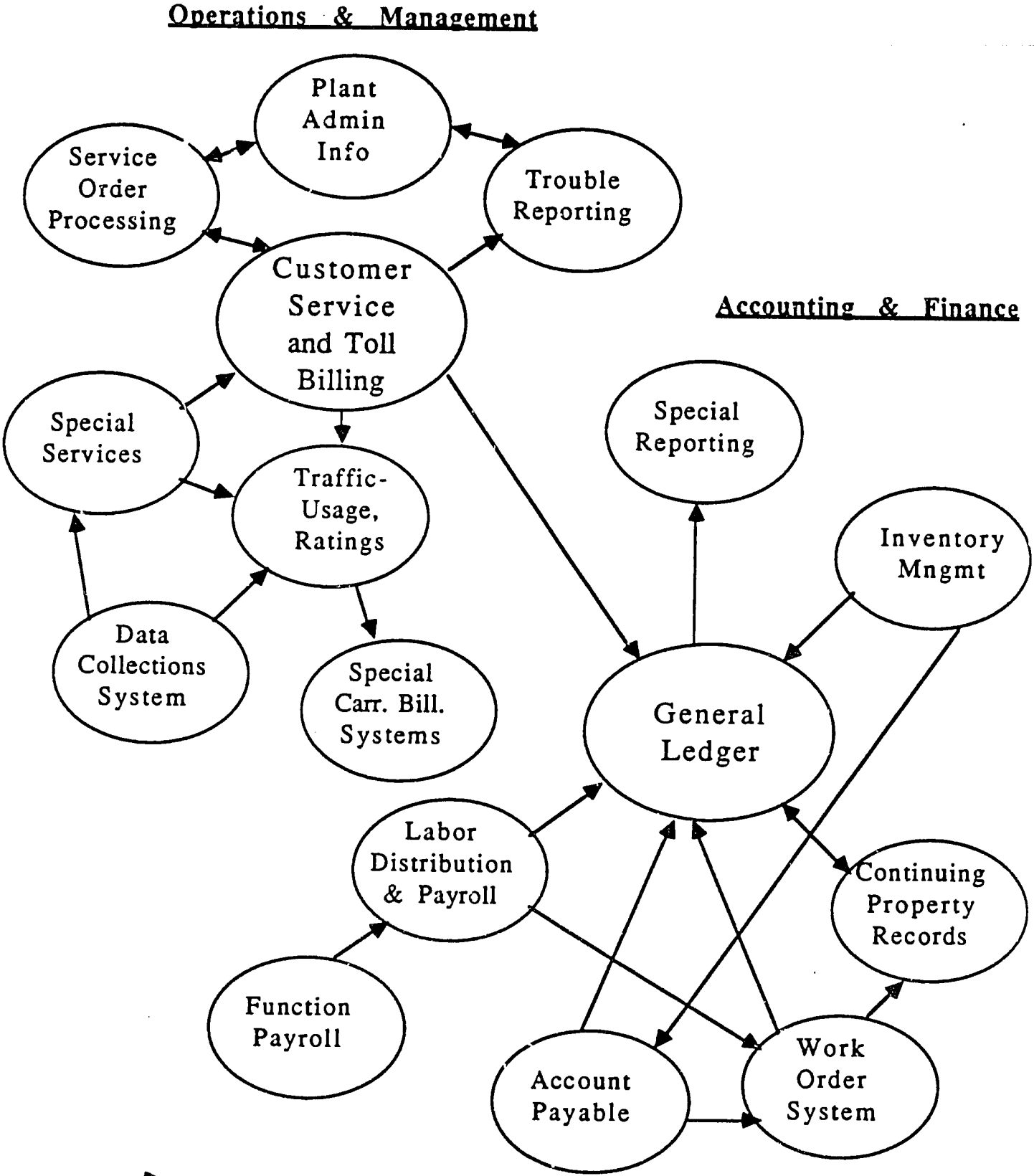
Mr. Ahman Al Omari*
Head of Foreign Relations Section

Mr. Abdulla Hindiyeh
Investment and Traffic

* Met with

APPENDIX B

MANAGEMENT INFORMATION SYSTEM
TELEPHONE FINANCIAL AND PLANT SYSTEMS
(Integrated - Interactive Primary Systems)



INFO FLOW

APPENDIX C

TASK PLAN -- FINANCE AND ACCOUNTING

PHASES I, II AND III

Phase I -- Initial Phase

1. No additional technical consulting is deemed necessary. The TCC should achieve the April 1, 1989 milestone on their own. They may need hardware assistance as mentioned at 3e.

2. There could be delays due to inertia and resistance. Absent such delays, the financial group would be ready for initial privatization at April 1, 1989.

Phase II -- Intermediate Milestone

1. Task 1: Computer Systems

   a. Appendix B is a Management Information System (MIS) system flowchart for a telephone company. None of the interactive systems is required for initial privatization. The TCC is expected to have certain PC spreadsheet applications in effect by January 1, 1989, which will enhance its records and internal controls, such as reconciling the fixed asset detail ledger to the general ledger (G/L) and reconciliation of accounts

receivable (A/R) and billing details. Of the many systems only A/R billing and the G/L systems are deemed to be required for Phase II commercialization. Eventually, the TCC will want to acquire additional systems to create efficiencies and streamlining which is Phase III.

b. MIS software: The TCC does not need to go through the traditional consulting organizations to acquire systems. They should use the businessman's approach and take a short-cut. There are excellent telephone company (telco) complete financial and operational MIS packages available off-the shelf. These are usually complete with manuals, procedures and policies, and include initial training. They are in everyday use and debugged. One such system is presently installed in 45 different U.S. independent operating telephone companies (where it is undoubtedly more complicated than it need be by FCC accounting requirements of a specialized nature) as well as four or five foreign countries. There are English-Arabic conversion plug-in modules in the Middle East which may overcome conversion problems. The TCC should immediately begin the process of selecting a vendor with a complete MIS package suitable for current and future TCC applications. Once the overall system is selected, the

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TCC should install selected modules based on a planned program, including training and personnel development. Appendix D shows the order of priority recommended for the TCC.

c. Acquiring licensed software may be a problem for the TCC if Jordan does not have a reciprocal copyright agreement with the country from which the system is selected.

d. The TCC will need outside assistance in defining and writing specifications for vendor solicitation. It is possible Saudi Telephone could provide systems cheaply. It is also possible to short-cut the process by going directly to selected vendors.

e. Task Plan

	Person Days*
1.) Survey and prepare requirements	30
2.) Write vendor solicitations	12
3.) Solicitation and analysis	16
4.) Vendor demonstrations	12
5.) Recommendations/selection	4
TOTAL	74

* All estimates assume minimum consultant time.

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f. Consultant Required

1.) International contacts

2.) Specific experience with telco systems

3.) Experience with vendors

g. Estimated cost U.S. Telephone MIS Package

	$U.S. Millions
1.) Hardware -- IBM 38	2.9
2.) Licensed software	0.7
3.) Installation, maintenance	0.4
4. Cost for total MIS system package	4.0

2. Task 2: New Procedures (billing, treasury, accounting systems-accrual)

a. The objective for the consultant would be to assist the TCC to write and implement new or revised procedures for the specified functions. These are essential to assure continuity and ability to consistently prepare monthly statements. Recommend the overall computer system be selected first because that may include many procedures and policies manuals that the TCC can utilize.

b. Tasks

	Person Days
1.) Review current procedures, if any	24
2.) Prepare new manuals, changes	16
3.) Assist with implementation	30
TOTAL	70

c. Consultant Required

1.) Hands-on telephone company financial/accounting procedures, policies and system procedures experience

2.) Hands-on experience as a treasurer of an independent telephone operating company or similar regulated entity, cash management, bank relations, portfolio management and other treasury function.

3. Task 3: Restructuring (basic organization)

a. Objective: Restructure, along the lines of typical telco financial department

b. Tasks

	Person Days
1.) Analyze all previously prepared plans	5
2.) Develop organization around the MIS system	5
3.) Job descriptions,salary and benefit plan	25
4.) Implementation assistance	25
TOTAL	60

c. Consultant Required

1.) Specific telco organization experience

2.) Sensitive to Jordan culture

3.) telco operating experience

4.) Heavy experience in wage and salary plans, pension and other benefit and personnel functions

d. Organizational comment

The typical telco financial department should serve as a benchmark or model for TCC adoption. There are model job descriptions available that could be used as models. Implementation is the key concern and that is where the major effort needs to be directed.

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4. Task 4: Pricing Policies

a. Objective is to assist the TCC develop short-and long-term pricing strategies consistent with the competitive and economic environments.

b. Tasks

	Person Days
1.) Survey present policies and practices	10
2.) Understand economic and political implications	20
3.) Strategize with top TCC management concerning objectives and economic performance goals	10
4.) Develop strategic plan	20
5.) Implementation	10
TOTAL	70

All or a portion of these tasks can be eliminated to the extent they duplicate work being done by the World Bank. This assistance should be coordinated.

c. Consultant Required

1.) Telco revenue requirements, business relations background at senior management level

2.) Actual experience developing and implementing telco pricing and tariff practices and policies involving by-pass and competitive pricing.

3.) Worked at senior level with traffic departments, and settlements at a telecommunications or Bell operating company.

4.) Experience dealing with rural pricing strategies and associated problems.

5.) Involved in deregulation of terminal equipment and "unbundled" pricing of all telco services including cellular, paging, cable and yellow pages.

Phase III -- Completion of Commercialization

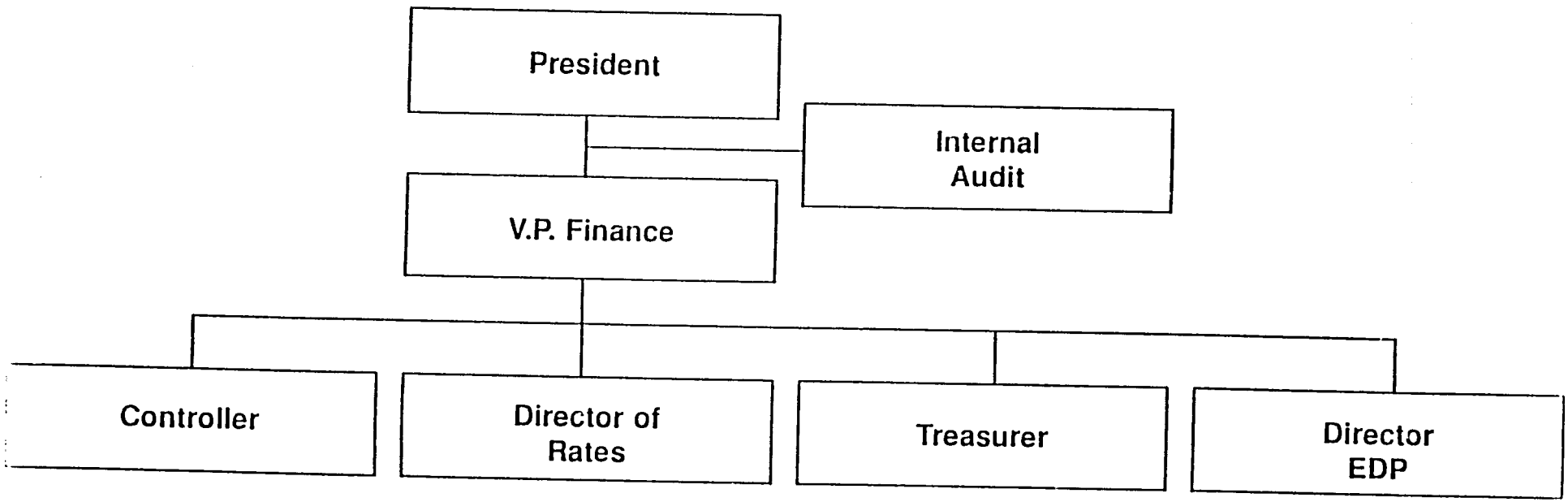
1. Task 5: Other Projects

   a. Completion of MIS

   b. Completion of Organizational Changes

2. MIS Packages: While the entire package could be installed and operational within six to twelve months, the TCC should schedule modules for implementation based on availability of trained personnel.

Typical Telco Financial Department



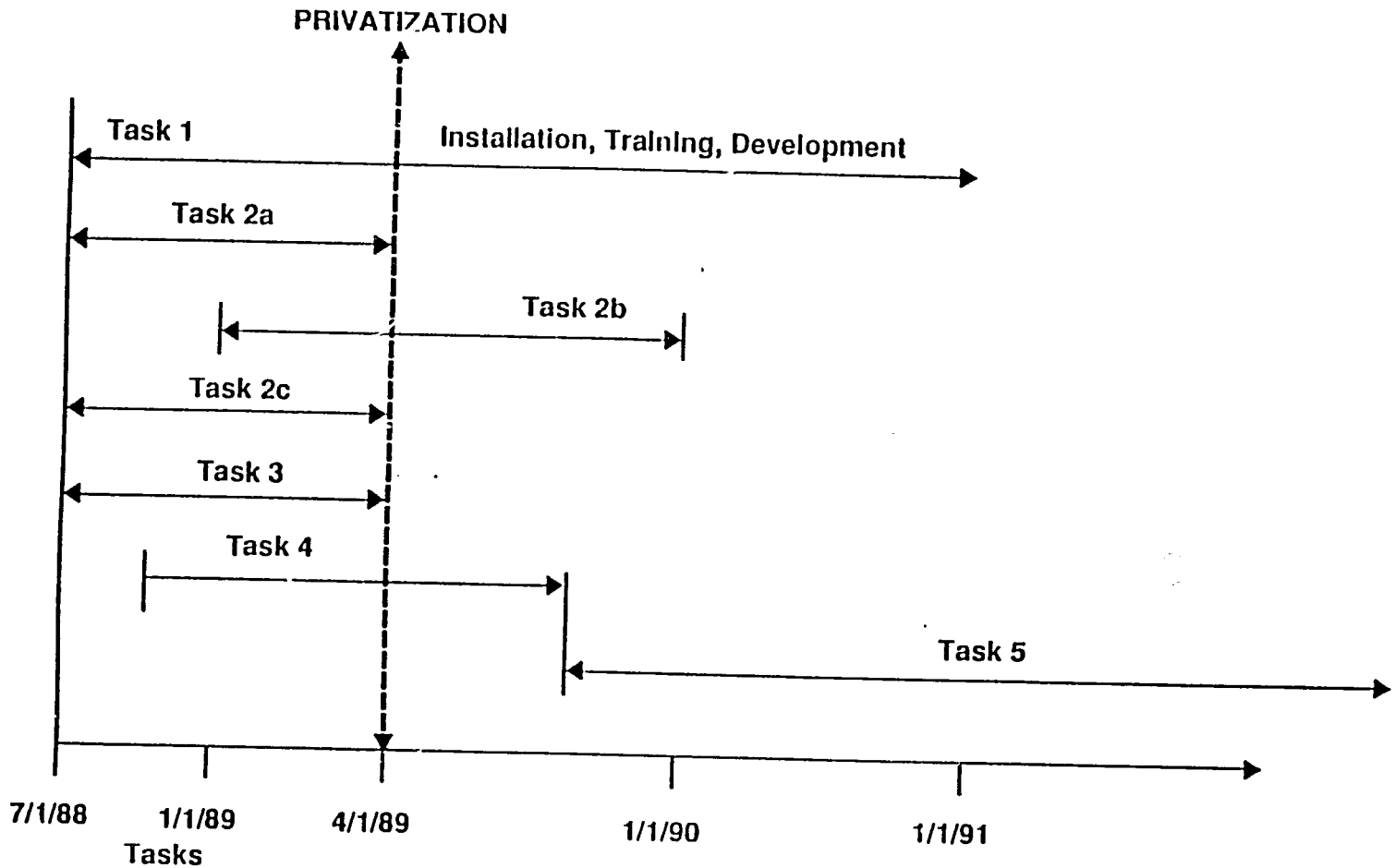
General Accounting
Plant Accounting
Taxes
Revenue Accounting
Special Projects

Settlements
Revenue Requirements
Special Studies/Pricing

Cash Management
Bank Relations

Systems Management
Maintenance

Prioritized Task Schedule
(Phase II Commercialization)

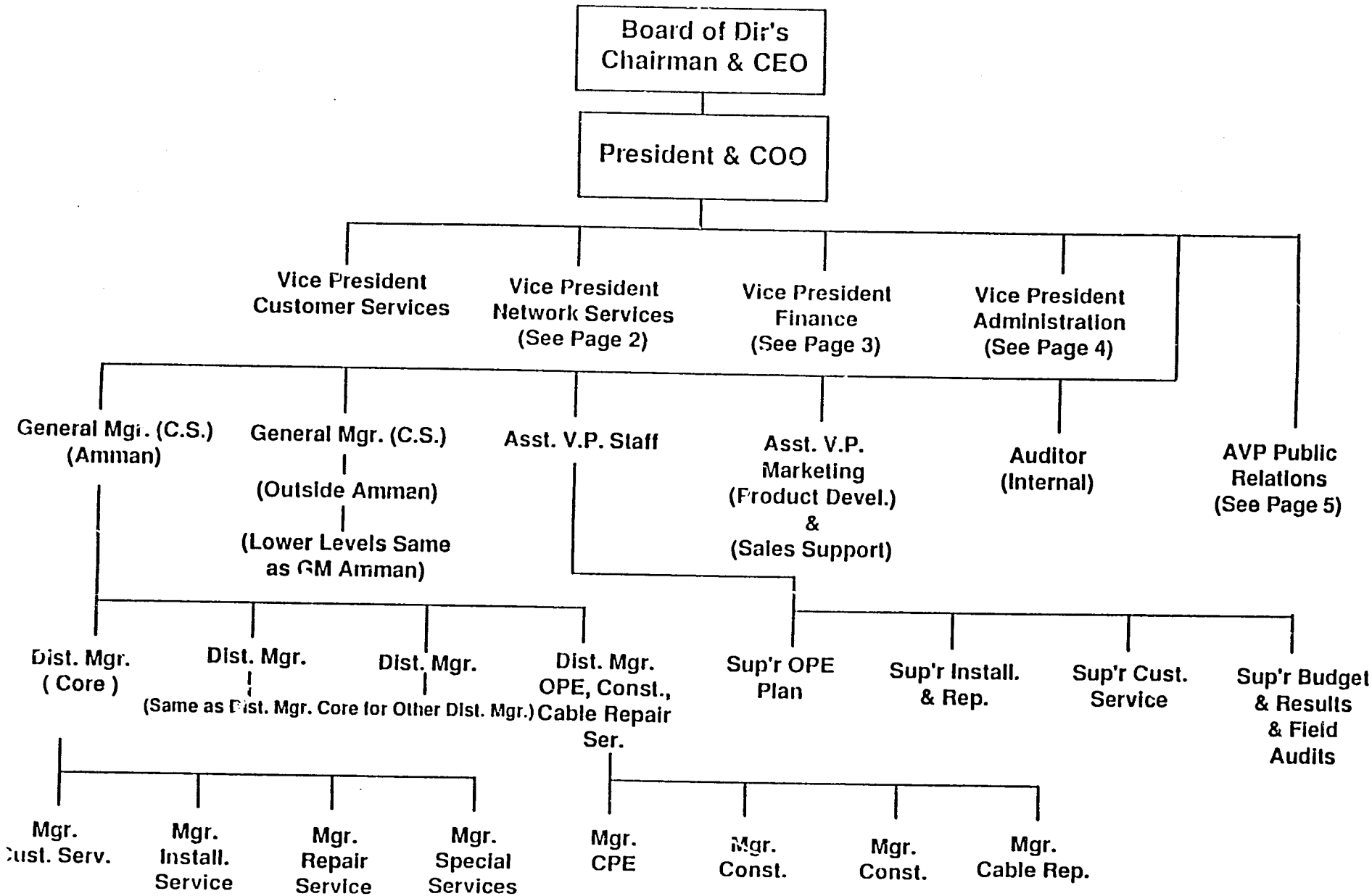


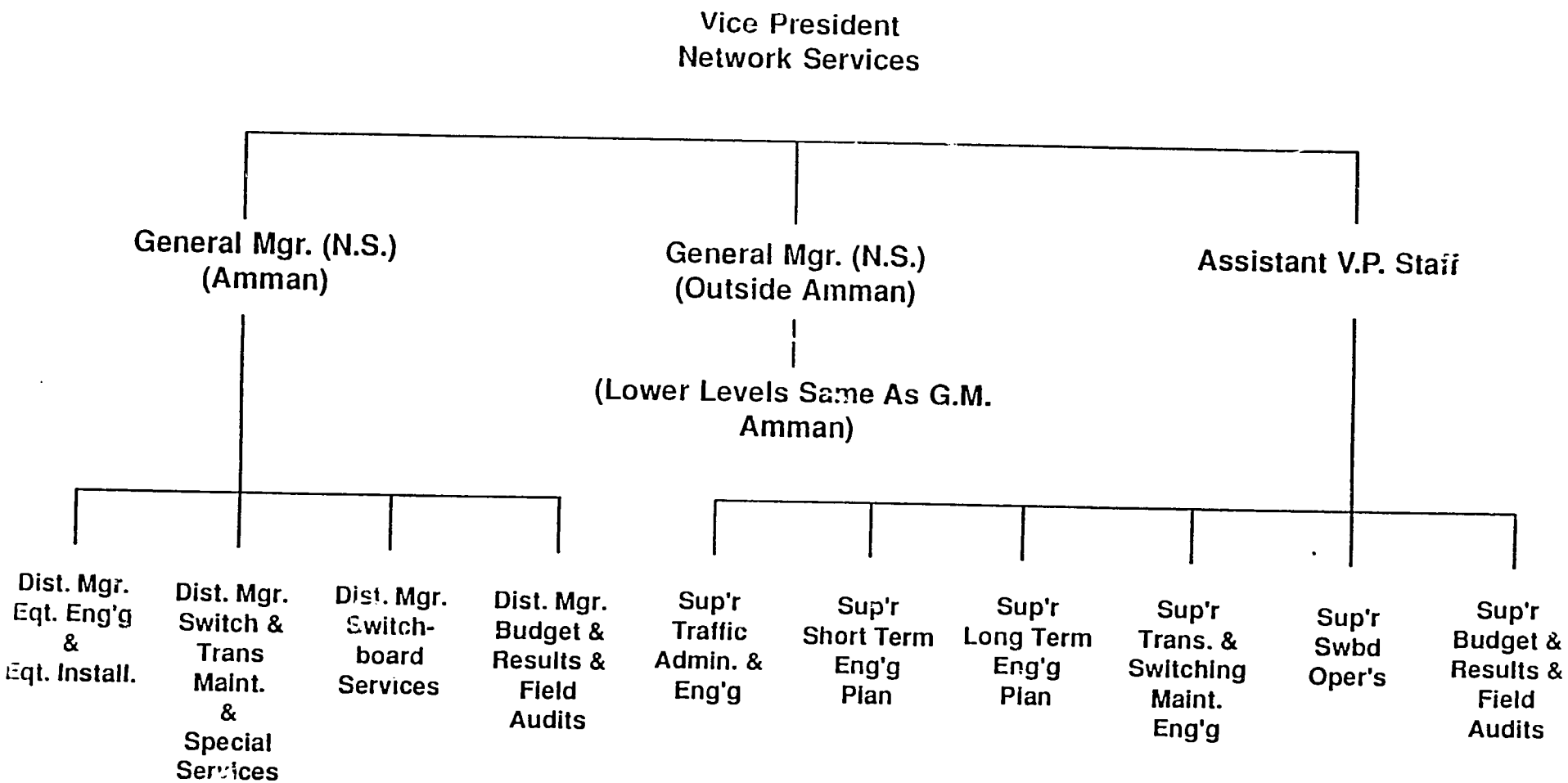
Tasks

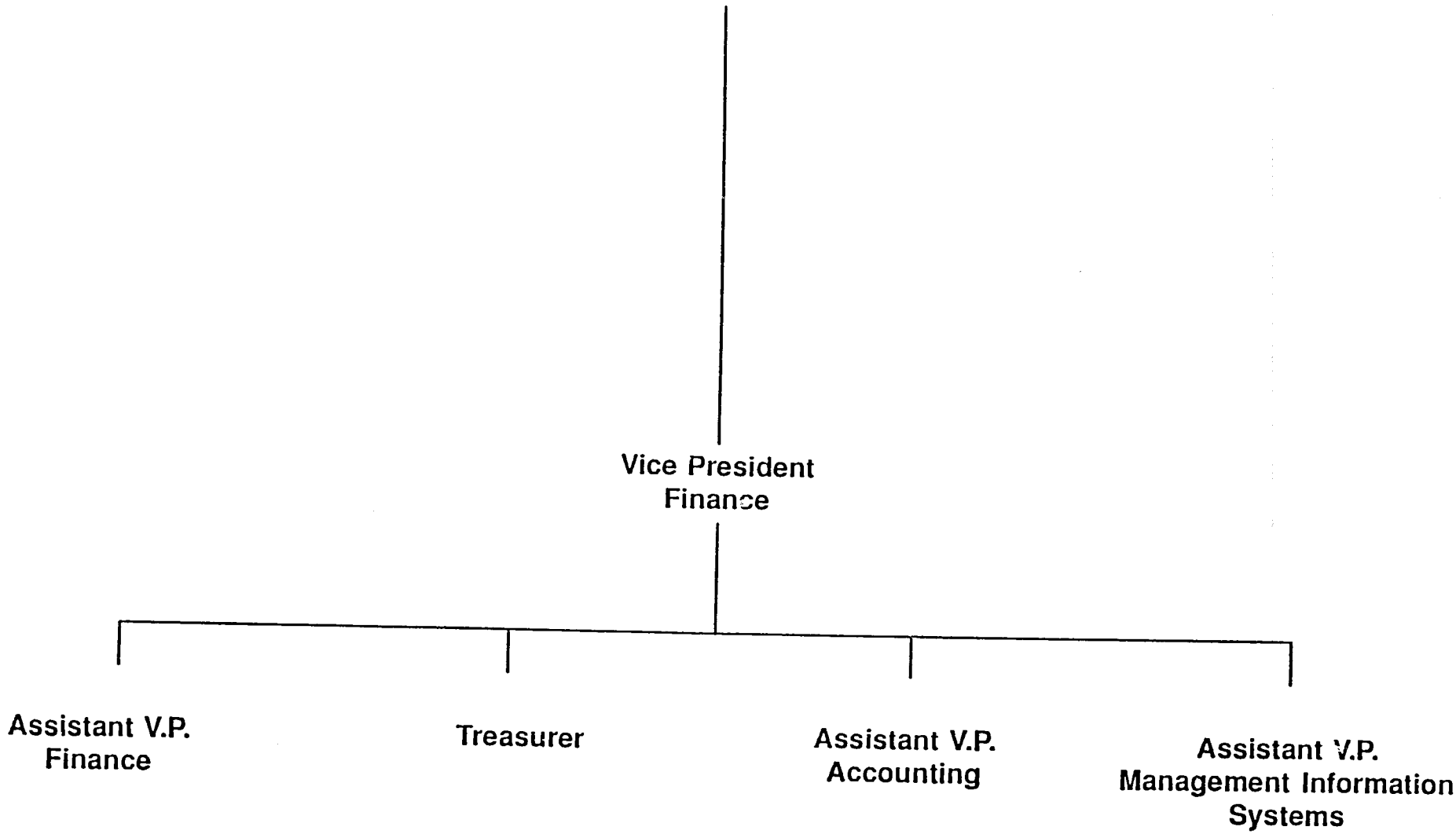
1. Select MIS system. Install A/R-Billing; G/L Modules
2a. Develop and Implement accounting procedures manual. Coordinate with MIS model
2b. Develop billing/AR procedures from MIS system model
2c. Develop treasury function. Implementation
3. Organizational studies, benefit plans, job descriptions
4. Pricing strategies
5. Other, mostly MIS. See appendix B for priority of installation

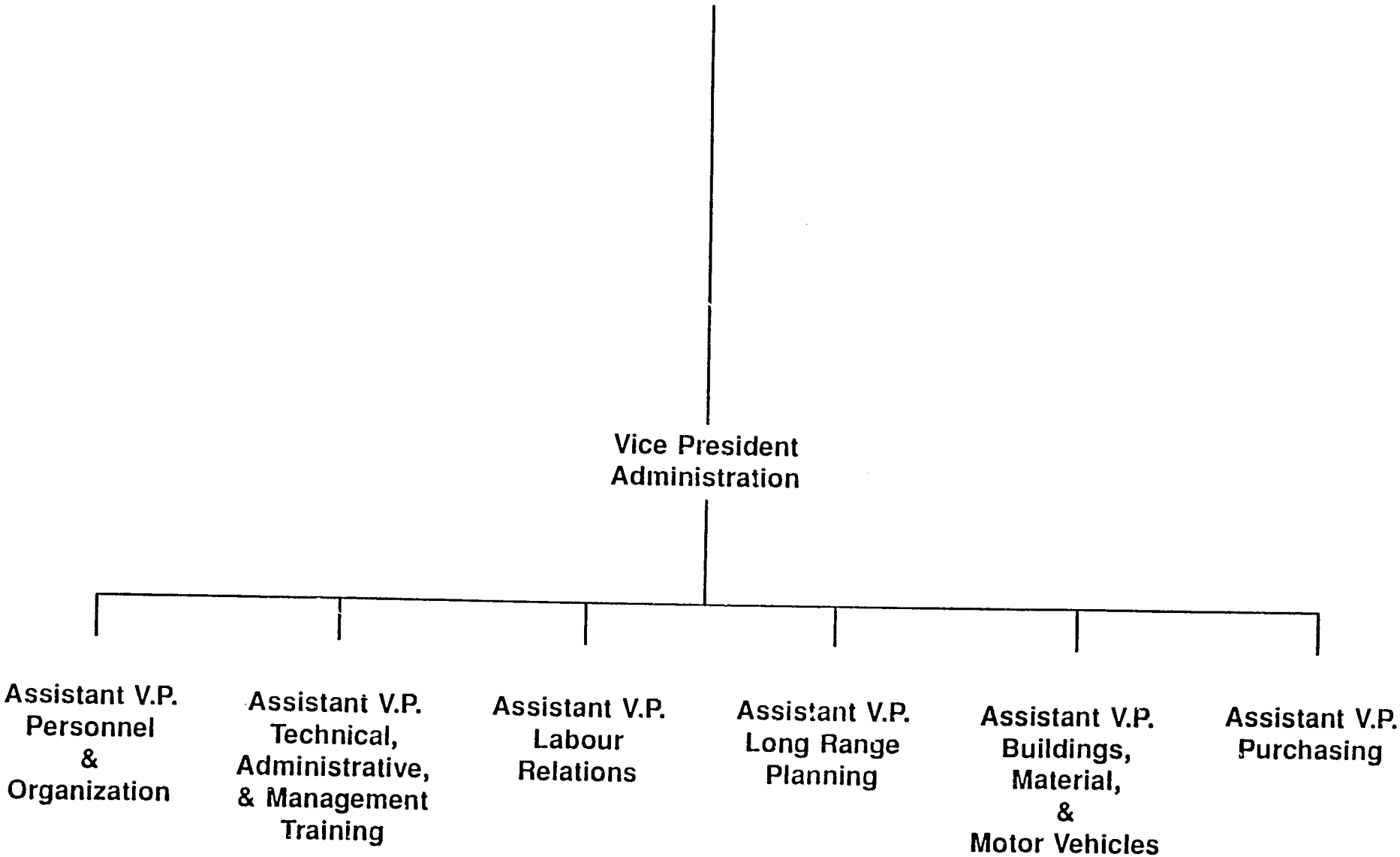
APPENDIX D

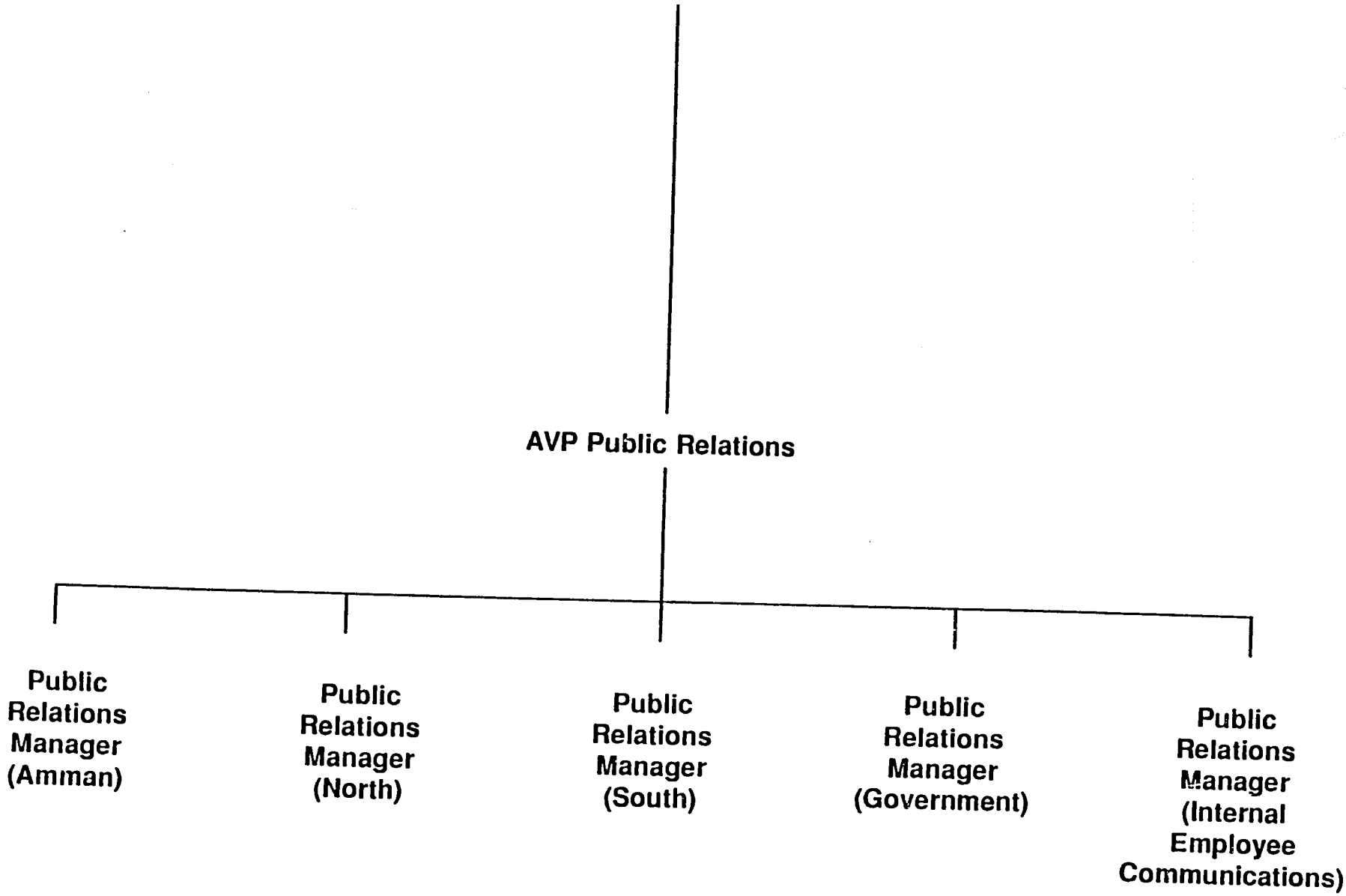
A Typical Organizational Structure Which Would Facillitate Commercialization & Privatization of the TCC




Vice President
Network Services
General Mgr. (N.S.)
(Amman)
General Mgr. (N.S.)
(Outside Amman)
Assistant V.P. Staff
(Lower Levels Same As G.M.
Amman)
Dist. Mgr.
Eqt. Eng'g
&
Eqt. Install.
Dist. Mgr.
Switch &
Trans
Maint.
&
Special
Services
Dist. Mgr.
Switch-
board
Services
Dist. Mgr.
Budget &
Results &
Field
Audits
Sup'r
Traffic
Admin. &
Eng'g
Sup'r
Short Term
Eng'g
Plan
Sup'r
Long Term
Eng'g
Plan
Sup'r
Trans. &
Switching
Maint.
Eng'g
Sup'r
Swbd
Oper's
Sup'r
Budget &
Results &
Field
Audits


Vice President
Finance
Assistant V.P.
Finance
Treasurer
Assistant V.P.
Accounting
Assistant V.P.
Management Information
Systems


Vice President
Administration
Assistant V.P.
Personnel
&
Organization
Assistant V.P.
Technical,
Administrative,
& Management
Training
Assistant V.P.
Labour
Relations
Assistant V.P.
Long Range
Planning
Assistant V.P.
Buildings,
Material,
&
Motor Vehicles
Assistant V.P.
Purchasing


AVP Public Relations
Public Relations Manager (Amman)
Public Relations Manager (North)
Public Relations Manager (South)
Public Relations Manager (Government)
Public Relations Manager (Internal Employee Communications)