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# CARANA Corporation

## PRIVATE SECTOR NEEDS ASSESSMENT

Prepared for  
USAID/JORDAN

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## Private Sector Needs Assessment

I.	Introduction	3
A.	Background	3
B.	The Private Sector in Jordan	4
II.	Analysis of Constraints and Issues	12
A.	The Microenterprise and Small Business Sector	12
B.	The Medium and Large Business Sector	14
III.	Existing and Planned Donor Interventions	22
A.	The Microenterprise Sector	22
B.	The Small, Medium and Large Business Sectors	23
IV.	Possible Interventions	25
A.	The Microenterprise and Small Business Sector	25
B.	The Medium and Large Business Sector	27
C.	Access to Economic Opportunities for Women in Jordan	30
V.	Recommended USAID Activities	31
A.	Selection Methodology	31
B.	Increased Access to Financial Services	33
C.	Improved Policy Environment	35
D.	Selected Indicators	37
Annexes		
I.	Scope of Work	41
II.	Bibliography	53
III.	Organizations and Individuals Contacted	56
IV.	Draft Strategic Objective Submission	61
V.	Project Description: Microenterprise Sector	75
VI.	Project Description: Investment Promotion Corporation	82
VII.	Mapping of Existing and Proposed Business Support Programs	90
VIII.	Financing for Small, Medium, and Large Businesses in Jordan	97

## I. Introduction

### A. Background

In December of 1996, the Mission contracted with CARANA Corporation to carry out a Private Sector Needs Assessment. The objective of this study, which was completed in January of 1997, was to identify and clarify the best opportunities to affect continuous private sector growth, with an emphasis on identifying the most critical impediments to more rapid, sustainable growth. The tasks undertaken under this contract sought to provide USAID with a clear understanding of the credit and non-credit related impediments to growth for those business sectors which can contribute significantly to providing jobs and increasing income for target groups.

The effort was designed to identify a prioritized list of potential USAID program opportunities which will:

- Address critical impediments to economic growth not met or insufficiently met by other donors;
- Be most suitable to USAID's management skills;
- Provide the largest employment and income increases;
- Fit within the Mission's modest budget; and,
- Support USAID's new Strategic Objective of Increased Economic Opportunities<sup>1</sup>.

The contract called for the completion of a number of tasks, all designed to help the Mission draft a comprehensive Strategic Objective, Results Framework and specific activities for addressing the Strategic Objective related to Economic Opportunities. These tasks, along with the specific deliverables, are presented in the Scope of Work in Annex I.

In carrying out this assessment, the team gathered data covering the microenterprise, small and medium, and large business sectors in Jordan. The principal sources of data came from extensive interviews carried out in Jordan and Washington and from a review of recent studies and other written sources compiled on the subject.

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<sup>1</sup> During the working sessions with Mission staff to discuss and develop the Strategic Objective submission, the Strategic Objective was further refined to read "Expanded Economic Opportunities for Jordanians".

The interview process focused on gathering information from donor organizations, key private and public sector participants, and, most importantly, from the businesses which are the ultimate beneficiaries or customers. The interviews included representatives of fifty existing businesses covering a wide size spectrum and operating in a variety of industrial and service sectors, as well as four commercial banks, nine NGOs in microfinance lending, three other financial institutions, two business associations, and twenty-five other donors, consulting firms and Government of Jordan offices. A complete list of those interviewed is included in Annex III.

Recent studies and written sources included reports completed by USAID including the recently completed evaluation of the impact and effectiveness of the Jordan Mission's Sector Policy Reform Program (1993 - 1996), prepared by a separate consulting team. Additional studies were also compiled from the World Bank and other donors, such as GTZ, and incorporated into the development of the Mission's Strategic Objective. A complete list of studies and written materials reviewed in carrying out this assessment is presented in Annex II.

The scope of work also requested that CARANA submit a draft strategy designed to meet the Mission's criteria discussed above and possibly be incorporated into its Strategic Objective (SO) submission to USAID Washington with little additional consulting assistance or input. As a result, the CARANA team also participated extensively in the Mission's preliminary internal deliberations and structuring of the SO and its underlying components.

## B. The Private Sector in Jordan

While the specific constraints, issues, possible interventions and recommended activities are discussed in greater detail in the following chapters, some general characteristics of the Jordanian private sector are presented here. This section is designed to provide the reader with a general overview of the private sector, although many of the points discussed below are analyzed in greater detail in subsequent chapters.

### 1. Characteristics that describe the Jordanian private sector

In summary, the private sector can be characterized as:

- In a transition stage, moving from secure and assured markets to open, regional and global competition but, in the majority of cases, lacking the skills and financial resources to do so.
- Willing to make changes but lacking the management and marketing skills as well as the financial strength to do so.

- Adversely affected by government policies that, although recently improved, remain cumbersome and bureaucratic.
- Affected by a “system” (primarily banking and government) which favors the larger, more established enterprises which, because of their connections and financial credibility, can speed up bureaucratic procedures and have wider access to credit.
- Lacking adequate market information and marketing "know how". Professional institutions are not seen as dynamic and active in helping companies confront their major obstacle: seeking and establishing contacts with new markets.

### OTHER GENERAL CHARACTERISTICS

*A private sector in transition:* The devaluation of the dinar in the mid eighties, the Gulf War in 1990, the international embargo on Iraq and IMF-initiated reforms have had a significant impact on Jordan's small and vulnerable economy. Businesses now realize that their future lies in regional and global trade and the forthcoming accession to the WTO will accelerate the need for higher standards of business, marketing practices, and product quality. This sector is in the process of moving from secure and virtually guaranteed markets to open, regional and global competition but, unfortunately, lacks the skills and financial resources to do so.

*A sense of insecurity about future business:* Jordanian businesses are facing severe challenges, looking for new markets for products they have traditionally manufactured or traded for local and Iraqi consumption. In addition to the insecurities arising from regional political challenges, there is the added concern of having to face open competition from global players without the support of government and professional institutions.

### MANAGEMENT ISSUES

*An entrepreneurial trader approach to business:* Culturally, Jordan, like much of the region, is steeped in a “trader mentality” tradition. Businesses were set up to satisfy basic market needs by buying and selling products where price was and still is a major factor and frequently the sole arbiter. The marketing concepts of adding value or quality and competing through superior products or services is relatively new and is as yet underdeveloped.

*A private sector made up of tribal, family businesses with centralized control:* The Jordanian private sector (as is typical in the region) is made up of family businesses which are predominately managed autocratically by the founders and their immediate families. The concept of structured organizations managed by participation does not exist

and staff is frequently seen as a cost, not an asset. Strategic business alliances are few and, where they do exist, tend to be based on tribal affiliations.

*Attitudes towards management:* As stated previously, most businesses are family owned and run. Largely for reasons of trust, there is a tendency to centralize control of management, financial and administrative affairs and only technical functions are delegated. Consequently, the sharing of critical business information (e.g. sales, profit margins, revenue, etc.) occurs only within the family unit.

*Lack of trained and effective management and marketing staff:* This was often mentioned as a significant hindrance to business growth and competitiveness. Training in these areas was cited more than any other potential USAID intervention as offering the greatest impact on the private sector.

*A passive work ethic:* Due to a perceived lack of opportunities for personal growth, promotion and performance incentives, employees are resigned to their present standard of living. There is little belief that things will improve and they see little reason to be ambitious and productive.

#### GOVERNMENTAL ISSUES

*A highly bureaucratic government:* Both economic and financial government policies and their implementation need to be modified and monitored to ensure stability and growth of the private sector. There appears to be an animosity between the government and the private sector and while most businesses recognize the positive steps recently taken by the GOJ in these areas, there is still much to accomplish, given the political will to do so and a commitment to create a supportive climate for business growth.

*The "Wasta" system prevails:* Through an informal network of personal connections, favors are granted and expected in return with or without monetary reward. This system tends to favor the larger, well-established enterprises and handicaps the smaller, newer ventures. Large, powerful businessmen are favored by expedient processing of documentation, licensing, and easier access to credit facilities which are frequently unavailable to new or smaller enterprises.

*The relationship between the government and the private sector:* There is a traditional mistrust between government staff and the private sector. Businesses feel that the government does not trust their declared income (with some justification) and are out to maximize their profits and cheat the government. Because they are so poorly paid, government staff are jealous of the private sector and go out of their way to put up barriers.

## FINANCIAL ISSUES

*Cash flow:* Most companies describe this as a critical factor. To remain competitive, businesses in Jordan need to offer 120-180 day credit terms and this, combined with high up-front import duties, puts a significant strain on long-term business planning and financing.

*A risk averse banking sector:* Contributing to the cash flow problems faced by companies is a risk-averse banking sector. Jordanian banks demand exceptionally high levels of collateral. Cash, land and buildings are the only way businesses can raise long-term loans and then can only borrow up to 50% of capital requirements. Second mortgages are not available and machinery cannot be used as collateral because there is no law which guarantees repossession in case of default.

## MARKETING ISSUES

*A historically secure client base:* Historically, the private sector in Jordan relied on trade with two secure clients: Iraq and the Government of Jordan (GOJ). This, in addition to a reliance on trade protocols with neighboring countries in the Middle East and North Africa, virtually guaranteed success to any enterprise providing reasonable quality products at a competitive price.

*A production oriented approach to business which is focused on the local market:* Most businesses were initially set up to meet basic local and Iraqi market needs. As these markets become saturated (or closed as in Iraq's case), businesses are now trying to find export markets for their current production. This supply-driven approach runs the risk of limiting export potential because it does not take into account new market criteria for quality, price and product range.

*Lack of local market information:* In spite of the reliance on local markets, there is a lack of local market information that would facilitate the decision making process. Apart from broad stroke economic indicators supplied by the Central Bank, there are no reliable statistics in Jordan upon which to make sound marketing and business decisions. Data available from one ministry may conflict with that from another. While businesses do use these statistics as indicators, they try to complement this data using experience and information from a network of personal contacts and their own gut feeling.

*Lack of regional/international market information:* Most businesses complained of the limited amount of available information on regional and international markets. Although the Chambers of Industry and Commerce and the Jordan Export Development Corporation are useful as lobby groups, they are limited in obtaining market information and only provide previously-published data. Consequently businesses must rely on their own initiative to make international contacts and obtain information.

## OTHER

*Product Quality:* Businesses are now recognizing the need to up-grade the quality of their products and services and the cost required to do so. Many have applied for or are considering ISO 9000 certification as a marketing tool. They also recognize the need to up-grade the quality of technical and managerial staff, however, the fundamental challenge here is the lack of cash flow to finance training.

### 2. Business Sector Segmentation/Characterization

The consulting team found very few sources of information that would allow for a detailed analysis of business sectors and their relative importance within the economy. However, working off of the statistics gathered during the interview phase of the assessment, some general characteristics can be defined.

The majority of Jordanian enterprises are small--89 percent of the 18,592 establishments in the industrial sector (mining, manufacturing, and electricity) and 96 percent of the 35,935 establishments in the trade sector employ fewer than five employees. In the industrial sector, however, the largest 93 enterprises employ 41 percent of workers in that sector. The Jordanian economy, therefore, is dominated by a few large companies (many with government participation) and a very large number of small enterprises.<sup>2</sup>

The World Bank assessment of the private sector in Jordan confirms that detailed data on the size and structure of the sector is not readily available (nor is information on the structure of private sector investment and output.). However, existing data does conclude that, in contrast to the public sector, the private sector has an employment share of 45 percent (but a greater than 60 percent share in GDP). The World Bank assessment also found that the annual rate of companies registering doubled during 1988-94 and that, during this same period, authorized capital increased 10 times. While the increase in the number of registered companies was in the services and trade sector, the increase in capital also extended to the manufacturing sector.

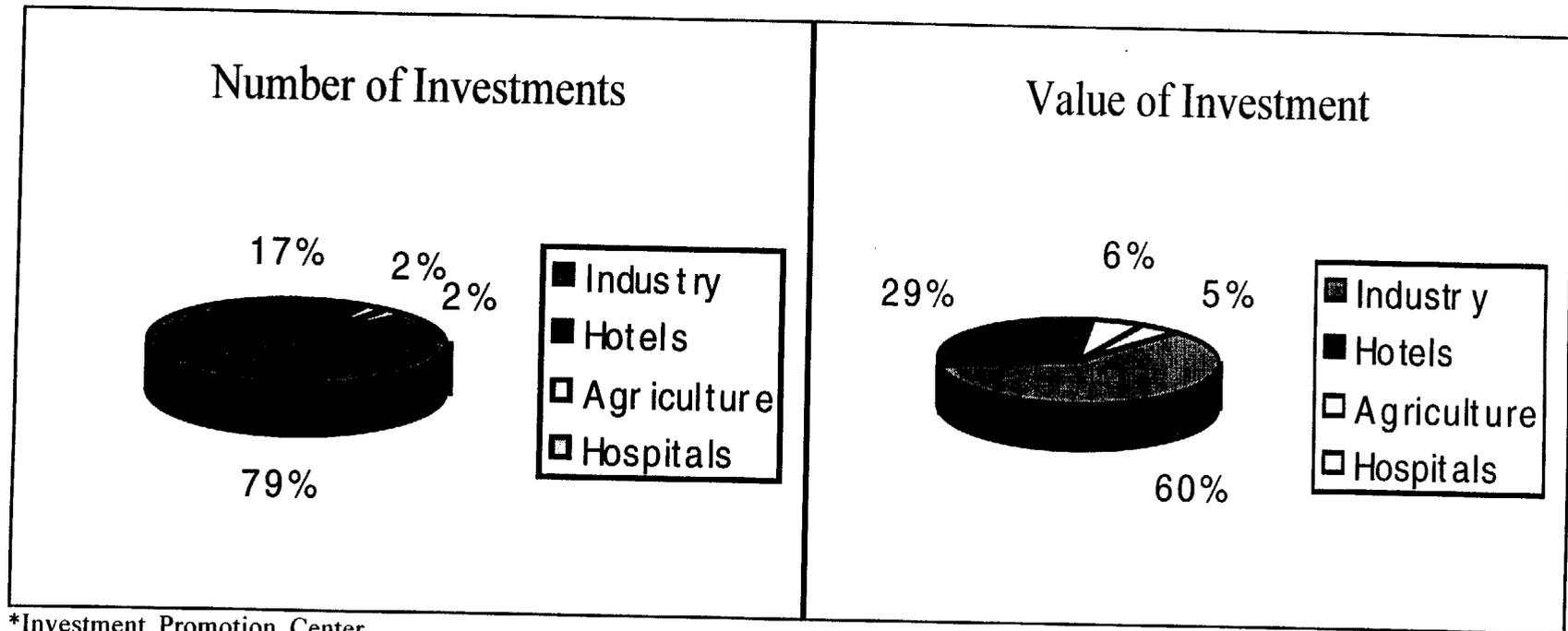
An analysis of the investments processed by the Investment Promotion Corporation (IPC) provides an idea of the type of investment initiated in 1996. While not representative of overall private sector investment, it does provide a picture of what the formal business sector is undertaking and the importance of foreign investment in the economy. As shown by the graphs and tables on the following pages, of the 241 projects approved by the IPC (totaling about JD 350 million), the vast majority were in the industrial sector. However, it should be noted that a relatively small number of

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<sup>2</sup> The World Bank, *Jordan Private Sector Assessment*, August 25, 1995. 1992 figures taken from the *Employment Survey* (1992) and the *Statistical Yearbook* (1993).

projects in the hotel industry (41 projects) did account for about 30% of the value of total investment. Foreign investors, who tended to invest as joint venture partners rather than on their own, only accounted for about 15% of total investment processed by the IPC.

**Projects Approved Under the Investment Promotion Law in 1996\***



\*Investment Promotion Center

Summary Statistical Data on Jordan

<u>% of GNP<sup>3</sup></u>	<u>1995</u>	<u>1994</u>	<u>Growth Rate</u>	
<b>Industry</b>	79.7%	79.2%	8.8%	
- Agriculture	5.6%	5.6%	8.2%	
- Mining/Quarrying	3.5%	3.0%	25.1%	
- Manufacturing	13.3%	13.6%	6.1%	
- Electricity/Water	2.4%	2.4%	8.1%	
- Construction	8.5%	8.4%	9.2%	
- Wholesale/Retail/Restaurants/Hotels	10.3%	10.6%	4.4%	
- Transport/Storage/Communications	15.4%	15.5%	7.6%	
- Finance/Insurance/R.E./Business Services	18.1%	18.3%	7.1%	
- Community, Social & Personal Services	2.6%	2.6%	10.3%	
<b>Government Services</b>	18.6%	18.4%	9.2%	
<b>Private Non-Profit Services to Households</b>	1.5%	1.4%	10.2%	
<b>Domestic Services of Households</b>	0.2%	0.2%	6.6%	
<b>SECTORAL DISTRIBUTION OF LABOUR</b>	<u>1993</u>	<u>% of Total</u>	<u>1992</u>	<u>% of Total</u>
Agriculture	54,995	6.4%	44,400	7.4%
Mining & Manufacturing	91,086	10.6%	61,800	10.3%
Electricity & Water	6,015	0.7%	6,600	1.1%
Construction	60,151	7.0%	60,000	10.0%
Trade, Restaurant & Hotels	129,754	15.1%	63,000	10.5%
Transport, Storage & Communications	57,573	6.7%	52,200	8.7%
Finance, Insurance and Real Estate Services	24,920	2.9%	19,800	3.3%
Social, Personal & Public Admin. Services	434,806	50.6%	292,200	48.7%
<b>Total</b>	<b>859,300</b>		<b>600,000</b>	

<sup>3</sup> Central Bank of Jordan Monthly Statistical Bulletin, May, 1996

## II. Analysis of Constraints and Issues

This Private Sector Needs Assessment and the evaluation of USAID's Policy Reform Program clarified a number of constraints which seriously hinder the more rapid and broader development of the Jordanian private sector. While the CARANA team carried out an assessment of the microenterprise, small and medium, and large business sectors separately<sup>4</sup>, an analysis of the results made it clear that microenterprises and small businesses face similar problems, and thus have been grouped together for the purpose of presenting this constraints analysis. Large businesses, medium-sized enterprises, and the larger of the small business sector face problems common to all three groups and thus were also grouped together. Large businesses, however, due to their size and influence, often have alternatives available to them that their smaller counterparts do not. These include alternative sources of funding, better access to decision makers who can assist in overcoming constraints, and better-trained human resources, given the ability to pay better salaries and provide for in-house or specialized training.

### A. The Microenterprise and Small Business Sector

The key constraint inhibiting the development of this sector is a lack of access to financial services. This constraint can be sub-divided onto three categories: 1) Those related to the formal financial sector; 2) those related to microcredit institutions; and, 3) those related to donors.

This does not imply that this sector does not suffer from other constraints, such as access to entrepreneurial skills; market access; lack of production, marketing and administrative skills; an overabundance of regulations and procedures; and, particularly in rural areas, poor infrastructure. However, keeping in mind the Mission's modest budget, its relative strength in the microcredit area, and the fact that the team's early findings suggested that the lack of access to financial services was the predominant constraint faced by these businesses, the CARANA team decided to focus on the financial services sector as the area where USAID could have a significant effect on employment and income, particularly in rural areas.

#### 1. The formal banking sector

The primary constraint faced by the microenterprise and small business sectors as they relate to the formal banking sector is an overall lack of access to credit or savings products in any form. In general, the behavior of commercial banks reflects their

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<sup>4</sup> For purposes of this study, CARANA and USAID/Jordan defined the microenterprise sector as those businesses with less than 10 employees; the small business sector as those businesses with between 10 and 50 employees; the medium size business sector as those businesses with between 50 and 200 employees; and the large business sector as those businesses with more than 200 employees. Different segmentation criteria might be used by others, but would not likely change the outcome.

unwillingness to provide both credit and savings vehicles for this sector. There are several reasons for this which are discussed briefly below:

- Perceived Profit Motivation: Commercial banks in Jordan do not realize that providing credit and/or savings products to this sector can be profitable if these activities are structured and priced correctly.
- Human Resources: Commercial banks currently do not have the appropriate personnel with an understanding of this type of business.
- Systems: Commercial banks do not have the appropriate systems, particularly the credit MIS systems, to properly manage the credit risk of microlending.
- Market Know-How: Commercial banks are unfamiliar with the rural microenterprise credit and savings base, and with successful microenterprise program methodology, both in Jordan and internationally.

On the other hand, commercial banks represent a significant and efficient distribution opportunity whose inclusion in this sector would compliment the efforts of the existing microenterprise lenders (primarily NGOs). Significant experience in other countries suggests that commercial banks which develop financial products for this sector can contribute significantly to broadening services to this sector, thus increasing both access to and the availability of funds, while making an attractive profit for the banks.

## 2. Existing microcredit institutions

Existing institutions involved in microcredit, predominantly non-profit institutions such as Save the Children (SAVE), the Near East Foundation (NEF), Queen Alia Fund (QAF), and Noor Al Hussein Foundation (NHF), have shown varying degrees of success in providing financial services for this sector. Nonetheless, these lenders have not yet achieved a sufficiently broad distribution system to provide a nationwide service to these business. Consequently, there is a large portion of the population which is still not being serviced. It is important to note, however, that their experience has contributed significantly to the identification of viable models for servicing this sector, and that by addressing the constraints listed below, a substantial increase in access and availability of funds can be achieved:

- Interest rates and sustainability: There is a general lack of understanding by micro and small business lenders of the need to charge sufficiently high interest rates in order to cover the higher costs of lending to these business **and** earn a profit. At present interest rates and loan recovery rates, the programs of many lending programs are not

sustainable; they are rapidly depleting their "capital", requiring constant new inputs from donors or the Government.

- Management information systems (MIS): There is a dearth of MIS systems for tracking microenterprise loan performance and for rapidly identifying non-performing loans, which is critical in assisting non-performing borrowers in working out payment problems. This has a significant impact on the level of past-due loans and loan write-offs.
- Lack of understanding of micro and small business credit issues: Micro and small business lenders are generally unfamiliar with successful program methodology as practiced in other countries, which results in unnecessarily small programs, high costs, and poor results.

### 3. Donors

As discussed in Section III of this report, various donors are working to support the micro and small business sectors in a variety of ways. However, these efforts appear to be uncoordinated in many respects, which is evidenced by the difficulty the CARANA team had in identifying all of the activities planned or being undertaken in this area. The current inefficient overlap and scattered efforts of donors' micro and small enterprise programs leads to much less productive programs for this sector than should be expected. It is clear that a greater level of formal and informal coordination needs to be undertaken to achieve improved efficiencies on the part of both donors and lenders.

#### B. The Medium and Large Business Sector

The medium and large business sector suffers from a wide range of constraints to growth, centering around four major areas which are presented in order of importance: 1) deficient policy environment; 2) lack of sufficient skills at most levels; 3) inadequate access to markets and technology; and, 4) poor access to credit.

##### 1. The policy environment

Many studies have shown that a strong, supportive business policy environment is an essential ingredient for economic growth, particularly to achieve the level of international competitiveness which would allow Jordanian business to compete more effectively in the international arena. Over the past three years, there have been significant improvements in the Jordanian policy environment, particularly in areas affecting expanded trade and investment activities. USAID has played a key role in helping the Jordanian government achieve these improvements through its Sector Policy Reform Program (1993 - 1996), an effort which has also been fully supported by the World Bank and other donors.

Improvements which are widely recognized by the private sector include: an improved temporary admissions and duty drawback system; abolishment of most export and import licenses; the introduction of the harmonized system of tariff nomenclature; improved tax treatment for exporters; reduced paperwork for procedures relating to business registration and licensing; and, a new investment law. The creation in 1995 of the Investment Promotion Corporation (IPC), an autonomous government agency designed to promote and facilitate new investment in Jordan, has also received significant praise from the private sector.

However, while these gains in the policy environment are impressive, the work carried out under this contract along with studies carried out by others in the same area, identified a number of areas where improvements are still necessary. For the most part, however, these additional changes do not require new legislation. Rather, the constraints identified point to difficulties encountered due to ineffective *implementation* of new legislation and procedures (which can be eliminated without further legal reform). Specific examples cited by the private sector at all levels are discussed below:

- Customs: Issues relating to the administration of customs were the most cited by businesses at all levels. While these issues tend to affect larger businesses due to their heavier involvement in import and export activities, the costs arising from the inefficiency of the customs authority are passed on to all levels of the economy. Some examples of issues that relate to customs include:
  - Difficulties in getting goods cleared through customs, at least partially if not primarily as a result of a system which directly rewards custom officers for finding “improper” preliminary classification of goods;
  - Inconsistent application of customs tariffs and fees, coupled with the absence of clear, written definitions of tariffs, fees and rules for dealing with customs;
  - High non-tariff customs costs which amount to additional duties of up to 20% or more on goods;
  - Lack of duty exemption on raw materials which makes Jordanian products non-competitive in export markets; and,
  - In some cases, higher duties on imported components of locally-produced products than on the final imported products themselves, making local production an unattractive business.

Some of the problems faced by Jordanian businesses in this area are effectively illustrated by the following examples:

#### Case History #1

Based on international alcohol trading standards and as stipulated in Jordanian law, imported raw liquor should be taxed using a formula based on the % of alcoholic bulk rather than volume of the total liquid. A liquor manufacturer spent 2 weeks negotiating with the Aqaba customs staff because they insisted on charging him on the (higher) bulk volume.

The fact that the importer has legal recourse does not help. Cases can take up to two years to be heard and 50% duty value of the imported goods has to be paid before any legal proceedings can start.

To quote one businessman:

*" A few years ago the import laws were unsophisticated but the people we had to deal with were understanding and pleasant. Today the laws are far more superior and supportive of the private sector but the people we have to deal with are uncooperative and abuse their powers to obtain financial rewards."*

- Taxation: The change in the income tax law in 1995 significantly reduced the tax rates on corporate and personal earnings, and, in this regard, the businesses we talked to were satisfied. However, as noted below, two issues related to the implementation of the revised tax laws surfaced repeatedly in our interviews and merit attention:
  - Vague, poorly-defined tax laws make it difficult to accurately calculate tax liabilities in advance, such as the tax consequences of franchise fees paid abroad. Even major tax and audit firms are unable to reliably predict tax liabilities. This makes it much more difficult to make sound business investment decisions.
  - While rates have been lowered, it appears that the tax authorities have a great deal of discretion in determining how income is calculated, which can in turn make a significant difference in actual tax liabilities incurred. Business tends to shy away from situations (or countries) where uncertainty about such matters is high.

An example of how the above affects Jordanian business is found in the analysis of import duties in Jordan, which is made up of 7 different levels as detailed below:

- 1) Import duty ( calculated on the F.O.B. price *including* freight and insurance.). The tax depends on the nature of goods imported and is based on a government schedule.

- 2) 6 % Union tax
- 3) 6% Province and University tax
- 4) 3% "Extra" Tax
- 5) .03% Overtime Tax
- 6) 5-10% Import tax
- 7) 0-20% Value Added Tax, reported to be set at the discretion of the value and calculated on the *compound* value of all other taxes. This is refunded to exporters once the goods leave Jordan.

Even if a product is listed as being tax exempt (item 1 above), importers must pay the other levels which usually add up to a minimum of 30%. This is not only considered prohibitive but it constitutes a cash-flow drain because these have to be paid up front. Importers would prefer to have a reduction of import duties and pay a sales tax based on the value of finished goods sold.

- Excessive regulations and procedures: A large number of businesses cited the excessive time required and overall difficulty in obtaining licenses to establish and/or operate business.
  - Related to this is the fact that many regulating or licensing agencies do not have clear, written guidelines on how to go about obtaining a permit or license, which further slows and confuses the process.

Some specific examples are provided below:

#### Case History #2

The owner of a successful medium-sized computer and communications company was bidding for a large tender to upgrade a bank's hardware and software facility for issuing and monitoring credit card accounts. He requested and got a temporary import permit for a US computer system and software to demonstrate the technology to the bank. These were held up in customs for a week under the pretext that the documentation was in the process of being checked. It took the owner three personal visits to the customs office and on the eve of his presentation the goods were still in customs.

#### Case History #3

An importer of licensed film entertainment, the owner of a paper converting business, and a manufacturer of pigments for the plastics industry had their travel expenses to the countries they exported or visited for industrial fairs declared illegitimate by tax officials on the pretext that they were for personal enjoyment. Attempts were made to fine the importers for false tax claims. In all cases, the owners had to negotiate with the official concerned to get these expenses allowed.

- **Infrastructure:** The Free Zone Authority, as well as the Industrial Estates Authority, came under criticism due to unresponsive management as well as an inability to provide adequate services (e.g., facilitation of licenses and payment of fees, and availability of utility hook-ups) to make the sites attractive.
- **Intellectual Property Rights:** At least one company (MicroSoft) has left Jordan for Egypt due to insufficient protection of intellectual property rights. Other creators of software currently operating in Jordan have also cited this deficiency. There is no way to determine the number of companies which have not considered Jordan as a site for investment due to the lack of such legal protection.

As a result of these weaknesses in the Jordanian policy environment, the team was able to identify several cases where significant investments were made in other countries in the region. At the same time, several businesses were aware of the services provided by the Investment Promotion Corporation (IPC) and the work it is doing to assist investors in navigating the regulatory maze. An important part of the IPC's function is in the facilitation of investment. In this regard, they have made some important in-roads in the identification of bottlenecks in the system, and are working towards solutions to some of these problems<sup>5</sup>.

## 2. Human resources

A large number of business cited an overall weakness in Jordan in the number and quality of adequately trained/experienced personnel at many levels. All types of personnel were mentioned including managerial, mid-management, supervisory, skilled, and semi-skilled workers.

However, there is also a recognized tendency for entrepreneurs/owners to not hire or adequately pay skilled supervisors and management, electing to take on a wide range of responsibilities themselves. While it gives them more "control" of the business, it also limits the potential for growth.

Although training resources do exist, the quality of such resources is inadequate to meet private sector needs. In some instances, the private sector has taken responsibility for the refurbishing and restaffing of GOJ training centers, in effect combining Government facilities with private sector funds in order to obtain skilled workers. Small and medium-sized companies, unable to afford this approach, must train people in-house, operate

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<sup>5</sup> In an effort to assist investors, the IPC identified twenty-two areas in which investors need to interface with government agencies in order to establish or operate their companies. Because most agencies did not have written procedures detailing the steps necessary to complete the process, IPC staff worked with each agency to document the required steps and to produce written procedures, providing investors with a clear set of guidelines for the first time. A by-product of this study, however, was the discovery of how many steps are required for each approval or license, and the realization that many steps could be eliminated altogether.

businesses without sufficient staff and management skills, and, as a result, will not move forward with new or larger investments.

In the end, however, given the relatively low levels of permanent benefits which can generally be attributed to formal training programs, combined with the relatively low anticipated level of USAID funding, the CARANA team concluded that it would not be cost-effective to undertake a major training initiative at this time.

### 3. Access to export markets and technology

Many companies cited a lack of market information and/or marketing skills which would allow them to more readily enter regional and other foreign markets. Specifically, they mentioned a lack of experience in marketing outside of Jordan, and/or the inability to identify and negotiate with foreign buyers for technology and product know-how. When questioned about the Jordan Export Development Company (JEDCO), companies were either unaware of its services, or felt the agency could not supply them with the level and type of assistance required. In some instances, the export tax leveraged on exports to help support JEDCO was viewed as a penalty and disincentive to export.

CARANA's extensive experience in the area of export development has led us to conclude that, while access to markets may often be viewed as a constraint, companies are generally not competitive due to a lack of know-how and experience which would allow them to compete internationally. Before companies--particularly small and medium-sized companies--can export successfully, they need to tackle the more difficult issues of determining what the market needs are and what is required in terms of product quality and cost, product quantities, packaging and consistency (production constraints). Successfully addressing these market and production constraints cannot be accomplished through the mass training programs and broadly-based technical assistance often favored by donors. It generally requires significant levels of costly, one-on-one assistance in order to be effective and sustainable, something which is beyond the reach of USAID/Jordan at the present time.

### 4. Access to credit<sup>6</sup>

Businesses at the small and medium level worldwide complain that they are not able to obtain sufficient funding at reasonable prices, frequently citing this as the primary restraint on businesses growth. Interestingly, the businesspersons interviewed for this study generally cited inadequate credit or difficulty in obtaining credit as a secondary impediment to increased business activity, confirming what many studies have shown: financing is rarely the most critical issue for these companies. Instead, the perceived need for financing is due to poor financial, operational and marketing management on the part of

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<sup>6</sup> A more in-depth analysis of the Jordanian banking system has been provided in Annex VIII.

business owners. These issues must be dealt with before undertaking additional financing assistance. Without such change, additional or easier access to financing tends to further inhibit business growth and may even condemn the borrower to insufficient returns or loss on investment. In Jordan, many businesspeople also note the lack of what they consider to be reasonable business opportunities for which they would require credit. In other words, credit demand is seriously inhibited by the lack of perceived opportunities to make money in Jordan.

Where insufficient credit was mentioned as a restraining factor, one reason given for difficulty in obtaining credit was the lack of collateral to meet the requirements of most formal financial institutions, including the Industrial Development Bank. Commercial banks generally require collateral with an estimated value twice the size of the loan requested (except in those instances where they are extremely comfortable with a well-capitalized, profitable borrower). The Industrial Development Bank normally requires the same level of collateral, the difference being that the IDB may in some cases accept collateral other than land, buildings and cash (required by banks). Moveable equipment is not normally used as collateral in Jordan, due to the absence of a law allowing financial institutions to place liens on such assets and claim/obtain them upon default. (A new law which would allow for such liens is currently under review, but has not yet been approved.)

In addition, commercial banks in Jordan have generally not been liquid in terms of their JD deposits versus their loans denominated in Dinars. Where there has been liquidity, the banks considered investment in short-term GOJ securities carrying rates of 9.0% to 9.5% tax free (equal to taxable rates of 12.9% - 13.6%) as a very attractive alternative to higher-risk commercial loans of 14%-16%. In effect, the GOJ's borrowings from commercial banks have meant less credit to the business sector.

The apparent liquidity of the banking system is more a result of foreign denominated deposits (which until recently carried a reserve requirement of 35% - now reduced to 14%). Banks have been reluctant to take the foreign exchange risk themselves on Dinar-denominated loans funded with foreign deposits and are rightfully reluctant to pass on foreign exchange risk to customers unless they are comfortable with the customer's ability to service such debt via export earnings. Present indications are that Dinar deposits have recently begun to grow as more depositors become comfortable with holding Dinars rather than foreign currency. This should translate into some positive impact on the availability of loans to deserving customers, although significant change in the level of funds available to small and medium borrowers is unlikely.

It is clear that access to financing is more difficult in Jordan than in other countries. It could be argued that financial institutions need to be less conservative when it comes to establishing sufficient collateral requirements and/or learn to lend against cash flow. However, commercial banks have a legitimate reason in Jordan to require more than

adequate collateral from some companies due to the inherently high risk of operating in the region. Political and policy issues can greatly and rapidly diminish borrower success. Examples include unanticipated changes in trade protocols (e.g., Iraq) and changes in regulations which can make local manufacturing less competitive (higher customs costs on imported materials than on the finished good to be manufactured locally).

Attempts to change bank attitudes through a USAID intervention are unlikely to be successful. Furthermore, there is evidence that at least some banks are becoming more aggressive, training loan officers to analyze credit against cash flow and gradually expanding their client base.

### III Existing and Planned Donor Interventions

#### A. The Microenterprise Sector

A number of donors have existing or planned activities focused on supporting the microenterprise sector, including:

- **World Bank:** World Bank supports various NGOs including the Housing and Urban Development Corporation and the Development and Employment Fund which in turn wholesales resources to Queen Alia Fund, Noor Al Hussein Foundation, General Union of Voluntary Societies (an umbrella organization for about 600 community-based NGOs), and the Near East Foundation. The foundations are active in microbusiness development and income-generating programs, some of which are targeted at women's development. They also have some limited microfinance activities. The DEF also provides credit directly to individuals involved in small and microbusiness. The World Bank also has support programs in education, vocational training and human resource development.

Under its proposed Social Productivity Program which is currently being formulated, the World Bank plans to provide technical assistance to the micro and small business sectors, as well as to develop employment opportunities for the unemployed and employed poor. A portion of these resources will go toward the funding of a microfinance effort, although the delivery mechanisms have not yet been determined. Another component of the project will be the creation of small public works requiring short-term contractual labor which should aid skills development in poor communities.

- **United Nations:** UNDP has contributed to the improvement of vocational training through the Vocational Training Center and in partnership with the International Labor Organization. It has developed an assistance program to micro and small enterprises aimed at improving their capability in business and financial planning. UNIFEM is providing limited technical assistance to the GOJ in the area of gender policy and microenterprise development. It is also giving technical support designed to develop women's entrepreneurial skills through the Jordan Women's Business Association.
- **Japanese International Cooperation Agency:** JICA is now financing 50% of the costs of establishing a new vocational training center and supporting it with technical assistance. The training center's key focus will be in welding, sheet metal processing, and machine dye production. It is also funding a study to identify ways to stimulate employment in the southern regions of Jordan.
- **Canadian International Development Agency:** CIDA's support is focused on providing revolving loans, business advisory services and technical assistance support to the

Queen Alia Fund, with an emphasis on creating employment for women. It also supports vocational training through the National Council For Human Resource Development.

- Overseas Development Administration (ODA): Britain's ODA provides \$0.4 million annually to NGOs supporting income-generation and gender-related programs. It has also allocated £1 million to the Ministry of Social Development aimed at capacity building and institutional strengthening, and for technical assistance for a "training the trainer" program at the Queen Zein Al Sharaf Center (part of the Queen Alia Fund) in business and credit and project management, specifically targeting women.

The ODA also provides about JD400,000 to the Corporation for Development (CD), a local NGO for credit and business services to micro/small scale entrepreneurs in animal husbandry, horticulture and medical technology services. Loans under the CD program carry an 11% interest rate on declining balances, plus management fees.

- Other Foreign Donors: Switzerland, Holland, Sweden and Germany have or are providing technical assistance to a variety of microenterprise support institutions such as the Development and Employment Fund (DEF), Queen Alia Fund, the Noor Al Hussein Foundation.

#### B. Small, Medium and Large Business Sectors

Donors with existing or planned activities focused on supporting small, medium and/or large-size businesses either directly or indirectly via the reform of the business environment, include:

- World Bank and Japan: The World Bank is in the process of developing its Economic Reform and Development Loan III (ERDL III) which is to be funded from the Japanese PHRD Fund. This program is to assist the GOJ by providing technical assistance for removing anti-export biases, supporting privatization and financial sector reform, and the streamlining of Jordan's overall regulatory framework, all of which impact small, medium and large businesses. The World Bank is also planning to support GOJ efforts in strategic planning and investment programs in tourism during 1997.
- European Union: Approximately \$8.75M has been allocated over the next 3 years for private sector development. Strategies and implementation details are still being developed. An EU consultant arrived January 19 to assist in further design of the proposed program.

Under the European Community Investment Partners Program (ECIP), the EU also provides interest-free advances, up to a maximum of \$312,000, to medium and large

enterprises for joint venture projects with the EU. These advances are later converted to grants, loans or equity. The Arab Bank is the local implementing institution.

- United Nations: UNDP has been instrumental in establishing the Jordan Export Development Corporation, and plans, under the auspices of UNIDO, to assist the IPC in developing investment promotion and marketing strategies. UNDP also has initiated various projects concerned with reforming income tax, customs policy, and administrative procedures.

The UN's future plans are to assist the GOJ to improve its budget strategy and planning capabilities and to broaden Jordan's international competitiveness by helping the GOJ in their negotiations with the EU and the WTO. It also will focus on supporting local and foreign investment in Jordan at two levels: 1) through UNCTAD, it will assist the GOJ in developing policies to create a favorable investment climate; 2) it will assist in the legal reform of investment codes and laws. In addition, at the project level, it plans to introduce its ASYCUDA computerized system aimed at enhancing the monitoring and reconciling of the volume of imports and customs revenues.

- Britain: The British have allocated \$ 9 -11M during the period 1995-1998 to assist the GOJ in privatizing the telecommunication industry.

#### IV. Possible Interventions

The constraints analysis presented in Section II of this report and the donor interventions cited in Section III, allowed the CARANA team to identify a series of possible USAID support programs and interventions. All possible interventions considered by the Team are presented in this Section, although we ultimately recommend a select few, reflecting the Team's and the Mission's final synthesis of areas for greatest potential impact on the part of USAID.

The team recognizes that not all of the possible interventions discussed below meet all the conditions established by the Mission discussed in the first Section of this report. However, all the interventions discussed below are designed to contribute to the Strategic Objective. They also contribute to increased employment and income, although some are more directly linked than others to these desired outcomes.

In the event that the Mission obtains additional funding in the future, we have also noted areas where additional rapid assessments could be carried out to gather additional information.

##### A. Microenterprise and Small Business Sector

As discussed in Section II, the analysis conducted by the CARANA team during field interviews showed that the principal constraint to the expansion of the microenterprise and small business sectors is lack of access to financial services. This is consistent with research conducted by AID and other donors, although it is important to recognize other constraints, particularly as businesses begin to grow (e.g., basic accounting, entrepreneurial skills, etc.). As a result, our analysis of the sector revolved around the major constraints related to access to financial services. The list of possible interventions presented below illustrates potential activities aimed at existing NGOs as well as other service providers, including the formal financial sector. These possible interventions could be grouped into larger "packages" or may be viewed as individual initiatives on their own.

Training and Technical Assistance (Best Practices): There is a strong need to communicate known methods for achieving success in microenterprise lending. These "best practices" should be introduced to a broad base of organizations currently involved in microenterprise development, and will serve to improve existing techniques, as well as to identify potential candidates for more intensive technical assistance in a later phase. As with other possible interventions in the microenterprise lending area, the importance of coordinating with other donors should be emphasized.

Donor coordination: There are a range of NGOs providing microenterprise credit, however, there is only an informal exchange of experience among both the NGOs themselves as well as among foreign and domestic experts. A need and an opportunity exists for an

organization to take the lead, and this could be a valuable contribution on USAID's part. Issues to be explored are the extent to which other donors and the organizations themselves will respond to such an initiative.

Specific or Targeted Technical Assistance: Many of the NGOs recognize the problems they are facing. However, in the absence of information and technical assistance to help them overcome these problems, the problems get discussed but cannot be resolved. The NGOs require expert advice, in varying degrees, to assist them in overcoming these problems, and this suggests a possible intervention on the part of USAID. Issues to be explored relate to how to best coordinate this effort (donor coordination) to avoid any overlaps.

Information systems: Most of the organizations visited do not have an information system that can rapidly indicate the status of portfolio performance. Short-term loans with multiple repayments are generally shown to be the most effective for microenterprises. (At the same time, deposit services need to be offered such that it is easy to make a deposit and deposit funds are immediately accessible.) If the information systems within the organization do not reflect the immediate situation with any given loan, the loan can become problematical for the lender. An intervention designed to help existing organizations understand the value of an adequate information system, and to assist with the installation of such a system, would improve results tremendously.

Research: One activity for consideration would be establishing baseline data on microenterprise activities in far greater detail than is currently available using household data surveys on business activities and levels. This could be followed up on a periodic basis, annually or bi-annually, with linear research on both assisted and non-assisted enterprises. Michigan State University has considerable experience in this type of research on microenterprises, although there may be others.

Development of New Financial Instruments (savings and credit): There is currently discussion of new instruments for small and microenterprises such as credit card operations for very small manufacturing and processing businesses to obtain goods from suppliers. This approach has been successfully utilized in Swaziland, and could be experimented with here in Jordan.

Microenterprise Finance in Formal Education: There are any number of graduates from university each year who go immediately from the rank of student to unemployed. The provision of several hours in finance as it applies to microenterprises is now being carried out in Jamaica. While some graduates end up starting their own microenterprises, others have become highly-rated candidates for employment with both NGOs involved in microenterprise finance and banks with active small business lending.

A rapid assessment in this area would be required to determine the demand for such types of training, and if the financial system would be receptive to such an approach.

Assistance to the Formal Financial Sector to Provide Microenterprise Products: The CARANA team believes that, in the long run, the best way to address many of the constraints in the development of better micro-credit and savings is to engage the formal financial sector in this business. A key issue in this area has to do with how best to approach top management of key local banks, in order to interest them and secure a commitment in this area.

## B. The Medium and Large Business Sector

As discussed in Section II, the constraints faced by large businesses, medium-sized enterprises, and the larger of the small business sector are common to all three groups and thus are grouped together for purposes of presenting the constraints faced by these sectors. As a result, the possible interventions that would support these sectors can also be grouped together. It is also important to note that many of the interventions discussed will tend to benefit all companies, including the micro sector, given that most of the interventions address constraints that affect overall competitiveness and growth.

### 1. The policy environment

Key constraints mentioned in this area revolve around Customs, Taxation issues, excessive regulation and procedures, and infrastructure. As a result, a number of interventions exist:

Follow-on project to the Sector Policy Reform Program: A follow-on program, albeit much smaller in scope and budget than the first, could be designed to provide the Jordanian government with targeted technical assistance to continue to eliminate constraints in this area. Unlike the first project, however, this project would focus less on broad legal reform, and more on actual procedures and regulations for laws which have already been reformed. Issues which would have to be addressed include coordination with other donors working in this area (with more funding), leverage which could be achieved given the Mission's limited resources, and identifying a dynamic counterpart organization within the government to actually undertake and implement the changes.

A rapid assessment would be required analyze the relative importance of the issues stated above, and to develop a project design.

Privatization: To the degree that some constraints arise from the poor management of infrastructure that affects investment and economic activity in general, the Mission could consider a project to support the government in exploring privatization options for such assets as the Free Zones, Industrial Parks and Utility companies. USAID has a strong

capability in this area, and could develop such a project within the limitations of its current budget. The major issue to be addressed in this area would be a determination of the GOJ's commitment and support for such a project, and the identification of a counterpart organization that would undertake the work.

Prior to undertaking a major project in this area, the Mission should undertake an assessment to determine overall priorities and the degree of government commitment, in addition to developing the design for the project.

Streamlining regulations and procedures: In analyzing ways that USAID could undertake a specific initiative in this area, the CARANA team felt that a project with the Investment Promotion Corporation (IPC) to provide them with technical assistance support in their own efforts to eliminate bottlenecks that affect investment, could be effective. The IPC has already made significant strides in this area, although it will require additional support if it is to continue to make inroads. The key issue to be addressed is a determination of the level of support the IPC will achieve from the Cabinet in order to bring about change in government ministries and agencies outside of the IPC. A rapid assessment of the IPC has already been carried out by the Mission.

## 2. Human resources:

Human resources constraints at all levels were mentioned by almost all businesses interviewed as a major constraint. Possible interventions listed below address these constraints, and while they have been listed separately, they could be grouped together in one human resources project.

Support in vocational training: Several alternatives exist, including providing support to the government's vocational training agency, however, one particularly interesting approach would be to provide support to sector groups that wish to create private training facilities. One example already exists in the apparel industry (suit manufacturers), and it is worth noting that the Higher Council of Investments has recently added training facilities to its list of eligible sectors to receive benefits under the Investment Promotion Law. Issues to be explored would be the degree to which there is sufficient interest within other sectors to warrant such an approach, and the level of support from the government for such an initiative. The Mission may also wish to explore the degree to which such an initiative could be used to further the advancement and employment of women, by selecting sectors that are more apt to employ women. These issues could be addressed quickly through a rapid assessment.

Short training programs for professionals and mid-level management: The team was not able to identify any successful training programs in this area that have the support of the private sector. In other countries, USAID has developed programs that subsidize training at this level over a period of time. These programs were successful in demonstrating the

demand for this type of training and eventually led to the entry of specialized private training suppliers into this market. A project in this area would require a quick analysis of the demand for this type of training, and in which particular subject areas. The project should also be designed to facilitate the participation of women so that they can have access to this type of training. A rapid assessment could be carried out to develop 3 or 4 pilot training programs (one to two days each) in key areas to measure demand for this type of service and to identify potential private sector suppliers.

Advanced management training: Some businesses complained of the lack of an adequate business school in the country (or even in the region) to carry out a Master's level program in management (one to two year program; part-time or full-time were mentioned as options). The team also discovered that the President of the Central Bank had offered the facilities of the banking institute for a project activity of this nature. The major issue mentioned was that of identifying a western university to develop a curriculum and participate in the process. The demand for such a project would also have to be explored, as would ways in which a program could be structured to offer greater incentives for Jordanian women to participate. All of these issues could be developed through a rapid assessment carried out for this purpose.

### 3. Access to export markets and technology

As mentioned in Section II, issues related to export markets and marketing assistance are closely tied to issues of competitiveness, both at the macro (policy level) and micro (company level). Programs in this area tend to be long term in nature and expensive, although there are some specific interventions that have been cited that could be carried out with lower levels of resources.

Program to improve the export capacity of selected companies and sectors (Export Promotion Project): Such a program would have to be a long term effort (minimum 4 years), and is apt to be very costly since it requires specific technical assistance at the company level. Short of creating a new institution, the only logical institution to carry out a program of this nature is the Jordanian Export Development Corporation (JEDCO). The team did not explore this option in any great depth given that the cost of implementing such a program would exceed current budget limitations. Should additional funding levels become available, the Mission may wish to carry out an assessment in this area aimed at addressing issues such as overall receptivity on the part of JEDCO (and the government) and its ability to carry out such a project, barriers to success, and key sectors to be emphasized in such a project.

Assistance in access to improved technologies: Several alternatives exist in this area. The first, which would be the implementation of a full-blown investment promotion effort as a way of attracting technology through direct foreign investment, was discarded by the team given the high cost and the need for an improved policy environment to insure success. A

second alternative would be to provide technical assistance in targeting possible joint venture partners abroad or foreign companies willing to enter into long-term contract production with local companies and to provide technology. The logical counterpart institution for both alternatives would be the IPC which is already carrying out some activities in this area.

#### 4. Improved access to credit

Our principal conclusion in the credit area as it relates to medium and large companies is that the banking sector is acting logically, and that the problem is to a large extent due to poor financial, operating, and marketing management. In that respect, the interventions discussed above will help alleviate some of the constraints. The team has therefore not recommended any possible interventions with the formal banking sector with the exception of the interventions discussed in the earlier part of this Section that relate to the micro and small business sector.

#### C. Access to Economic Opportunities for Women in Jordan

Throughout the analysis, the CARANA team has reviewed the constraints faced by women in accessing new economic opportunities in Jordan. However, an in-depth consideration of these issues goes beyond the scope of our work, particularly as they pertain to the constraints and opportunities for women in the medium and large business sector (with the exception of the training initiatives discussed). This raises the possibility of carrying out a more thorough assessment of gender-related issues across all sectors of the economy as a means to identify additional interventions which would improve economic opportunities for Jordanian women.

## V. Recommended USAID Activities

### A. Selection Methodology

Presented with a long list of possible interventions, the CARANA team was faced with the difficult task recommending no more than two or three (due to budget limitations) activities that would meet USAID's criteria stated in the scope or work. In addition to this set of criteria, however, the participation of team members in USAID's discussions of the Strategic Objective provided added insight into the process and also added new criteria. The most important of these were guaranteeing access to women of the benefits derived from expanded economic opportunities, and the desire that at least some of the initiatives address lower income segments of the population and populations located in rural and depressed areas. To some extent these additional criteria made the team's effort easier rather than more difficult, and total consensus was reached among team members.

Some of the principal issues considered as the team developed its recommendations were based on the selection criteria discussed below.

Address critical economic growth impediments not met (or insufficiently met) by other donors and programs: The mapping exercise which is discussed in Section III, which was verified and refined in the interview process, allowed the team to select interventions to address clearly unmet needs.

Suitable to USAID's management skills: Two of the CARANA team members have been working with USAID programs for almost 20 years, and the others have substantial experience with USAID in their respective areas of expertise. This intimate knowledge of USAID's strengths and weaknesses allowed the team to quickly categorize interventions in areas where its resources would be used effectively.

Provide the largest employment and income increase: This proved to be a difficult issue because the direct link between the type of interventions (training, microenterprise lending) and employment and income generation is not clear and varies significantly from country to country.

Support USAID's strategic objective: As with the employment and income issue, it is also difficult to establish a direct link between some of the interventions and the Mission's strategic objective. Refinement of the strategic objective helped the team in the selection process.

Fit within USAID's modest budget: This constraint affects the ability to meet other criteria. As budgets decrease, so does the impact that USAID can have on employment and income, and the overall strategic objective as well. At the same time, the team was

sensitive to possible increases in the future (expandability issue), which further complicated the decision process.

Greater access to women as a result of expanded economic opportunities: The inclusion of this topic in the selection criteria reflects overall AID policy, although the link between some of the possible interventions and this topic is also not entirely clear. In selecting possible interventions, we placed particular emphasis on addressing this concern, and, in refining the specific interventions, it will be possible to strengthen the contribution in this area (e.g., specific training actions, specific microenterprise credit delivery systems).

Target the lower income segments of the population and populations located in rural and depressed areas: The links between possible interventions and this criteria are clearer, however, specific actions can also be built into the interventions to further achievement of this criteria.

The team's initial recommendations were also discussed informally with USAID and tested in additional interviews with companies, government officials and donors. This process of verification was important not only in helping to further define interventions, but in helping the team rationalize the final recommendations.

The process described above allowed the team to reduce the list of possible interventions to two specific interventions. These interventions fall within two broad "Intermediate Results" statements which directly support the overall Strategic Objective:

- **Increased access to financial services:** This intervention will focus primarily on the micro and smaller business sector, and the design should incorporate components to increase access to women and the lower income level population, particularly in rural areas. The intervention will work with existing institutions supporting microenterprise as well explore alternatives to entice the formal banking sector to provide services to this sector.
- **Improved, and if necessary, additional policies benefiting business and stronger implementation of those policies:** This intervention will focus primarily on working through the IPC to: a) address technology transfer and investment issues; b) streamline procedures and regulations; and, c) explore privatization issues related to assets that affect investors. In addition, the project will work to strengthen the IPC so that through its actions it can take a more proactive role in stimulating investment, creating new jobs and income opportunities.

The table presented on the following page provides an overview of how each specific intervention - as defined in the description which follows - relates to the different constraints discussed above. It is also important to note that these two interventions

combined contribute to achieving the Mission's overall Strategic Objective while also meeting all other constraints.

	Increased Access to Financial Services	Improvement in the Policy Environment
Fills a need not covered by other donors.	***	***
Suitable to USAID's management skills.	***	***
Provides employment and income increase.	** 1/	* 1/
Supports USAID's strategic objective	***	***
Fits within USAID's budget	***	***
Greater access to women	** 1/	* 1/
Targets lower income and rural populations	** 1/	* 1/

- \*\*\* Considerable weight - significant contribution
- \*\* Moderate weight - moderate contribution
- \* Indirect linkage - slight or no direct contribution
- 1/ Can be accomplished through specific project activities

#### B. Increased Access to Financial Services

While Jordan has a fairly sophisticated banking sector, much of the population still lacks ready access to financial services. This is particularly true of the microenterprise sector, but it is also evident in the small to medium sectors located outside of Amman. For this reason, and taking into consideration the budget limitations that exist, the CARANA team has recommended that intervention in the financial services area be focused primarily on the microenterprise and small business sector, with specific components addressing

ways to increase the effectiveness of services to rural areas, women and the lower income segments of the population.

This microenterprise initiative<sup>7</sup> includes a series of components which are designed to improve microenterprises' access to financial services. These include three principal areas of activity which are discussed below.

Training and technical assistance to local organizations: This is intended to provide greater exposure of successful models of microenterprise financial services both within and outside the region to local organizations and institutions through targeted training and technical assistance. This initiative should start with a primary focus on the PVO/NGO sector, which supports the most active microenterprise lenders at this time, and have the market "know-how" acquired with years of experience.

Experience has demonstrated that it is difficult to discuss the objective of developing sustainable microenterprise financial services until people are familiar with the terminology and methods for achieving success. Discussions with potential partners and our own observations in the field indicate that these "best practices" should be introduced to a broad base of organizations currently involved in microenterprise development. The results of this initial exposure will help identify the most promising institutions with which to work in a second phase, where more detailed subjects will be presented. It should be noted that early planning for an initial "exposure to best practices in microenterprise" is already underway with the support of the World Bank and local representatives of the microfinance sector.

Many organizations involved in the provision of financial services to the microenterprise sector in Jordan have the commitment to responsibly serve the sector, but lack the tools to reach their objective. This can be overcome in part by providing focused technical assistance to specific organizations and/or institutions. Such specific TA often includes the development of operations manuals, short and long-term financial planning and target setting, improvement of borrower and employee supervision, borrower and employee incentive systems, development or refinement of systems to tightly track both portfolio and financial performance, and refinement of human resource management. In some specific cases, small amounts of capital may need to be provided to the most promising organizations as a method of leveraging capital that is already available.

Donor coordination: Donor coordination is necessary given the number of donors that are providing assistance to this sector so as to avoid overlap and wasted resources. A more formal, ongoing dialogue among donors perhaps led by USAID, would also focus on the achievement of sustainable microenterprise programs, with an emphasis on general policies to be adhered to by the retail institutions.

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<sup>7</sup> A complete description of the recommended intervention is provided in Annex V.

At this time there appears to be a fair amount of informal exchange of information regarding both non-financial and financial services for microenterprises in Jordan. However, it is not regularized. A regular (and non-threatening) forum for discussion of policies, issues, and an exchange of information regarding ongoing and planned programs can be established for modest amounts of funding, but requires one organization to take the lead. USAID, utilizing both its own knowledge base and solidifying its relationship with World Bank in Jordan, is in a good position to lead this activity. This has been shown to be effective in other countries where there is a diverse group of organizations and institutions involved in microenterprise development, and is a good way to begin the process of engaging formal financial institutions in the profitable provision of financial services to the microenterprise sector. Such a forum also helps avoid and unnecessary duplication of efforts.

Engagement of formal financial institutions: The engagement of formal financial institutions is viewed as a necessary next step to provide more widespread financial services based on local and regional programs of microenterprise finance. In addition to providing greater levels of resources than are currently available, the participation of formal financial institutions will also make it possible to assist growing microentrepreneurs as their financial needs increase and they become small businesses. Issues with respect to the services offered to small to medium sized companies, such as current problems associated with low local levels of authority outside of Amman, will also be addressed.

While the team has encountered some skepticism to this idea, there are enough examples of formal financial institutions that have entered this market and are making substantial profits doing so, such that it merits careful consideration in Jordan. The ability of the formal financial sector to raise capital coupled with the financial strength to create a delivery system which could cover the country, can help create a system which can reach more enterprises than is currently possible today. An intervention in this area would have to start with a commitment from the financial institutions' top management and ownership which requires the provision of information on other successful - and profitable - cases. Once this commitment is secured, however, the project should provide technical assistance and training to embark upon successful pilot efforts in Jordan.

### C. Improved Policy Environment

The CARANA team believes that a continued effort at improving the policy environment and a more consistent implementation of existing policies (particularly some which have only recently been enacted) was necessary given the strong links that exist between a positive policy environment, overall economic growth, and the creation of employment opportunities and increased income. However, it is also important to note that the latter are long term results (five-year time horizon). The team also believes there are some potential opportunities in related areas that should not be ignored (privatization, technology transfer, improved investment facilitation), and consequently analyzed ways in

which all of these objectives could be combined in one intervention provided it was cost effective and addressed the other constraints in the selection process.

The result is a recommendation to continue providing support to the IPC in a variety of areas which includes support to 1) streamline regulations and procedures that affect investment, investment facilitation and technology transfer, 2) improve the implementation of existing laws, regulations and procedures which may be at best haphazardly and frequently incorrectly applied at the present time (customs being a prime example) and 3) general institutional strengthening activities<sup>8</sup>. Additionally, through the IPC's activities, USAID will be able to explore possible support program for privatization by providing the IPC with technical assistance and resources to analyze current constraints in publicly-held infrastructure.

Working with the IPC offers many advantages to the Mission:

- It has proven to be an effective agency in bringing about improvements in the policy environment;
- It is legally empowered to work towards the streamlining of government procedures that affect investment;
- It has demonstrated its ability to work with USAID support;
- Its mandate and existing efforts are concentrated in areas which coincide with, and directly support USAID's Strategic Objective;
- It enjoys broad private and public sector support; and,
- It already has a good track record in promoting and facilitating investment, both domestic and foreign.

An important component of an assistance program with the IPC will be continued efforts to eliminate constraints and barriers to new investment. The recommendation to work through the IPC in this area reflects the current budgetary realities faced by USAID in Jordan which prevent it from carrying out a major policy reform project similar to the Sector Policy Reform Program. This recommendation also reflects the fact that the World Bank and IBRD, through their larger support programs, will be taking the lead role in maintaining a policy dialog aimed at bringing about further gains in this area, and that USAID should compliment that program by focusing in specific areas.

Direct support to the IPC's efforts to improve the policy environment will focus on the provision of funding and technical assistance to carry out studies and bring about significant improvements in such areas as:

- Streamlining or elimination of regulatory and licensing requirements;

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<sup>8</sup> A complete description of a possible project to support the IPC is provided in Annex VI.

- Offering improvements in the day to day activities of Customs, leading to better clearance times, more efficient procedures and lower administrative costs;
  - Further improvements in incentives for investment and exports; and,
- Analysis of the impact and implications of trade related issues including the implications of joining the World Trade Organization (WTO), and support in achieving this objective.

As an additional component of an assistance program with the IPC should provide technical assistance aimed at strengthening the institution, the most important areas being strategic planning, organizational efficiency, and promotional tactics designed to facilitate investment and target specific industries.

Some examples of specific interventions include:

- Technical assistance with organizational issues (personnel management, training, efficiency, responsibilities, etc.)
- Assistance in improving promotional expertise;
- Assistance with the management of incentives; and,
- Assistance in targeting and working with key sectors.

#### D. Selected Indicators

CARANA has worked collaboratively with USAID/Jordan in the design and development of its Strategic Objective for support of the private sector. With input from CARANA's Private Sector Needs Assessment as well as studies carried out by other consultants and input from NGOs and other donors, CARANA and the USAID Mission in Jordan agreed that the Private Sector Strategic Objective should be:

#### **Expand Economic Opportunities for Jordanians**

This unanimous conclusion was reached during a series of provocative work-out sessions in which CARANA and members of the Jordan Mission as well as representatives of USAID/Washington ANE Division discussed the pros and cons, viability and validity of various project implementation options and their potential impact.

The group then went on to review possible Intermediate Results and their relationship to the overall Strategic Objective. A wide variety of viewpoints were represented in these discussions, and special efforts were taken to consider specific socio-economic groups and special interests in Jordan. To this end, the group benefited significantly from the local (Jordanian), regional (Middle East), and functional area expertise of its members.

Finally, CARANA worked with the Mission in the development of appropriate indicators of success at the Strategic Objective, Intermediate Results, and Results Package levels.

However, these are still in the process of refinement and may continue to be adjusted by the Mission as Mission priorities become clearer. Everything from the Strategic Objective statement itself to the Intermediate Results and Results Packages may be altered from the recommendations of the CARANA consulting team during USAID-Jordan's finalization of its Strategic Objective for Economic Growth package.

Suggested indicators at the Strategic Objective level include:

- **Policy Change and Implementation of Policy Changes:** Upon identifying 1-2 key policy areas in which USAID can have the greatest potential impact, USAID should actively gauge over the five-year project period the real level of implementation in these areas. This may require undertaking an initial baseline analysis of both the publicly perceived and real effectiveness of the customs or investment incentive system, and charting progress in implementation (and perceived progress) with follow-up surveys annually. There are local consulting and data-gathering groups qualified to undertake such studies and analyses. Due to the large fundamental progress already made in the policy area, USAID should be committed not only to actively implementing these new policies, but also to measuring the exact level of implementation over the project period. Effective implementation of these policies is believed to have a facilitating impact on those Jordanians wishing to initiate or step-up business activity across a wide range of business size..
- **Increase in Access to Financial Services:** As a result of USAID's support to microlending institutions (NGOs and/or formal financial institutions), the Mission can expect to see an increase in the number of Jordanians utilizing (accessing) financial services nationwide. This can be readily measured by participating NGOs and/or studies of the commercial sector.

Suggested indicators of success at the Intermediate Results level include:

**IR 1: Increased Access to Financial Services**

- % increase in women's share of obtained credit (percentage of women borrowers as a percentage of total borrowers)
- Number of repeat borrowers (as a percentage of total borrowers).
- Number of loans repaid on-time and in-full (expected to increase over time.)
- Increased percentage of annual operating cost recovered by USAID-supported microfinance institutions

- Number of new loans extended (with USAID support) and recovered, as compared to previous quarter/year

#### IR 2: More Effective Implementation of Policy Reform

- Greater public awareness of business registration requirements (and/or customs procedures) as a result of new policy reform implementation
- Greater publicly-perceived and actual ease of initiating business and/or stepping-up business activity
- More effective management of incentives granted under the Investment Law

#### Suggested Indicators at the Results Package Level

- Many of the indicators of success at the Intermediate Results level also can be expected at the Results Package level. For example, one may expect an increasing cost/income ratio over time at both NGOs and formal financial institutions offering microcredit. We expect to see an increase in women's share of obtained credit at both types of microcredit institutions as well.
- However, an illustrative indicator of the success of USAID's potential support of formal financial institutions in particular might be: the number of formal financial institutions offering credit to small/microbusinesses tracked over the five-year project period.
- For NGOs offering microcredit, a possible indicator of success in targeting the below-median income sector might be the percentage of loans given out at less than \$US300.
- As part of Results Package efforts in the policy implementation area, we might expect greater investor interest as an indicator of success of improved management of incentives under the Investment Law.

## Annexes

- I. Scope of Work
- II. Bibliography
- III. Organizations and Individuals Contacted
- IV. Strategic Objective Submission
- V. Project Description: Microenterprise Sector
- VI. Project Description: Investment Promotion Corporation
- VII. Mapping of Existing and Proposed Business Support Programs
- VIII. Financing for Small, Medium and Large Businesses in Jordan

**Annex I**  
**Scope of Work**

## PRIVATE SECTOR NEEDS ASSESSMENT

### Scope of Work

#### I. Background

Jordan is a small, Middle Eastern Kingdom that has common borders with Israel, Syria, Saudi Arabia, and Iraq. Because of its strategic location and its astute leadership, Jordan has historically played an important political role in the region.

Jordan has few natural resources, primarily phosphate and potash from the Dead Sea, and these offer limited export growth potential. About the size of Indiana, Jordan covers about 35,000 square miles of land, but only about 8% is arable; the rest is desert. Population growth has put significant pressure on water, Jordan's most scarce resource. Water from aquifers and surface sources is extremely limited and must be conserved. Jordan's 4.1 million population is growing at an average annual rate of 4.3%, one of the highest population growth rates in the world.

The mainstays of the economy, donor assistance and remittances from Jordanians working abroad, are dependent on political vagaries. Because both were drastically curtailed during the Gulf Crisis, the current challenge to Jordan has been to continue to diversify and expand its exports to increase foreign exchange earnings, and to generate employment. Creating a policy, and an administrative and investment climate conducive to encouraging domestic and foreign investment are vital to Jordan's long-term economic growth, political stability, and to its ability to reap the benefits of peace with Israel.

Overall economic indicators demonstrate that Jordan is serious about controlling problems constraining economic growth. Specifically, Jordan is meeting the conditions of the International Monetary Fund (IMF) and World Bank Structural Adjustment Programs. As a result, the budget deficit has declined to 5% of gross domestic product (GDP) from 17.4% in 1991; external debt is now only 90% of GDP, down from a 1990 peak of 190%; and debt service as a share of exports of goods and services fell to 18.4% from 21% in 1991. Moreover, the government has initiated a series of policy reforms that will make Jordan "open for business." Parliament passed new legislation on sales, on corporate, and income taxes. The IMF has commended USAID for its work with the Government of Jordan (GOJ) on the development of a new investment law that makes foreign and local investors equal in most cases. The law represents the

culmination of efforts under the USAID Sector Policy Reform Program to support economic growth and provides a more liberal trade and investment regime. Another significant achievement to increase economic growth under the same program has been modernization and computerization of the Customs Department. The program was designed to clear customs impediments that affect the importation of manufacturing inputs and to encourage an increase in exports.

USAID/Jordan is designing a new Economic Growth Strategic Objective (SO) that will be reviewed at the 1997 R4 review. The new SO will be called the "Economic Opportunities" SO which will seek to spread the benefits of economic growth by increasing both employment and foreign exchange earnings in Jordan. USAID/Jordan's rationale for this new SO is based on Jordan's excessively high rates of unemployment and urban and rural poverty. Mostly, this class of the population has not shared in the benefits of either economic growth or the peace process.

The success of Jordan's transition to a more open economy which can sustain growth and achieve the rewards of peace depends on how widely and how rapidly the benefits of economic growth reach the currently un- or under-employed and those with insufficient family incomes. To that end, and in line with USAID/Jordan's overall goals and objectives, the Mission seeks to implement a strategy that will selectively support efforts to eliminate critical barriers to further private sector development, which it believes will result in increased employment and income for those sectors most in need.

Advocates of increased support to large exporters, those supporting additional programs to work with the small and medium business sector, and those endorsing various assistance efforts with the micro-business sector all have genuine and rational reasons for suggesting that USAID/Jordan target their sector with a variety of programs. However, the Mission recognizes that with a limited budget, it must be very selective in choosing among this extensive variety of options in order to maximize its impact on private sector development and the growth of economic opportunities.

Currently, the data available to the Mission does not provide sufficient clarity regarding the multiple options available to USAID for private sector support. In addition, there are a number of donors and other organizations with existing and planned programs which address - some successfully, some not so successfully - many of the impediments which USAID might seek to help resolve. Specifically, it is important that the Mission carry out an immediate, rapid but professional diagnosis of the various business sectors in order to support the development of the new SO to appropriately target programs for

those sectors. The Mission also seeks to identify the specific problems whose resolution is likely to broaden and maximize employment and increase incomes for Jordanians not yet affected by Jordan's recent positive economic growth. Recent anecdotal evidence supports the proposition that the issue of appropriate and sufficient credit continues to be a serious constraint for many companies or would-be companies, whose growth could help resolve the employment and income problems mentioned above. It is not, however, suggested here that additional amounts or new sources of credit are the suitable or only rational response to this issue.

On the contrary, a great deal more needs to be known about other credit-related issues, including, *inter alia*, the organizational ability of existing sources to provide credit on a profitable basis to those who need it; options for designing credit programs with non-traditional collateral, terms, tenor, types of uses and lending structures; the ability/inability of those seeking credit to meet lender requirements and successfully apply credit proceeds; the potential for linking those with money (such as suppliers) with potential borrowers in ways not normally envisioned; the likelihood for building profitable, financeable growth through increases in exports and the creation of production linkages between local suppliers and Jordanian manufacturers or service companies; and, legal, regulatory or cultural impediments to increased credit availability and to investments in private sector business. With this additional data, USAID/Jordan would be able to better focus its limited private sector intervention efforts on those activities where it can most effectively provide a comparable advantage.

## **II. Objective**

The objective of activities under this scope of work is to help USAID/Jordan to identify and clarify the best opportunities to effect appropriate, continuous private sector growth. The tasks to be undertaken seek to create a clear "picture" for USAID/Jordan of the credit and credit-related impediments to more rapid, sustainable growth for those business sectors which can provide jobs and increased incomes for target groups, and to integrate this diagnosis with a "map" of other existing or planned support programs.

This effort ultimately will result in a prioritized list of USAID program opportunities which will:

- address critical economic growth impediments not met or insufficiently met by other donors or programs,

- be most suitable to USAID's management skills,
- provide the largest employment and income increases,
- fit within the Mission's modest budget, and lastly,
- support USAID's new strategic objective of increased Economic Opportunities.

The results of this work will help the Mission to draft a well thought out strategy, coherent Results Framework and activities for addressing the Economic Opportunities objectives.

### **III. Tasks**

#### **General**

Provide USAID/Jordan's Office of Economic Opportunities with a private sector credit, credit-related and investment/business constraints needs assessment which can be used to assist the design of a new economic growth Strategic Objective.

#### **Specific**

The consulting team will undertake the following specific tasks:

##### **A. "Mapping" of Existing and Proposed Business Support Programs**

Identification and categorization of existing and proposed programs for credit, credit-related and non-credit support to the Jordanian private sector by USAID, other donors, and other groups, broken down by targeted sector (micro, small/medium or large) and by other classifications, as appropriate.

##### **B. Business Sector Segmentation/Characterization**

Agree on an appropriate, standardized segmentation of the Jordanian private sector into size categories, using USAID, World Bank or other meaningful segmentation criteria.

Using data provided by USAID and others, determine approximate size and other characteristics of the segments, including business type,

current foreign and domestic sales, employment, products/services and recent and anticipated growth patterns

### **C. Review of Private Sector Support Programs**

Review, and if additional information is gained later, refine, the categorization of existing and planned donor or other private sector support programs in Jordan that is referred to in "A" above. This "mapping" of programs will be used to identify potential sources of first-hand information on the Jordanian private sector and its problems, and ultimately, to avoid unnecessary duplication and program overlaps, and/or to identify areas for USAID/Jordan collaboration with suppliers of private sector assistance.

### **D. Data Gathering and Analysis**

Read all available current reports, brochures and other printed information regarding the status of the private sector in Jordan, including economic data provided by USAID, the U.S. Embassy in Jordan, the World Bank, or other sources.

Meet with existing and potential businessperson, representatives of chambers of commerce, other business associations, lenders, donor groups, NGOs, USAID personnel, and other consultants working in Jordan on private sector support programs, in order to identify, characterize and prioritized the *real* constraints and critical needs (as opposed to unsubstantiated perceptions of needs) of the Jordanian private sector, particularly as they relate to credit and credit-related issues. This work should be divided into analyses of the microenterprise, the small and medium, and the large business sectors. Interviewees should come from areas both within and outside Amman in order to understand regional issues.

Subjects to be covered should include, among others:

- *Credit and Equity Availability* - Amounts, sources (bank and non-bank, formal and informal), and characteristics of credit (term, interest rates, collateral and other requirements, repayment terms, allowable uses, borrower characteristics) and equity (minimum expected returns, other requirements).
- *Structural Characteristics of the Financial Sector* - Ability of lenders and sources of equity to properly evaluate loan/investment

requests and borrower/user capabilities, including non-traditional borrowers and users; interest of lenders/investors in broadening the borrower/investment base or expanding loan/investment products; and the ability and willingness of companies to provide lenders and investors with properly documented and conceived loan/investment requests.

- *Restrictive Effects of Laws, Regulations, Government Policies and Procedures on Business Activities* - Impediments to credit and to business and investment arising out of law, regulations, etc. which affect lending of all types including leasing, investing, credit insurance and guarantees, imports and exports of raw materials and finished goods (such as tariffs and customs clearance), licensing and company registration, taxes, hiring/firing of labor and other business activities,
- *Market Impediments* - Difficulties faced by business in accessing information about and sales in local and foreign markets; particular emphasis on understanding the impediments (including lack of current, readily accessible information) to increased supplier linkages between local businesses, particularly the micro and small feeding the medium and large companies and the ability of larger companies to finance the production of smaller suppliers.
- *Other Factors Impacting Business Success* - Lack of sufficient and appropriate management skills (accounting, production, product quality, financial controls, and MIS); unavailability of properly skilled labor; cost of labor and inputs; ease of obtaining raw materials and other inputs; cultural factors such as restricted family businesses and the desire of some unemployed to work only in management or white collar jobs; lack of perceived business opportunities for both the local and foreign markets; lack of appropriate technical assistance and training resources to overcome business impediments; infrastructure-related inefficiencies and insufficiencies including ports, roads, other transportation requirements, office space, land, office parks, warehouses and storage facilities; and, inappropriate or ineffective institutional support including business associations, export/investment promotion organizations and other business support institutions.

## **E. Analysis and Prioritization**

Analysis of the gathered data, in light of the information provided on existing and proposed programs, and relative economic data, leading to a prioritization of USAID business support opportunities for the microbusiness, the small/medium business and the large business sectors. This prioritization should be based on:

- Classification of the most critical impediments to private sector development in each sector and in both urban and rural areas.
- Determination of which of the critical hurdles are not being or are being insufficiently addressed by existing and proposed programs.
- Agreement on which business support activities would best reflect USAID's experiences and resources.
- Identification of those appropriate business support activities in both urban and rural areas which would have the largest, most rapid and sustainable employment and income impacts.
- Consensus on which of the proposed high-impact activities/programs can be supported with available USAID funds, taking into account the potential for increasing such programs should additional funds become available to the Jordan Mission.

## **F. Interventions**

Based on the data gathering and diagnosis tasks, propose and outline a limited series of cost-effective interventions (programs) which will address the highest priority business support impediments or opportunities, focused on resolving credit and/or other related impediments to microenterprise, small/medium business or large business success in Jordan that will lead to improved employment and incomes growth.

Assist in developing a draft results framework, that includes: intermediate results and indicators. Also, work with Mission personnel in identifying potential program activities, costs, timetables, and probability for success.

#### **IV. Deliverables**

Deliverables will include:

- Prior to the arrival of the foreign consultants, a structured “map” in table form of all existing and proposed business support programs/interventions for the Jordanian private sector, segmented into programs for micro, small/medium and large business targets.
- Within two days of the foreign consultants commencing work under this contract, the consulting team should provide USAID/Jordan with a detailed workplan and estimated timing. The workplan should identify who will be responsible for and participate in each task.
- Approximately a week before the end of the work period the team will provide an assessment of private sector impediments and opportunities which would likely respond to USAID support, covering the three primary business sectors (micro, small/medium, and large) and which would not overlap with existing or planned programs of other donors or business support groups.
- By the end of the work period, the team will provide USAID/Jordan with a draft outline of and justification for USAID/Jordan’s strategy in addressing credit and credit-related constraints to employment and income generation. The draft will also provide an annotated list of additional rapid assessments needed to expand initiatives should additional funds become available.
- By the end of the work period, the consulting team will provide a draft strategy which includes prioritized description of appropriately phased USAID projects or initiatives which fit under the Mission’s Strategic Objective and within the probable Mission budget, with the caveat that there be room for expansion of these activities or others should more funds be made available to the Mission. The project descriptions will have sufficient detail to allow USAID/Jordan to structure them with little additional consulting assistance, and will include appropriate success indicators.

## **V. Relationships and Responsibilities**

The consulting team will work under the general supervision of the Director of the USAID Office of Economic Opportunities.

USAID/Jordan shall arrange all initial interviews with the Government of Jordan, private sector and donor/NGO representatives.

USAID/Jordan also will provide at least two counterparts to take an active role working with the consulting team within the framework of the deliverables schedule.

## **VI. Performance Period**

Work under this contract will commence on December 2, 1996 and will be completed no later than January 23, 1997.

## **VII. Level of Effort**

This contract will require approximately 30 work days in Jordan, with an estimated total of 112 consultant-days, including local consultants. Travel days for foreign consultants are also included.

## **VIII. Special Provisions**

- A. Duty Post: Amman, Jordan.
- B. Language and Qualifications Requirements: The Team must be experienced in private sector development, small to medium size enterprise development, credit, investment promotion (linkages) and institutional development. The Team should have knowledge of the ANE Bureau operations and procedures as well as USAID's new ADS. Because of the nature of this assignment, the Team should have excellent communications skills, patience and ability to work in a culturally and politically sensitive environment.
- C. Access to Classified Information: The Team shall not have access to classified information.
- D. Logistic Support: USAID/Jordan will provide all of the in-country logistic support for this assignment. This will include: 1) the full time services of a secretary for typing or word processing, telephone answering services, arranging meetings with public and private sector officials, etc.; 2) adequate office space for the Team to include space to

hold small conferences and meetings; 3) office facilities such as the use of a fax machine, telephones, word processing equipment and office supplies and stationery; and, 4) in-country transportation for the Team to attend meetings, etc.

- E. Work Week: The team will work a six day work week, to coincide with the Jordanian work week, Saturday through Thursday.

## **XI. The Consulting Team**

The consulting team will consist of:

***Team Leader/Business Development Specialist:*** The team leader should have at least ten years' experience in assessing business sector constraints and opportunities in developing countries, with a strong background in credit and credit-related issues. The team leader also should have experience in conceptualizing donor program responses to identified business sector constraints, in managing consulting teams, and in evaluating business support institutions. Strong writing skills are required for this position. Additional experience in analyzing non-credit business constraints also would be valuable.

***Microenterprise Specialist:*** The microenterprise specialist should have at least ten years' experience in assessing microbusiness sector needs, and in developing and evaluating both credit and non-credit oriented microenterprise support programs. Additional experience in creating and/or managing a microenterprise or designing and managing a microenterprise support program also would be valuable.

***Export Development/Investment Promotion Specialist:*** The export development and investment promotion specialist should have experience in the development, management and assessment of export and investment programs in developing countries. Additional experience in assessing the constraints and opportunities for exports and investment in a developing country also would be valuable.

***Business Support Program Analyst:*** The business support program analyst should have at least five years' experience working in developing countries on programs supporting the growth of private sector business. The analysts' background also should include the development and detailing of donor programs supporting business development and the identification of appropriate indicators of success. Experience with credit and non-credit business support programs is desirable.

***Local Microenterprise Analyst:*** The local microenterprise analyst should have at least three years of solid background in the development, evaluation and/or hands-on operation or management of Jordanian microenterprise support programs covering credit and non-credit activities. Experience starting up and/or working in a microenterprise would be helpful.

***Local Small/Medium Business Analyst:*** The local small/medium business analyst should have at least three years of solid background in the development, evaluation and/or hands-on operation or management of Jordanian small/medium business support programs covering credit and non-credit activities. A background of experience working in a small or medium-size business also would be useful.

**Annex II**  
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**Annex III**

**Organizations and Individuals Contacted**

CONTACTS by CARANA CONSULTING TEAM 11/96-1/97

<b>Individual/Title</b>	<b>Organization</b>
Jack Kattan, Assistant General Manager	Jordan National Bank
Amer O. Salti, Deputy General Manager	Arab Banking Corporation (Jordan)
Charles J. Gress, General Manager	Jordan Gulf Bank
Tayseer Z. Wahbeh, Manager of Research & Foreign Relations Dept. Mrs. Mazawi, Head of Research	Industrial Development Bank
Suha Tleel, Executive Manager, International Banking and Public Sector Division Hilal Abuzeid, Ex. Mgr. Research and Investment Management Dept.	Cairo Amman Bank.
Ali Hamadah, Executive Director Ghaleb Yaseen, Credit Dept	Housing Bank
Dr. Jamal M. Salah, Director General Walid I. Abuzir	Jordan Loan Guarantee Corp., Ltd.
Taleb Rifa'I, Director General Reem M. Badran, Assistant General Manager	Investment Promotion Corporation
Halim F. Abu-Rahmeh, Executive Manager	Jordan Trade Association
Ali Nasrallah, Director General	Vocational Training Corporation .
Munir Zaghloul, Director Kaml Ismail, Division Chief.	Jordan Institute of Management (a training arm of the Industrial Development Bank)
Adeeb Haddad, Dean	Institute of Banking Studies
Yousef Sh. Batshon, Director of Infrastructure Department	Ministry of Planning
Dr. Abderrzaq Bani Hani, Department of Studies & Research Tejinder S. Minhas, Senior Advisor	Ministry of Planning
Yousef Hiasat, Director General	Housing and Urban Development Corporation
Rifad El-Farhan	Middle East Communications Corp./ United Intern'l
Luay M. Jardaneh, General Manager	Forum Furniture Co. Ltd.
Karim Tawfiz Kawar, President	Jordan Computer Society / Ideal Group
Ms. Salwa Bamieh, Managing Partner Dr. Othman Abu-Gheida, Senior Consultant	MMIS Management Consultants
Lufti Sayegh	Al Jidara Investment Services
Fadi Kawar, Principal in Charge	Talal Abu-Ghazaleh & Company (TAGCO)

<b>Individual/Title</b>	<b>Organization</b>
Elia C. Nuqul, President	Fine Hygienic Paper Company Ltd. (FINE)
Tawfiq Amin Kawar, Chairman/Managing Director	Amin Kawar & Sons Company
Fawaz Zoubi, Manager	Applied Engineering Ltd.
Laith Al-Qassem, Chief Executive Officer	Jordan Technology Group
Nadim Y. Muasher, Chairman	Al-Zay Ready Wear Manufacturing Co., Arab International Hotels Co., Business Tourism Co., Ranco Engineering Co.
Bassam F. Maayeh, Manager Director	Business Tourism Company
Mazen Khabour, Chairman Matalka Musa, Vice Chairman	Delta Foods
Reyad Al-Darawsheh, General Manager	Atlantic
Jad K. Makdah, Managing Director	Jordan Clothing Company (CJC)
Ziad Madros	Sahara Contracting Company
Maher Fanek	AlFanek Trading
Arsalan Kasseh	Kasseh Processed
Nidal Bakeer	Atlas Bedding Company
Hassan Atta	Hassan Atta Ind. Est.
Jihad Tawili	Treco Tawili
Yacoub Zarafili	Zarafili Office Equipment
Mazen Kalbouneh	Farah Agri. Ind. Est.
Fawaz Shalan	Medicare Jordan
Zaki Sa'adeh	Dana
Issam Bdair	Jordan Sipes Paints
Munir Nassar	International Traders
Lama Abbassi	Zara Dead Sea Products
Foteh Tleel	Shaban Trading Co.
Kamil Nader	Arab Distributors Limited
Basel AlWir	AlWir Farming Co.
Rajab Abbass	Abbass Ind. & Trading Co.
Majd Abbassi	Jordan Intl. Team cons.
Omar Zumot	Zumot Co.
Lina Hindeleh	Philadelphia Chocolates
Hussein Jayan	Jordanian Italian Chem. Co.
Alec Gillibrand	British Executive Services Overseas
Montasser Homosi	Near East Petrochemicals
Saad Beseiso	JRP Paging

<b>Individual/Title</b>	<b>Organization</b>
Rami Maja	Jordan Express
Said Masri	JORICO
Samir Maqdash	CJC
Murad Bushnaq	Intermediate
Marwan Jumaa	NETS
O. Nashashibi	Nashashibi Forms
Fawaz Zu'bi	ADRITEC
Hazem Mulhim	JCC
Hanna Masri	Jordan Pipes Manuf.
Dima Suktian	Mounir Suktian
Tewfik Kawar	Munir Kawar Group
Dr. Badran	Noor Al Hussein Foundation
Mr. Wardam, Deputy Director	General Union for Voluntary Services
Jonathan Patrick, Country Representative Reem Aslan, Training Unit Mgr	CARE
Ms. Maha Khatib, National Project Manager	UNIFEM
Michael Austin, Deputy Director	Save the Children Federation.
Qasim Deiri, Program Officer and Technical Supervisor,	Near East Foundation
Dr Awni Al Bashir Amir Baki	Queen Alia Fund for Social Development
Raphael Jabba, Jr., Program Director	Cooperative Housing Foundation (Gaza)
Mahdi Kilani, Project Director Liesl Munch, GTZ Advisor	Development and Employment Fund
Lewis Lucke, Mission Director Alonzo Fulgham, Director, Economic Growth Opportunities Office Rula Ormish, Economic Growth Opportunities Office Khalid Al-Naif, Regional Banking and Finance Advisor Lawrence Hardy II, Office of Program Management Monica McKnight, PSC, Economic Growth Opportunities Office David O'Connor, USAID Advisor to Jordan Trade & Design Center Charles Crane, Regional Controller	USAID-Jordan

<b>Individual/Title</b>	<b>Organization</b>
Wesley Egan, US Ambassador Gary Grappo, First Secretary Don Hepron, Commercial Section, Marcel Wahaba, PAO Robbie Newell, Political Officer	U.S. Embassy in Jordan
Greg Baker Chad Horning	USAID, ANE Bureau - Washington
Judith G.M. Brandsma, Private Sector Development Specialist	World Bank
Juliette Chateauneuf, Project Director, Small Business Development Center	Organisation Canadienne pour la Solidarité et le Développement, funded by CIDA
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**Annex IV**

**Draft Strategic Objective Submission**

## Part II - Proposed Strategic Plan

C. Strategic Objective: Expand Economic Opportunities for All Jordanians

1. Statement of Strategic Objective

USAID/Jordan has chosen as its Strategic Objective for Economic Growth:

### Expanded Economic Opportunities for All Jordanians

This strategic objective was selected after considerable analysis and input from a wide variety of written sources as well as extensive consultations with businesspersons, GOJ officials, other donor organizations and consultants contracted by USAID/Jordan to undertake various interviews and analyses.

The strategic objective reflects the Mission's findings that the critical problems facing the country are, to an important degree, a result of insufficient numbers of successful businesses of various sizes and insufficient growth in existing businesses. This has led to excessive levels of Government employees (over 50% of the work force) and inadequate employment for many Jordanians, accompanied by an excessive imbalance in relative wealth among various geographic regions and economic classes. The resulting situation has led to an increased risk of political instability arising from unemployed, under-employed and poor Jordanians.

2. Problem Analysis

a. Private Sector Assessment

In December of 1996, the Mission commissioned a private sector assessment undertaken in by a group of highly experienced consultants, and which focused on private sector constraints and needs in Jordan. The objective of the this study, which was completed in January, was to identify and understand the best opportunities to effect appropriate, continuous private sector growth, with a major focus on identifying the impediments to more rapid, sustainable growth. In carrying out this assessment, the team conducted a thorough analysis of the microenterprise, small and medium, and large business sectors. The principal sources of data came from an extensive interview process carried out in Jordan and Washington by the team, and on a review of recent studies and other written sources compiled on the subject.

The interview process focused on gathering information from donor organizations, key private and public sector participants, and most importantly - the ultimate beneficiaries or customers. Information was gathered from representatives of fifty existing businesses across a wide size spectrum and operating in a variety of industrial and service sectors, as

well as from four commercial banks, nine microfinance lenders, three other financial institutions, two business associations, and twenty-five other donors, consulting firms and Government of Jordan offices.

Recent studies and written sources included those studies completed by USAID, including the recently completed evaluation of the impact and effectiveness of the Jordan Mission's Sector Policy Reform Program (1993 - 1996), which was prepared by a separate consulting team. Additional studies were also compiled from the World Bank and other donors working in specific areas, such as the GTZ., was incorporated into the Mission's development of its strategic objective. The consultants that participated in the private sector assessment also participated in the Mission's internal deliberations and structuring of the SO and its underlying components.

b. Constraints/Problems

The private sector assessment and the evaluation of USAID's Policy Reform Program clarified a number of constraints which seriously hinder or even make impossible the more rapid and broader development of the Jordanian private sector. In general, it was clear that microenterprises and very small businesses face similar problems, and thus could be grouped together. Large businesses, medium-sized enterprises, and the larger of the small business sector face problems common to all three groups, with the difference that largest businesses, because of their size and influence, often have alternatives available to them that their smaller counterparts do not, such as alternative sources of funding, better access to decision makers and better-trained human resources.

By sector, these problems include:

Microenterprise and Very Small Business Sectors

The inability of many microenterprises and very small businesses to reasonably access banking services - both credit and savings - arising from:

- Commercial banks' general unwillingness to lend to or provide savings vehicles to very small and microenterprises because:
  - the banks do not realize that it can be done on a sufficiently profitable basis if properly structured; and,
  - they do not have the appropriate personnel and systems to properly control the credit risk.

At the same time, the branch systems of the commercial banks make them an attractive potential distributor of financial services for such businesses.

- The limited resources of existing microfinance and small business lending institutions in Jordan (particularly NGOs) is a result of:
  - a lack of understanding by many micro/small business lenders of the need to charge sufficiently high interest rates in order to cover the higher costs of lending to micro and very small businesses;
  - a dearth of proper MIS systems for tracking loan performance and for rapidly identifying non-performing loans in order to immediately begin assisting non-performing borrowers to work out their problems;
  - unfamiliarity of many micro/small business lenders with successful micro/small enterprise program methodology as practiced in other countries, resulting in unnecessarily small programs, high costs and poor results;
  - the inefficient overlap or scattered efforts of donors' micro/very small business programs, which leads to less productive programs and administrative costs which might be shared by other NGOs if there were better coordination of donor micro/small business assistance programs; and,
  - the non-existence of a micro/very small business lender with a sufficiently broad distribution system to provide nationwide service to such businesses.

#### Small, Medium and Large Businesses

- Existing business laws and regulations relating to the formation and operation of businesses, particularly those undertaking and type of import or and export activity, frequently act to seriously inhibit business activity an growth. In particular the non-existent or improper implementation of such laws make it less attractive to operate and expand existing businesses in Jordan or invest in new enterprises. The most often-mentioned examples include:
  - Continuing difficulties in getting goods cleared rapidly through customs, at least partially if not primarily as a result of a system which directly rewards custom officers for finding "improper" preliminary classification of goods;
  - Inconsistent application of customs tariffs and fees;

- High non-tariff customs costs which amount to additional duties of up to 20% or more on goods;
- Lack of duty exemption on raw materials which makes Jordanian products non-competitive in export markets;
- In some cases, higher duties on imported components of locally-produced products than on the final imported products themselves, making local production an unattractive business;
- High costs and/or excessive time and difficulty in obtaining licenses to establish and operate businesses; and,
- Vague, poorly-defined tax laws which make it difficult to accurately calculate tax liabilities in advance, such as the tax consequences of franchise fees paid abroad. Even major tax and audit firms are unable to reliably predict tax liabilities.
- Slow and inefficient response by the public sector in providing sufficient power, water, gas and communication services to private sector operations, particularly but not exclusively in free zones and industrial parks, makes it overly difficult and less attractive for the private sector to maintain existing operations in Jordan or start-up new operations. As a result, a number of local investors are giving serious thought to, or have already, established new ventures for the Middle East outside of Jordan, rather than expanding in Jordan.

Other less important issues noted during interviews/writings or those which USAID is not in a position to address include:

- Many companies have insufficient access to appropriate technology and lack the competitive marketing skills which would allow them to more readily enter regional and other foreign markets. Specifically, they:
  - do not have the ability to identify and negotiate with foreign investors with such technology and markets; and,
  - lack the experience to undertake a successful, professional marketing program outside of Jordan, which must be based on identifying and meeting buyers' needs for specific volumes, styles, quality and price.
- However, successfully addressing these technology and marketing issues cannot be accomplished through mass training programs or broadly-based technical assistance often favored by USAID. It generally requires significant levels of costly, one-on-one

assistance in order to be effective and sustainable, something which is beyond the reach of USAID/Jordan at the present time.

- There is a clear need for Jordan to better attract foreign investment. However, while this need exists, it is felt that a project of this type would not be successful at this time as it requires an appropriate private sector policy environment which is not yet in place and therefore would not be the most cost-beneficial use of limited USAID funds.
- A number of persons noted a serious lack of managerial, mid-management, supervisory, worker and entrepreneurial skills throughout Jordan. However, given the relatively low levels of permanent benefits which can generally be attributed to formal training programs, combined with the relatively low anticipated level of USAID funding, the Mission has concluded not to undertake such a program at this time.
- Businesses at the small and medium level often complain that they are not able to obtain sufficient funding at reasonable prices. However, study after study over many years has shown that financing is rarely the most critical issue for these companies. Instead, the perceived need for financing is due to poor financial, operational and marketing management on the part of business owners. These issues must be dealt with before undertaking additional financing assistance. Without such change, additional or easier access to financing will only worsen the chance of business success and may condemn the borrower to insufficient returns or loss of their investment.
- A related reason given for difficulty in obtaining credit is the lack of sufficient collateral to meet the requirements of most formal financial institutions. To some extent, this may be true and it could be argued that financial institutions need to learn how to be less conservative when it comes to establishing sufficient collateral requirements. However, commercial banks have a legitimate reason in Jordan to require more than adequate collateral from many companies, due to the inherently high risk of operating in the region. Political and policy issues can greatly and rapidly diminish borrower success, such as unanticipated changes in trade protocols (e.g., Iraq), changes in regulations which can make local manufacturing less competitive (higher customs costs applied to imported materials than on the finished good to be manufactured locally). In addition, attempts to change bank attitudes through a USAID intervention would be unlikely.

c. Customers

Customers affected by this strategic objective include micro and small businesses which will benefit from improved access financial services and the increased availability of financing due to improved loan management.

Medium and large businesses will benefit directly from the easing of the cost and time obstacles described in this Strategic Objective.

d. Critical Assumptions

This Strategic Objective is predicated on certain key assumptions, including:

- Relative political stability in Jordan and in the region, particularly as it affects Jordan's primary trading partners.
- A strong, clear and consistent commitment by the Government of Jordan - at all necessary levels - to:
  - undertake the legal, regulatory and implementation reforms necessary to affect more rapid private sector development;
  - provide open support of the private sector as the key engine of economic growth in Jordan.
- No major changes in Jordan's approach to fiscal or economic policy, as well as no serious fluctuations in the level of economic activity in Jordan or among its primary trading partners.

3. Results Framework

a. Intermediate Result #1 - Increased Access to Financial Services

While Jordan has a fairly sophisticated banking sector, much of the population still lacks ready access to financial services. This is particularly true of the microenterprise sector, but is evident in the small to medium sectors, especially among those located outside Amman. Increased Access to Financial Services across several businesses types and sectors is expected to be an important Intermediate Result, with corresponding results packages that will subsequently be designed to achieve that result.

Access to financial services is important primarily to businesses that are growth oriented, and is not limited to the need for working capital, equity (capital goods) financing, or

readily accessible savings services. Depending on the type and nature of the business, along with seasonal variations in business cycles, some or all of these financial services are required. Businesses, irrespective of size, may have short-term unexpectedly high income that could best be placed in remunerative savings instruments. A second aspect of the importance of access to financial services is that when business opportunities suddenly arise, particularly for raw materials or short-term employment expansion, there is a need for readily available financing, probably short term working capital. A third part of the importance of accessible financial services, particularly for established and growth-oriented businesses, is the availability of longer-term financing for capital goods such as transportation vehicles, processing equipment, or facility expansion.

In Section II. C. 5. a. (Illustrative Approaches), examples of how specific interventions can increase Jordanian businesses' access to financial services, particularly those not being adequately served at present. The sole need for additional capital available at the banks and other organizations does not appear to a critical need, but rather the businesses' access to available services appears to be a constraint that USAID, in cooperation with other domestically and foreign supported entities, can help to overcome.

i. Results package #1 - Microenterprise financial services project

This microenterprise initiative includes a series of components which are designed to improve microenterprises' access to financial services. These would include:

- Training and technical assistance to local organizations;
- Donor coordination; and,
- Engagement of formal financial institutions.

Exposure through training and technical assistance of local organizations and institutions is designed to introduce successful models of microenterprise financial services both within and outside the region. This initiative will probably start with a primary focus on the PVO/NGO sector, who are the most active microenterprise lenders at this time, and who have the market "know-how" acquired with years of experience.

Donor coordination is also necessary given the number of donors that are providing assistance to this sector so as to avoid overlap and wasted resources. A more formal, ongoing dialogue among donors perhaps led by USAID, would also focus on the achievement of sustainable microenterprise programs, with an emphasis on general policies to be adhered to by the retail institutions.

The engagement of formal financial institutions is viewed as a necessary next step to provide more widespread financial services based on local and regional programs of microenterprise finance. In addition to providing greater levels of resources than are currently possible, the participation of the formal financial institutions will also make it

possible to assist growing microentrepreneurs as their financial needs increase and they become small business. Issues with respect to the services offered to small to medium sized companies, such as current problems associated with low local levels of authority outside of Amman, will also be addressed.

b. Intermediate Result #2 - Improvement in the Policy Environment

Over the past three years, there have been significant improvements in the Jordanian policy environment, particularly in those areas affecting expanded trade and investment activities. USAID has played a key role in helping the Jordanian government achieve these improvements through its Sector Policy Reform Program (1993 - 1996), an effort which has also been fully supported by the World Bank, and other donors albeit to a lesser degree.

Gains in trade and investment related reform issues are widely recognized by the private sector and include: an improved temporary admissions and duty drawback system; abolishment of most export and import licenses; the introduction of the harmonized system of tariff nomenclature; improved tax treatment for exporters; reduced paperwork for procedures relating to business registration and licensing; and a new investment law. The creation in 1995 of the Investment Promotion Corporation (IPC), an autonomous government agency designed to promote and facilitate new investment in Jordan, has also received significant praise from the private sector. In 1996 alone, the IPC has registered and approved incentives for over 250 new investments which are expected to contribute more than 7,000 new jobs and U.S. \$500 million in investment. The IPC has been particularly helpful to investors in intervening with other government agencies and ministries when bottlenecks and delays occur.

While these gains in the policy environment are impressive, surveys carried out by the Mission have also identified a number of areas where improvements are still necessary. Unlike efforts in the past few years, however, these additional changes do not for the most part require new legislation. Rather, the constraints identified in these surveys point to difficulties encountered due to poor implementation and cumbersome procedures that can be eliminated without further legal reform. Specific examples cited by the private sector at almost all levels included: poor procedures and attitudes at Customs, excessive paperwork for licenses and approvals, and unnecessary bureaucracy and delays when dealing with most government offices.

In an effort to assist investors, the IPC identified twenty two areas where investors need to interface with government agencies in order to establish or operate their companies. Because most agencies did not have written procedures detailing the steps necessary to complete the process, IPC staff worked with each agency to document the required steps and to produce written procedures, providing investors with a clear set of guidelines for the first time. A by-product of this study, however was the discovery of just how many steps

are required for each approval or license, and the realization that many steps could be eliminated altogether. A review of this study at the Cabinet level led to a decision by the Prime Minister to have the IPC begin to streamline the procedures investors must follow.

A series of key constraints also revolve around problems that relate to infrastructure, particularly that which is managed by public sector entities such as the industrial parks and free zones, and access to utilities, such as water and electricity. Given that the Government of Jordan has recently demonstrated a willingness to explore privatization options, the Mission feels that it will be important to explore possible opportunities in this area, particularly with less controversial assets such as the industrial parks and free zones.

i. Results Package #1 - Support for the Investment Promotion Corporation

Recognizing the need for further assistance to the Government of Jordan in improving the policy environment in order to further stimulate trade and investment, USAID intends to expand its support for the Investment Promotion Corporation (IPC). Working with the IPC offers many advantages to the Mission:

- It has proven to be an effective agency in bringing about improvements in the policy environment;
- It is legally empowered to work towards the streamlining of government procedures that affect investment;
- It has demonstrated its ability to work with USAID support;
- Its mandate and existing efforts are concentrated in areas which coincide with, and directly support USAID's Strategic Objective;
- It enjoys broad private and public sector support; and,
- It already has a good track record in promoting and facilitating investment, both domestic and foreign.

The primary component of an assistance program with the IPC will be to assist the IPC in its efforts to continue the work it is currently carrying out in the elimination of constraints and barriers to new investment. The Mission's decision to work through the IPC in this area reflects the current budgetary realities faced by USAID in Jordan which impedes it from carrying out a major policy reform project similar to the Sector Policy Reform Program which has just been competed. This decision also reflects the fact that the World Bank and IBRD, through their larger support programs, will be taking the lead role in maintaining a policy dialog aimed at bringing about further gains in this area. Finally, the Mission strongly believes that there are tremendous opportunities to be gained by focusing on improving the procedures and regulations (and their implementation) for the legal reforms which have already been achieved. This is also area where the IPC has already

demonstrated some successes and is requesting support for more ambitious projects in the future.

As a secondary component of an assistance program with the IPC, the Mission will provide technical assistance aimed at strengthening the institution. This support will complement the policy environment activities by improving the IPC's capabilities in a number of areas, including

4. Other Development Partners - to be completed...
5. Illustrative Approaches
  - a. Increased Access to Financial Services

As a part of achieving the Strategic Objective a few illustrative approaches are suggested, although it is understood that these approaches may well be refined over the next 1-3 years.

- i. Exposure - It is difficult to discuss the objective of developing sustainable microenterprise financial services until people are familiar with the terminology and methods of achieving success. Local observation and discussions with potential partners indicates that the subjects should be introduced to a broad base of organizations currently involved in microenterprise development. The results of this initial exposure will help identify the most promising institutions with which to work with in the future, when far more detailed subjects will be presented. (Early planning for an initial "exposure to best practices in microenterprise" is already underway with the support of the World Bank and local representatives of the microfinance sector.)

- ii. Sector-Specific Donor Coordination - There appears to be a fair amount of informal exchange of information regarding both non-financial and financial services for microenterprises in Jordan. It is not regularized. A regular (and non-threatening) forum for discussion of policies, issues, and an exchange of information regarding ongoing and planned programs and plans can be established for modest amounts of funding, but it requires one organization to take the lead. USAID, utilizing both its own knowledge base and solidifying its relationship with World Bank in Jordan, is in a good position to lead this activity. This has been shown to be effective in other countries where there is a diverse group of organizations and institutions involved in microenterprise development, and is a good way to begin the process of engaging formal financial institutions in the profitable provision of financial services to the microenterprise sector. Such a forum also helps avoid and unnecessary duplication of efforts.

- iii. Direct Assistance - Many organizations involved in the provision of financial services to the microenterprise sector have the commitment to responsibly serve

the sector, but lack the tools to reach their objective. This can be overcome in part by providing focused technical assistance to specific organizations and/or institutions. Such specific TA often includes the development of operations manuals, short and long-term financial planning and target setting, improvement of borrower and employee supervision, borrower and employee incentive systems, development or refinement of systems to tightly track both portfolio and financial performance, and refinement of human resource management. In some specific cases, small amounts of capital may need to be provided to the most promising organizations as a method of leveraging capital that is already available.

b. Improvement in the Policy Environment

While current USAID support to the IPC is limited to assistance in the modernization of its own internal systems and procedures, the Mission will expand its support to assist the IPC in its efforts to step up activities related to bringing about improvements in the policy environment. USAID also feels that support for institutional strengthening and planning activities is merited and would contribute to the effectiveness of the institution.

i. IPC activities relating to the policy environment - Direct support to the IPC's efforts to improve the policy environment will focus on the provision of funding and technical assistance to carry out studies and bring about significant improvements in such areas as:

- Streamlining or elimination of regulatory and licensing requirements;
- Improvements in the day to day activities of Customs, leading to better clearance times, more efficient procedures and lower administrative costs;
- Further improvements in incentives for investment and exports; and,
- Analysis of the impact and implications of joining the World Trade Organization (WTO), and other trade related studies.

ii. IPC activities relating to institutional strengthening - Institutional strengthening activities would include technical assistance in such areas as strategic planning, organizational efficiency, promotional tactics. Some examples of specific interventions include:

- Technical assistance with organizational issues (personnel management, training, efficiency, responsibilities, etc.)
- Assistance in improving promotional expertise;
- Assistance with the management of incentives; and,
- Assistance in targeting and working with key sectors.

### III.C.6 Sustainability

#### a. Increased Access to Financial Services

This activity will support Jordanian organizations and institutions (NGOs and formal financial institutions) in the provision of sustainable services. Potential partners in this activity will need to indicate not only how funds might be attracted and utilized in the short term, but also what their plans are for continued and expanded access to financial services. Selective assistance to these potential organizations might be required. The key issues to be identified by any potential partner have to revolve around the cost of funds, expected default rates and provision for that loss, mark-up of funds that will allow for coverage of staff and related costs, and plans not only for survival, but for growth. It is clear that the end-users of financial services will be better served if the organization providing them assistance corporately plans to work with them over the long term.

Through to TA and systems discussed to support more accessible financial services, it will help to insure that sound services are being provided to the ultimate client, the end-user. If unsound services are provided, the ultimate client risks failure as well. The sustainability and growth of the Jordanian individual receiving services is a critical part of this overall effort.

i. The Institution/Organization - This activity will support Jordanian organizations and institutions in the provision of sustainable services. Potential partners in this activity will necessarily need to indicate not only how funds might be either attracted or utilized in the short term, but what their plans are for continued and expanded provision of financial services. Selective assistance to these potential organizations might be required. The key issues to be identified by any potential partner have to revolve around the cost of funds, expected default rates and provision for that loss, mark-up of funds that will allow for coverage of staff and related costs, and plans not only for survival, but for growth. It is clear that the end-users of financial services will be better served in the organization providing them assistance corporately plans to work with them over the long term.

ii. The Ultimate Customer - Sustainability is also a key issue for the individual business being served. If the organization providing financial services has not carried out sufficient examination of the businesses potential for profitability, services may be provided that hurt, rather than help the business. The potential for errors in making the wrong kind of loan available to the end-user can be largely overcome through training and supervision of responsible officers, along with have the organization thoroughly examine their policies and procedures on a regular basis.

b. Improvement in the Policy Environment

As an autonomous government agency, the IPC receives sufficient budgetary support from the government to allow it to operate effectively. All anticipated activities under the Mission's support program for the IPC represent non-recurring activities and therefore do not contribute to an over-dependency on outside sources of funding and do not threaten the IPC's ability to continue to function independently in the future.

For example, while actions related to the improvement of the policy environment are continuous, the effort tends to be more resource intensive during the initial phase of a program. However once the major improvements have been made and the effort matures, the cost of maintaining a positive policy environment is reduced. USAID's support for the IPC in this area is designed to assist the institution during the more resource intensive phase, but will not preclude it from carrying out "maintenance" activities on its own in the future. Activities related to institutional strengthening will also contribute to improved efficiency which will assist the sustainability of the IPC.

**Annex V**

**Project Description: Microenterprise Sector**

## Microenterprise Support Opportunities

### A. Background

#### 1. Non-Governmental Organizations (NGOs)

There is a fairly broad array of organizations (mostly NGOs) providing support to the microenterprise sector in Jordan. Some of these organizations are confined to relief; others offer training, technical support, and limited amounts of credit for microentrepreneurs. Considerable background and description of ongoing activities is described in documentation already submitted to USAID.

While there is one NGO that recently began lending following many of the principles of "modern" microenterprise finance, the bulk of the NGOs involved in microenterprise credit are providing funds as a very small, or experimental phase of their activities. Most of the NGOs that are currently involved in microenterprise finance activities are not providing those funds on a structured or growth-oriented basis wherein loan recovery could finance growth. All of the NGOs reviewed during the period of this assessment receive funding and/or political support from the Jordanian Government. Most of the NGOs reviewed are also receiving direct technical assistance, often combined with funding, from foreign donors.

This range of NGOs involved in microenterprise assistance are important contributors to the well-being of the lower economic strata of Jordan. There are very real needs for a range of development assistance such as literacy training, upgrading of technical skills, health improvement and family planning, market identification, home based agricultural production, and policy dialogue with the Government of Jordan. Several NGOs have activities that help address these problems; these activities do not need to be duplicated by USAID. However, the provision of financial services to microentrepreneurs in Jordan in a pattern that could allow them initially to recover a significant portion their costs and eventually allow them to be self-sustaining has yet to occur on any widespread basis.

#### 2. Formal Financial Institutions (Banks)

The description of Jordanian banks' involvement in microenterprise finance is quite brief. The Agricultural Credit Corporation does provide finance, primarily for agricultural production throughout Jordan. However, the USAID description does not "count" agricultural production finance as microenterprise finance. There is one bank, the Housing Bank, that does provide passbook deposit services to small depositors throughout the country through its 120 branches. While this is an important function of microenterprise financial services, Housing Bank does not offer a microenterprise loan product but rather uses short term deposits to finance long term lending for housing establishment and upgrading.

The banks in Jordan reflect the common situation with most banks throughout the world; they do not see any overriding reason to serve what is perceived as a new risk or unknown sector (microenterprise lending) when, with considerably less effort, they can serve larger businesses that are perceived as having less risk. Experience in making relatively small loans (average size around JD 8,000) under the Small Scale Industries and Handicraft program by the Industrial Development Bank showed a declining loan portfolio through its first two years of implementation, with repayments around 74%.

Banks are providing loan services to small businesses, generally defined as those having 10-25 employees, and with loan requirements generally exceeding JD 20,000. To enhance the banks' capability and willingness to lend to these small businesses, there is also the Jordan Loan Portfolio Guarantee Corporation, which offers a guarantee facility to replace a portion of the standard collateral requirements. This is important support to the small business sector, but does not address the financial services needs of the microentrepreneurs.

#### B. Constraints

Banks are not lending to microenterprises in Jordan at any discernible level. The following is a brief identification of constraints to cost recovery that the NGOs are facing. This is not a criticism of current activity, as several of the NGOs are attempting to resolve these problems, but are rather offered as an introduction to where USAID's intervention should be the most effective.

The constraints to these organizations operating on a cost-recoverable basis, long less sustainable basis, are characterized as follows:

Loan Tailoring: Loan funds are extended for relatively long periods (1-3.5 years), which rarely fits the nature of microenterprises. Microenterprises are far more likely to have a business cycle of as short as one week (such as a fruit/vegetable dealer) to as long as six months (such as a furniture maker). The problem faced in not tailoring the loan to the business cycle is that when loan amortization is due, the business might not be in a position to make the payment.

Information Systems: Most of the organizations do not have an information system that can rapidly indicate the status of portfolio performance. Short term loans with multiple repayments are generally shown to be the most effective for microenterprises. (On the same hand, deposit services need to be offered wherein it is easy to make a deposit and that the deposit funds are immediately accessible.) If the information systems within the organization do not reflect the immediate situation with any given loan, the loan can become problematical for the lender. Lack of immediate follow-up of a missed payment gives the impression to the borrower that it is not important for the loan to be repaid, but is rather another subsidy being provided by the organization. There are a number of

indicators that can be used to judge the performance of a loan portfolio, including but not limited to: on-time repayment; portfolio at risk; aging of past due repayments; processing time for loan applications; gender disaggregation that will allow for performance analysis, loan length and amount breakdowns, and long-term planning for growth. None of these can be adequately addressed without an efficient management information system.

Exposure and Training: Most of the NGO programs in Jordan have not had the opportunity to become better acquainted with regional and world wide models of successful microenterprise lending. They are still caught up in thought pattern that a charitable approach of interest rates that do not allow for cost coverage and lack of attention to tight supervision of loans is the best service to the microentrepreneur. The fallacy in this approach is that the lender will quickly go out of business in the absence of further donations and will no longer be in existence to serve its clientele.

Information Exchange Forum: There are a range of NGOs providing microenterprise credit as at least a portion of their respective activities. There is informal exchange of experience among both the NGOs themselves as well as among foreign and domestic experts. There is a growing interest in the field of microenterprise financial services, but only as a subset of the much broader issues of training and marketing. There is a growing awareness of impending World Bank (as well as other donor) funding for microenterprise development; a government task force has been formed to review the issues. However, there is not a broad-based forum that could include the range of NGOs for discussion of the issues.

Technical Assistance: Many of the NGOs have already identified the constraints listed above, or during discussion recognize that these are problems they are facing. However, in the absence of information and technical assistance to help them overcome these problems, the problems get discussed but cannot be resolved. The NGOs require expert advice, in varying degrees, to assist them in overcoming these problems.

### C. Possible USAID Interventions

The following suggests an outline of a program to be supported by USAID/Jordan that could help address some of the constraints discussed in II., above. It is understood that the constraints cannot be treated in isolation. Simply installing a sound management information system into an organization that is charging interest rates that do not allow for cost recovery and eventual self-sustainability would not make sense. It is suggested, however, that a series of activities, most of which could be carried out by an institutional contractor coupled with some focused buy-ins to centrally-funded projects, could be very effective in helping the Government of Jordan to address the problems related to the provision of microenterprise financial services.

There are regional and world wide models of successful microenterprise finance. Evolving successful models in Jordan, however, will not be easy and there will not be any quick

fixes. It may well take 1-3 years following activity initiation to be able to point to positive results.

Exposure to the World of Microfinance: There is currently a good deal of discussion surrounding microenterprise finance; much of the discussion is focused on end-use interest rates. Interest rates are visible and generally misunderstood. The much larger issues of service orientation and sustainability of the lender are two of the main issues that have been dealt with by successful microenterprise financial services organizations and institutions. An introduction approach that has proven to be very useful in countries that lack experience in successful microenterprise finance has at least two stages.

- The first stage is to attract local leaders (Board Chairpersons or Presidents) of organizations to introduce experiences from other countries with a brief (two to three days) overview of other countries experience, generally utilizing foreign experts and microfinance managers as both presenters and smaller group moderators.
- A second stage, which can occur several months following the first workshop, is to see which of the organizations appear to be willing to follow the principles put forth in the first stage. This second workshop, a professional development seminar, is aimed at the working level, such as branch managers, loan officers, and other key personnel that work with microenterprise finance on a daily basis. An illustrative list of subjects to be covered is shown below, based AID/W past few years of experience.

Possible subjects would include:

- Understanding the MSE Clientele
- Identifying the Financial Needs of the Poor
- Systems of Informal Finance and Innovative Formalized Methods
- Principles of Microfinance
- Institutional Transformation
- Setting Interest Rates for Sustainability
- Controlling Delinquency
- Reporting and Financial Management
- Controlling Fraud in Microfinance Programs

Ongoing Training: There are any number of organized programs available world wide that consistently appear to have a positive impact on the participants. There are two seminars (two and six weeks) held each summer in Boulder, CO, that cover the subjects mentioned above in far more depth. Specialized short courses in microfinance operations are also readily available in Alexandria, Egypt, and Santo Domingo, Dominican Republic, and Jakarta, Indonesia, and can be tailored to the needs of the participants.

Information Systems: Nearly all of the NGOs in Jordan lack adequate information systems, as indicated above. The primary need of these organizations is to recognize the importance and need for critical information to adequately manage their loan portfolios. Following the exposure and training described above and an identification of specific informational needs, the project should be in a position to assist the most promising organizations in structuring their systems in an efficient manner. Computerization of the MIS should be seen as a part of that activity, but organizations with relatively small portfolios can utilize a manual system nearly as efficiently. USAID may want to set aside a modest amount of funds to support hardware and software needs that are not available to some of the smaller lending operations. Assistance in developing efficient MIS systems can be built into the technical assistance component described below.

Technical Assistance: USAID is in a unique position to provide technical assistance to those organizations which would request assistance in various areas of microenterprise finance. Although the requirements are obviously widespread, there is a wide range of not only printed materials, but people with expertise in putting sound technical approaches in place. A minimum entry would probably be at least one expatriate with demonstrated skills and experience in microenterprise finance in general, to be assisted by a person (very possibly local) with demonstrated skills in management information systems for financial operations. This team, with local support staff and periodic short-term assistance from specialists, such as trainers, should be able to carry out all the functions in A.-C. above. Initial provision of this technical assistance could be for as few as two years, with extension or expansion determined by performance and need.

Regularized Information Exchange: There are numerous foreign and domestic donors working through a broad range of NGOs and governmental organizations that all have a focus on microenterprise development. It appears that there would be great value in having a regularized venue for information exchange regarding both ongoing and planned activities in microenterprise development. This has proven effective in similar situations which had large and small NGOs with differing programs but similar objectives. All NGOs and foreign donors with an interest in microenterprise development should be sought out. The funding requirements are relatively low; budgeting should be targeted at the first year or two only, with sufficient amounts allocated for a one per month conference room rental. AID personnel should be able to launch this effort through its contacts with the donor and NGO sector, and assisting in identifying key areas for discussion.

Direct Investment: The overall activity of supporting microenterprise finance might require some modest amounts of capital that could be placed with a promising NGO for operation costs and/or for direct lending. Due to overall budget constraints, this amount would necessarily be modest, probably no more than \$.5 million per year. Some of the best run NGOs could use some minor investment well, but only those that would submit a plan to responsibly administer funds on a cost recoverable basis would be considered for

inclusion. There are other institutions, such as the World Bank, that are better suited to handle capital infusion, but this should not exclude USAID from making some minor investment in a promising operation.

#### D. Other Possible Interventions

Section C above discusses a minimum, and hopefully cost effective structure in which USAID/Jordan could have a very positive effect on providing enhanced access to financial services by microentrepreneurs. Should expanded funding become available in the future, the activities described above (training, TA, provision of management information systems, capital investment) could be provided to a wider range of organizations and people, or new activities undertaken.

Research: One activity for consideration would be establishing baseline data on microenterprise activities in far greater detail than is currently available using household data surveys on business activities and levels. This could be followed up on a periodic basis, annually or bi-annually, with linear research on both assisted and non-assisted enterprises. Michigan State University has considerable experience in this type of research on microenterprises, although there may be others.

Financial Instrument Innovations: There is currently discussion of new instruments for small and microenterprises such as credit card operations for very small manufacturing and processing businesses to obtain goods from suppliers. This approach has been successfully utilized in Swaziland, and could be experimented with here in Jordan.

Microenterprise Finance in Formal Education: There are any number of graduates from university each year that go immediately from the rank of student to unemployed. The provision of several hours in finance as it applies to microenterprises is now being carried out in Jamaica. While some graduates end up opening up their own microenterprise, others have shown to become highly-rated candidates for employment with both NGOs involved in microenterprise finance and banks with active small business lending.

**Annex VI**

**Project Description: Investment Promotion Corporation**

## A. Background

The IPC is a relatively new institution established by law in 1995 as an autonomous agency of the Government. The law establishes IPC's overall goals and objectives in addition to identifying the key sectors that the IPC promotes, and the incentives that the government is willing to offer investors.

In creating the IPC, the government has worked to avoid many of the pitfalls that cripple these types of institutions. For example, although a public sector institution, the IPC is allowed greater administrative flexibility than "typical" public sector entities (e.g., it is exempt from public sector salary scales). Also, the IPC legally reports to the "Higher Council of Investments" made up of six key Ministers, six representatives from the private sector and presided by the Prime Minister. The above demonstrates a level of commitment on behalf of the Government to promote investments that is rarely found in developing countries.

In 1996 the IPC worked with over 240 companies that are investing a total of JD 350 million of which approximately 20% represents investments made by foreign investment, usually in a joint venture with local capital. This success indicates that the overall policy environment in Jordan affecting investment is acceptable, although as discussed in the following sections, there are

### The Investment Promotion Corporation

#### Goals and objectives:

- Identify and promote investment opportunities
- Provide investors with information and advice
- Facilitate the investment process
- Establish a "One Stop Center" for investment

#### Sectors:

- Industry and agriculture
- Hotels and tourism related
- Hospitals and medical facilities
- Maritime transport and railways
- Vocational training facilities
- Art and media production

#### Key Program Areas:

- Investment promotion services
- Facilitation of investment
- Management of Incentives

### The Policy Environment

A strong policy environment is an essential ingredient to be successful in investment promotion. A positive policy environment should include:

- An appropriate and stable monetary and fiscal policy;
- Adequately and competitively priced infrastructure; and,
- A stable and supportive government.

some specific problems that need to be resolved. Furthermore, it suggests that with additional resources and improved promotional techniques, Jordan should be able to increase overall levels of investment, both foreign and domestic.

#### B. Organization and Staffing

The IPC has a staff of approximately 65 individuals of which many came from the program the IPC replaced which had been within the Ministry of Industry. These individuals have been working in a public sector environment, and the Director General of the IPC as been working hard to motivate and incorporate them into the dynamic program he is trying to build. The IPC has also hired a number of young professionals in key areas, and these are vital to the success of the ITC.

The ITC provides services in three key areas, and has recently reorganized around these functions. These areas are described in greater detail below.

Incentives: Under the law, the IPC is the government agency which grants incentives to investors and also charged with monitoring the companies which have been granted incentives to insure compliance. The IPC is currently doing this with a small staff, and it appears that this aspect of its operations is running smoothly.

The fact that IPC is both a promotional agency, and has the power to grant incentives to investors that it works with is a powerful advantage. Many countries have tended to separate the promotional function from the granting of incentives, and more often than not, this leads to serious conflicts in addition to an overall lack of consistency and cooperation.

Facilitation: In IPC's case, facilitation means intervening on behalf of investors with other Government agencies to insure that incentives are respected, and that investment is not held up by the different bureaucracies in the country. Currently, about 70% of the IPC's human resources including top management, is dedicated to facilitating the investment process in Jordan. Facilitation services appear to be carried out almost on a "problem by problem" basis, but the IPC is also working to solve many problems once and for all by working to bring about permanent structural changes in the way the country treats investors.

Facilitation services have been successful and has lead to greater private sector support for the IPC, which is important for the IPC in the long run. A good facilitation system will also make up for a weak policy environment to a large degree. However, the fact that the IPC is spending such an inordinate amount of time and effort providing facilitation services to investors is an indication that the country needs to continue to work on improving the policy environment.

Promotion: The third major function carried out by the IPC is promotion. Due to a lack of overseas offices and limited budgets, the IPC carries out mostly passive type promotional activities. For the most part the IPC is a facilitator of information, and while it appears to carry out this role well, it is limited to a reactive role in promotion as opposed to a more proactive type of promotion which has shown to be more effective in countries like Jordan.

In spite of budgetary limitations, the IPC has been resourceful in the types of promotional activities that it carries out. For example, the IPC has developed a database of relevant information for investors which it makes available on diskette to interested parties. The IPC also has developed a monthly newsletter of relevant information on investment in Jordan which it sends out to its embassies and commercial officers, thus providing these diplomatic missions with materials which they can use to respond to inquiries.

#### C. Technical Assistance and Financial Support

The Director General of the IPC has requested technical assistance and financial support in a variety of areas, and I have also added some additional areas that I feel would enhance the outcome of the project. These are discussed in greater detail in the sections below.

##### Possible Components of a Project with IPC

- Assistance in institutional strengthening
- Support in modernization and efficiency (computerization)
- Assistance in strengthening promotional expertise
- Assistance in improving facilitation efforts (special studies that lead to improvements in the policy environment)
- Strengthening of the system to manage incentives

Institutional strengthening: The Director General of the IPC would like assistance in analyzing the organizational structure of the IPC, and in reviewing the specific tasks carried out in each division and in each of the operating units within each division. The current organizational structure described in the previous section has only recently been implemented, and is still being analyzed to see if it is the most effective type structure for the IPC.

To carry out this work, the Director General would like to be able to count on the services of a knowledgeable individual for assistance in this area on a full time basis for at least three

to six months, after which assistance could be intermittent. It is also important that this individual not be burdened with the day-to-day problems facing the permanent staff of the IPC and allowed to focus on organizational issues.

While we agree with the need for an outside person to carry out this task, we are not sure that this is the most cost effective way of providing this assistance given the costs associated with this type of support. As an alternative, we would suggest the possibility of using someone that is knowledgeable in this area to program a series of short term interventions aimed at addressing organizational issues. This consultant could be supported by a full time person hired locally who would be able to follow-up on recommendations made by the consultant between visits.

Improved efficiency and modernization (Computerization): We did not specifically look into this issue, but feel that support in this area is probably required, and would suggest that the best approach would be to first define IPC's needs carefully by carrying out an assessment in this area. Based on this assessment, and taking into consideration the systems that IPC already has in place, it should then be possible to document the equipment, software, training, and technical assistance needs of the IPC in order present a better documented proposal.

Promotion: There is a clear need for technical assistance in promotion. While we do not feel that the timing is right to push for a full fledged promotional program, we do believe that support to the IPC in this area would allow them to be more cost effective and to increase results at very little marginal cost. Some examples of the types of assistance which could be provided include:

- Better utilization of Jordanian embassies abroad;
- Better management of site visits and potential investors;
- Training for investment promoters to improve their skills;
- Indirect promotion techniques;
- Analysis of sectors and markets which would allow for better targeting of potential investors;
- Assistance in developing promotional materials and in improving their information data base; and,
- Guidance on types of promotional strategies that work and those to avoid.

Special Studies and Improvement of the Policy Environment (Facilitation): Facilitation work serves to identify flaws in the policy environment and allows for the development of solutions to solve these problems permanently over the long run. Improvements in the policy environment will only make IPC's efforts more successful, and in the long run is what attracts the levels of investment that are required to bring about a real contribution to job creation and foreign exchange generation.

Unfortunately, the analysis of problems and the development of recommendations takes both time and effort, and as a result, a technical assistance package for the IPC should provide for assistance in this area. To a large extent this type of work can be done without having to use foreign consultants, although there have been some interesting strategies and solutions used by other countries which should be useful in making efforts more efficient in Jordan.

Incentives: As the number of companies receiving incentives grows, so will IPC's difficulties in monitoring these companies to insure compliance. Unfortunately, in many countries this translates into greater reporting and additional obstacles for the investor, which should be avoided at all costs. At the same time, it is important to install systems that help guard against abuse. Many countries have limited incentives to all companies due to the abuses of a very small minority, and this also should be avoided at all cost.

A certain amount of technical assistance should be provided to the IPC in order to help them develop adequate - yet agile - analysis and control systems in order to avoid problems down the road. The best time to do this is early on, before problems occur which might subtract from the credibility of the IPC.

#### D. Issues and Concerns

Some of the issues and concerns that AID should consider in the development of a technical assistance project for the IPC are discussed below.

Overall Government support: All indications are that the IPC has broad Government support, although it will be important to verify this, since strong government support is such an important element in investment promotion. To the extent that such an exercise can be used to also "educate" key Government officials on the importance and benefit of a strong investment promotion program, we should do so as well as this would only strengthen the IPC in the long run.

The most common method to do this is through a high level planning session, in which key members of the Government would attend. This would have to be a short session - no more than a day - in which AID would present its intentions to assist the IPC and provide information on how investment promotion programs should work and the benefits that can be derived.

While we understand the difficulties of getting such an important group together for a meeting, we tend to view such a session as insurance for AID with potentially large dividends if we are successful in increasing high level support for IPC.

Scope of IPC activities: One area of concern that is broad scope of activities that the IPC has been charged with. The inclusion of both foreign and national investment for both export and non-export oriented businesses represents a broad mandate. The need to provide services to both foreign and domestic investors also requires that the IPC cover a broad range of activities which goes against our instinct to focus these institutions in just a few areas.

We do not recommend mixing domestic investment promotion with foreign investment promotion, but we must recognize that domestic investment is a positive sign that foreign investors look for. Perhaps in the case of IPC, it is wise initially to have included domestic investment, although over time the IPC should step up its services offered to foreign investors.

While we believe that the IPC has a broad scope of activities, we recognize that it would not be wise to push for a reduction of the IPC's scope at this time. Over time the IPC might be able to reduce its scope of activities administratively by focusing on some areas (e.g., export oriented investment) more than others. I would recommend that we look seriously at this over time, taking care not to "rock the boat".

Reliance on the Director General: The IPC's Director General, Taleb Rifa'i, appears to be the right person for the right job at the right time. The start-up of any promotional program sets the tone for its future, and we are sure that the intensity level with which Mr. Rifa'i works this program is the primary reason for its early success. We have also met with others at the IPC that report to the Director General, including the Assistant General Manager, who appear very committed and obviously contribute to the success of the IPC.

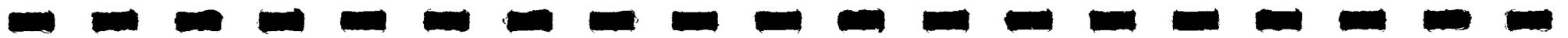
Our main concern is that we have seen programs start well as a result of a dynamic manager, only to fall behind and deteriorate should the manager leave. In the case of IPC, we sense that a large part of its early success is due to Mr. Rifai's presence and the influence and support that he is able to bring to the project. While this is positive, it also requires that any project undertaken with the IPC work to strengthen the institution insure that it is not dependent on the presence of just one individual.

#### Key Issues

- Is there broad-based Government support for a serious investment promotion effort?
- Is the Scope of IPC's activities, which includes domestic investment and non-export oriented investment, too broad?
- Are we too dependent on the existing Director General?
- Can a project with the IPC contract or expand based on performance and the availability of funds?
- Are there additional incentives or actions that could be undertaken in order to increase our probability of success?

Expandability of the project: Given USAID/Jordan's overall budget restrictions, it is clear that any initial assistance program with IPC would be modest. However, over time USAID's budget might increase, and if in a first project the IPC performs well, the possibility exists for additional support, particularly in the area of foreign investment promotion. There is no doubt that under the right conditions, the IPC could embark on an ambitious program to attract foreign investment and that such a program would yield important dividends for Jordan, particularly in the areas of job generation and export led growth.

Need for a review of incentives and other factors that might improve success: The IPC has already identified areas where government procedures and beaurocratic policies hinder private invstment, and it is working with the appropriate government Ministries and agencies to begin to streamline procedures.. While we know that the IPC cannot remove all barriers to investment and competitively, any initial program with the IPC should include funding and support for continued efforts to improve the policy environment.



**Annex VII**

**Mapping of Existing and Proposed Business Support Programs**

**MICRO FINANCE AND T.A SUPPORT NETWORKS** ( Source: World Bank Jordan Micro Credit Mission Report October 1996 ) \* USAID Funding during the last five years.

Institution/Activity Focus	Existing Programs	Proposed Programs
<p>UNRWA 450,000 JD loan portfolio for income generation and micro business development through 21 urban camps primarily aimed at women refugees.</p>	<p><b>Financial Support</b></p> <p><b>Grant Program for special Hardship Cases.</b> Up to 2000 JD to 34,000 refugees for distress support.</p> <p><b>Loan based income generating projects.</b> Provides loans of up to 10,000 JD. Ave. loan size 4300 JD.</p> <p><b>Savings linked Credit Program.</b> In cooperation with Care, matches amount saved by local women groups by a factor of 9.</p>	<p><b>T.A Support</b></p> <p>1) Vocational training in carpentry, construction and mechanics. 2) Teacher training support. 3) Secretarial training.</p>
<p>HUDC ( Housing And Urban Development Corporation.)100,000 JD loan portfolio for micro business development aimed at low income urban groups.</p> <p>* USAID Funding \$20 M.</p>	<p><b>Revolving Loan Fund Program..</b> Max loan size 1,500 JD @ 7% flat to 22 projects mainly existing businesses in trade and services.</p>	<p>NEF trained Govt. Social Services Dept. staff on the designing and management of Revolving Loan Fund management. NEF also seeded SS Dept. with 10,000 JD for awareness and loan screening campaigns.</p>
<p>QAF ( Queen Alia Fund) 2M JD loan portfolio for bus development and income generating projects aimed at rural women and children.</p> <p>* USAID Funding \$1 M grant</p>	<p>Funded 692 projects from 94/96 through 12 main and 36 satellite centers. Currently oversees 8 revolving funds. Ave. loan size 2,800 JD at 4% most over 5-6 years. 4 funds support income generating projects, 3 support social development and 1 in the newly established Women's Entrepreneurs Unit.</p>	<p>Vocational training support in micro financing provided by Canadian donor agency.</p>
<p>NHF ( Noor Hussein Foundation) 600,000 outstanding loan portfolio aimed at financial support and T.A in micro business and income generation in rural areas.</p> <p>* USAID Funding \$1.5 M grant</p>	<p><b>Credit Program.</b> 135,000 JD available for micro credit training and on-lending (Based on Islamic terms and a 6% fee.).</p> <p><b>Quality Of Life Program.</b> Initiated in '89 with the WHO and Min. Of. Health. Aimed at village-level social and economic development activities through VDC's ( Village Development Council) .NHF provides an annual budget for each of the 16 villages it supports.</p>	<p><b>National Handicrafts Development Project.</b> Promotion of micro-business development/income generating activities through handicraft training and production.</p> <p><b>Women In Development.(WID)</b> Focus is on self-employment and home production- bee keeping, herb gardens, animal husbandry, knitting, weaving.</p>

MICRO FINANCE AND T.A SUPPORT NETWORKS ( cont.) \* USAID Funding during the last five years.

Institution/Activity Focus	Existing Programs	T.A Support	Proposed Programs
<p>ACC (Agricultural Credit Corporation.) 3M JD loan portfolio aimed at developing urban agriculture.</p> <p>* USAID Funding \$1 M. Revolving credit.</p>	<p><b>Financial Support</b></p> <p><b>Direct ACC Micro lending activity.</b> 50% of loan portfolio (av. loan 300 JD) to farmers for animal husbandry and stock purchases.</p> <p><b>The Lending Program For Rural Families.</b> Aim: To raise standards of living. Loaned 1.7M since its inception in 1994.</p> <p><b>DEF Unemployed Lending Program.</b> As of '95, DEF committed 1.3M which ACC disbursed 194 loans. Ave. loan 3800 JD @ 6-7%.</p>	<p><b>T.A Support</b></p> <p><b>Income Diversification Project.</b> Aim: Developing role of women as income earners. Total Funds 3.4M from IFAD and Kuwait Fund to develop sheep fattening, fodder production, agri processing.</p>	<p>Continue current thrust and programs.</p>
<p>CARE 11,400 JD outstanding loan portfolio aimed at micro business/agricultural development projects in urban areas.</p>	<p><b>Savings Linked to Credit Program (SLC).</b> The largest income generating program. Matches savings on a ratio of 9:1 to be used for on lending to group members.</p> <p><b>Community Enterprise Projects.</b> Aimed at strengthening local organizations through implementation of productive projects. CARE funded up to 10,000 JD on 7 projects:-animal husbandry, manufacturing and food preservation.</p>	<p><b>Technical Assistance</b> in business planning, feasibility studies and fund management.</p> <p><b>Introductory Activities For Disadvantaged Youth.</b> Tackles the social problems of unemployment, sexual abuse , the handicapped.</p>	<p>Continue current thrust and programs.</p>
<p>Save The Children 825,000 JD loan portfolio for micro finance, childhood development and preventative health aimed at women in low income communities.</p> <p>* USAID Funding \$1.5 M. On-going loan guarantee.</p>	<p><b>Group Guarantee Lending And Savings Program (GGLS).</b> Aimed at poor women, GGLS has over 1100 active loans/savings schemes to 80 groups of women ( av. loan 75 JD) who make bi-weekly payments of 11JD ( 11 for repayment and 2 for savings) an effective annual interest rate of 24%. STC aims to institutionalize the program.</p>	<p>In-house technical assistance support in micro finance.</p>	<p>Continue current thrust and programs.</p>
<p>CD ( Cooperation For Development) 398,000 JD loan portfolio to small scale entrepreneurs in agri business and medical technology.</p>	<p><b>Income Generating Activities.</b> Between 1992-1996, funded 133 small businesses saving and consolidating 440 jobs. Disburses individual loans at 11% interest on a declining balance plus management fees based on decreasing balance.</p>	<p>No T.A</p>	<p>Continue current thrust and programs.</p>

**MICRO FINANCE AND T.A SUPPORT NETWORKS ( cont.) \* USAID Funding during the last five years.**

Institution/Activity Focus	Existing Programs		Proposed Programs
	Financial Support	T.A Support	
<p><b>DEF</b> ( Development Employment Fund) 11.3M JD loan portfolio aimed at supporting urban and rural micro business and income generating projects.</p>	<p><b>Direct Lending Program to micro bus.</b> Lends JD 11.3M directly. max. loan size 10,000 JD @ 6.5% interest or Islamic Murabaha. 91-96, over 2,250 loans were made and 5,400 jobs created.</p> <p><b>Direct lending to NGOs and PVOs.</b> . DEF on lends JD 1.4 M interest free to NGOs and PVOs for income generating projects.</p>	<p><b>Indirect Lending and T/A Program.</b> By mandate DEF provides loan funds and grants to intermediaries to help them develop their capacity or on-lending/on-granting. DEF has accredited as capable for on-lending QAF, NHF, GUVS, ACC, BPWC. ( Bus. Prof. Women's Club.)</p>	<p>Continue current thrust and programs.</p>
<p><b>NEF</b> ( Near East Foundation) \$ .85 loan fund aimed (through local partners) at providing loans for business expansion, establishing decentralized credit programs and T.A * USAID Funding \$ .7 M. Grant</p>	<p><b>Community Based Credit Funds.</b> 6 funds with GUV, 1 with HUDV and 2 with Min. Of Social Dev. Currently these funds have 215 loans outstanding which are implemented under Islamic terms equivalent to 7-8% interest.</p>	<p><b>Technical Assistance And Training.</b> DEF has contracted NEF to train and provide technical assistance to NHF, QAF, GUVS using loans it gave these organizations. NEF also provides small business training, new business development and designing marketing plans.</p>	<p>Continue current thrust and programs.</p>
<p><b>IDB SSIH</b> ( Ind. Development Bank. Small Scale Industries and Handicraft program ). 101 M J.D Loans portfolio to micro businesses.  * USAID Funding \$ .5 M Revolving Fund</p>	<p>Disbursed JD 14M since 1975 for over 3,500 projects. Loans range from 3-10,000 JD @ 8% for a maximum of 7 years covering a variety of sectors: clinics medical labs, carpentry, blacksmiths bakeries. Due to high ratio of funds due from borrowers, IDB froze lending to SSIH and in 1995 made 53 loans valued at 339,000JD (cf. 200 loans in 1994.) Manages two Interest Differential Funds.</p> <p><b>IDB Fund.</b> Allocates about 100,000 JD for small scale social development projects.</p> <p><b>Kingdom Of Jordan Fund.</b> IDB has no jurisdiction on this fund valued at JD 27M and receives instructions from Min. Of Planning.</p>	<p>As part of its lending policy, provides technical assistance to prepare business plans for loan requests.</p>	<p>Continue current thrust and programs.</p>
<p><b>GUVS</b> General Union of Voluntary Services. 100,000 JD loan portfolio to income generating activities in rural / urban areas. * \$ .4 M PETRA project</p>	<p>Micro business finance in agri production, food retail and trade.</p>	<p>T.A in loan application.</p>	<p>Continue current thrust and programs.</p>

**MICRO FINANCE AND T.A SUPPORT NETWORKS ( cont.)**

Institution/Activity Focus	Existing Programs		Proposed Programs
	Financial Support	T.A Support	
<b>VOCATIONAL TRAINING CORPORATION</b>	No financial support.	1) Provides vocational training in technical and light engineering. 2) In partnership with UNDP and ILO provides business and financial management advice to micro/small sector.	1) Continue current thrust and programs. 2) Expand capabilities in partnership with JICA. 3) Institutionalize business and financial management services to micro/small sector.
<b>JICA ( Japanese implementing agency)</b>	No direct financial support. Does support QAF in providing loans to small enterprises.	Support of English language training programs.	1) JICA is financing 50% of the costs of establishing a new Vocational Training Center and supporting it with T/A. Key focus will be in Welding, sheet metal processing, machine die production. 2) Funding a study to establish ways in which employment in the Southern regions of Jordan can be stimulated.
<b>CANADIAN EMBASSY .</b>	Revolving loans and business advisory T/A to Queen Alia Fund aimed at creating employment for women.	1) Offers vocational training T/A support through the National Council For Human Resource Development.	Continue current thrust and programs.
<b>BRITISH EMBASSY</b>	Supports NGOs with an annual grant of \$.4M for income generations and gender programs.	Training the trainer programs to Queen Al Sharaf Center in business, credit and project management as well as gender planning skills.	Continue current thrust and programs.
<b>WORLD BANK</b>	Support through NGOs and PVOs	Grants to selected NGOs which in turn provide T.A	The proposed Social Productivity Project includes four major thrusts. 1) A Community development fund. 2) Small public works 3) T.A to Micro/small business development. 4) T.A to the employed and unemployed poor.
<b>UNIFEM</b>	No direct financial support to micro sector.	1) T.A support to GOJ to develop policy on gender related issues. 2) T.A support through the Women's Business Association focused on developing entrepreneurial skills.	Continue current thrust and programs.

**PRIVATE SECTOR FINANCE AND T.A SUPPORT**

Institution/Activity Focus	Existing Programs		Proposed Programs
	Financial Support	T.A Support	
<b>IDB</b> (Industrial Development Bank) 39M J.D loan portfolio for assistance and loans to small/medium industrial borrowers who cannot get loans from other commercial banks.	IDB lent the following number and value in 1995. 87 Fixed asset purchase loans valued at 17M 39 Raw material purchase loans valued at 0.99M 143 Risk capital loans valued at 20.93 Screens and assists borrowers to prepare loan documentation.	1) As part of its lending policy, provides technical assistance to prepare business plans for loan requests.  2) <b>Jordan Institute Of Management.</b> Provides minimal management training and is now for sale to the private sector.	Continue current thrust and programs.
<b>COMMERCIAL BANKS</b> Business and personal loans	20 commercial banks of which the largest are the Arab Bank and Housing Bank loan at 14-15% interest rate.	No T.A	None
<b>IPC</b> ( Investment Promotion Corp.) Promotes/facilitates local and international investment in Jordan.	No financial support to private sector.	1) Assists investors in edible projects to obtain concessions under investment/tax laws. 2) Facilitates investors in overcoming bureaucratic hurdles. 3) Promotes local and international investment in Jordan.	Continue current thrust and programs.
<b>JEDCO</b> ( Jordan Export Development Corp.) Facilitates/ informs companies to establish international relationships	No financial support to private sector.	Initiates relevant seminars and exhibitions in Jordan and in key export markets. Assists companies to raise quality standards through donor sponsored T/A training. Current focus is on ISO 9000 certification, packaging and health standards in the food industry.	Continue current thrust and programs.
<b>JLGC</b> (Jordan Loan Guarantee Corp.)Currently guaranteeing 9.1M JD in loans to small/medium borrowers who lack the required level of collateral.	Has master loan guarantee agreements with 10 commercial banks to be used as collateral to small/med. borrowers. Guarantees up to 75% of a loan to a maximum of 40,000 JD.	As part of its guarantee policy, assists borrowers to prepare business plans for loan requests.	Continue current thrust and programs.

PRIVATE SECTOR FINANCE AND T.A SUPPORT ( cont. )

Institution/Activity Focus	Existing Programs		Proposed Programs
	Financial Support	T.A Support	
CANADIAN EMBASSY	No financial support	Match making between private sector and potential Canadian trading and investment partners.	Continue current thrust and programs.
BRITISH EMBASSY	No financial support	At the bilateral level, assists the GOJ's privatization efforts of the telecommunication service.	Continue current 95/98 \$ 9-11M grant.
UNDP	No Direct financial support.	1) Assisted in establishing JEDCO  2) Assistance to the GOJ in planning and implementing reforms to stimulate private sector growth	Planned assistance to IPC to develop investment promotion and marketing strategies.
WORLD BANK	No Direct financial support.	Assistance to the GOJ in planning and implementing reforms to stimulate economic growth.	ERDL III aimed at continuing economic reform.
EU	1) European Community Investment Partners program (ECIP). Provides up to 50% (Max 250,000 ECU ) in interest free advances ( later converted to grants, loans or equity) for joint venture projects with EU. Arab Bank identified as local implementing institution.  2) \$ 4.8M ECU to DEF for institution development support.	Provided JEDCO with a European wide data base of contacts.	7M ECU has been allocated over the next 3 years for private sector development. Strategies and implementation details are still being developed.

**Annex VIII**

**Financing for Small, Medium and Large Businesses in Jordan**

## A. The Banking System

Jordan currently has about twenty banks, including a small number of foreign banks such as Citibank, Gindlays, and British Bank of the Middle East. There are also several specialized financial institutions such as the Industrial Development Bank, the Housing Bank, the Cities and Villages Development Bank, the Agricultural Credit Corporation, the Jordan Cooperative Organization and the Housing and Urban Development Corporation. Together, these institutions have a combined total of about 430 branches.<sup>9</sup> The system is somewhat skewed, however, in that the Arab Bank, the largest commercial bank, has about 40% of the total assets of commercial banks and around 75% of all commercial bank earnings.

Key statistics on the Jordanian banking system are shown in the table on the following page. These figures highlight some interesting facts:

- Outstanding loans have been growing at a faster rate than deposits.
- The gross loan to deposit ratio is not particularly high. Even after deducting the requirement to place 15% of deposits with the Central Bank, the net figure is still only 71% as of 5/31/96. However, the *local* loans to *local* deposits figure is noticeably higher (99.2% as of 5/31/96), supporting commercial banks' statements that they had lent out at least if not more than 100% of local net deposits in local loans. On the other hand, this also illustrates that banks are generally reluctant to lend foreign deposits to local borrowers who are not exporters because passing on foreign exchange risk to non-exporters leaves the bank with greatly increased credit risk in the event of a devaluation.
- It is generally thought that banks have been placing their excess funds into Government securities which carry rates of 9.5% tax free, or an equivalent taxable rate of about 13%-14%. However, given that the level of investment in Government debt instruments has actually dropped within the system, this does not appear to be taking place, at least as of 5/31/96. Instead, excess funds are going into deposits (presumably interest bearing) in foreign banks and local banks.

On the other hand, it is feasible that banks prefer to invest excess funds in GOJ securities rather than lend further amounts to the private sector. 9.5% on GOJ one-year, tax-free certificates (equivalent to about 12%-13% taxable), virtually risk-free, is highly attractive, even when compared to rates of 15-16% taxable interest from loans.

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<sup>9</sup> *Central Bank of Jordan Monthly Statistical Bulletin*, May, 1996.

JORDAN - RELEVANT BANKING STATISTICS<sup>10</sup>

	5/31/96 (JDmm)	5/31/95 (JDmm)	% Change
Total Loans	3,906	3,411	14.5%
Cash and Bank Deposits in Local Banks	1,925	1,794	7.3%
Cash and Deposits in Foreign Banks	1,503	1,420	5.8%
Investments	429	509	-15.8%
Other Long-Term Assets	784	801	-2.1%
Total Assets	8,546	7,778	9.9%
Total Deposits	6,463	5,849	10.5%
of which Foreign Deposits	2,008	1,700	18.1%
Other Liabilities	1,055	1,071	-1.5%
Capital	1,028	858	19.8%
Loans to Gross Deposits	60.4%	58.3%	
Loans to Net Deposits less 15% Required Reserves	71.1%	68.6%	
Leverage (Capital/Total Assets)	12.0%	11.0%	
% of Local Loans to Local Deposits (Gross)	84.3%	78.4%	
% of Local Loans to Local Deposits (Net of 15% Required Reserve)	99.2%	92.3%	
% of Outstanding Loans, by Lender			
Commercial & Investment Banks	78.9%	79.4%	
Industrial Development Bank	2.7%	2.3%	
Housing Bank	13.0%	12.4%	
Other	5.5%	5.9%	
Maturities of Outstanding Credit			
Greater than 12 months	25.5%	26.2%	
12 Months or Less	74.5%	73.8%	
% of Outstanding Industrial Loans, by Sector			
General Commerce and Trade	26.2%	24.9%	
Construction	19.8%	21.1%	
Industry	12.9%	12.8%	
Public Services and Utilities	5.6%	5.1%	
Transportation Services	5.2%	6.0%	
Financial Services	4.1%	4.8%	
Mining	2.2%	1.5%	
Agriculture	2.1%	2.1%	
Tourism, Hotels and Restaurants	1.5%	1.4%	
Other Various	20.4%	20.4%	

- The Industrial Development Bank (IDB) plays a minor role in the financial system (2.7% of total loans in 5/31/96) compared to commercial banks with 78.9%. At the end of 1995, the IDB had total assets of JD134.8 million, net worth of JD28.1 million (20.8% equity to total assets), outstanding loans of JD101.4 million and profits of JD5.3 million (return on average capital of 24% and return on average assets of 4.1%, both quite high for a financial institution with such low leverage).

<sup>10</sup> Central Bank of Jordan Monthly Statistical Bulletin, May, 1996.

- By rough international standards, Jordanian financial institutions appear to be well capitalized overall, with capital equal to 12% of total assets. However, without knowing the quality of loans and investments, it is impossible to know if this is sufficient.
- Not surprisingly, the highest volume of loans is to companies in general commerce and trade, with industry at about half that amount. It is assumed that a large percentage of the loans titled "other" are to consumers, although other service industries are also included in that caption. As expected, construction also takes up a fairly large portion of outstanding loans (almost 20% at 5/31/96). This is down from the previous year's levels, even though the building boom continues.
- Overall, credit institutions have about one quarter of their loan portfolio in long-term credit. Given that some of the short-term amounts represent payments on long-term debt due within one year, the actual level of long-term (over one year) debt provided by commercial banks may be higher than 25%. For instance, outstanding loans and advances (typically more than one-year credits although with certain amounts due within one year) accounted for 57% of total credit outstanding in the financial system at 5/31/96, up slightly from 54% a year earlier.

#### B. Commercial Bank Lending Terms and Conditions in Jordan

Some key characteristics and attitudes of the Jordanian Banking system are described below:

Collateral: Although certain long-standing, large, highly credit-worthy clients can obtain credit on an unsecured basis, loans from commercial banking sources, including the Industrial Development Bank, generally require collateral equal to 150% to 200% of the loan. At the present time, acceptable collateral is usually limited to cash or cash equivalents (GOJ securities, e.g.), land, and buildings. Although a lender may take a lien on all assets of a company, assets such as equipment and other moveable collateral are not given much, if any, weight-- current law does not provide financial institutions with sufficient power to take and sell such collateral to cover non-payment of a loan. This law currently is being redrafted, however.

Balance sheet ratios, profit and loss statements, and cash flow all play a role in the credit analysis and decision procedures used by most lenders in Jordan. Although some bankers indicate that they are giving increasing consideration to cash flow and providing specialized training for their credit analysts and officers, for the most part, the weight given to these factors is and will continue to be much less than that given to collateral. This makes it more difficult for service companies with limited fixed assets to obtain credit.

This situation is not atypical in a developing country where business risks, and therefore, lending risks, are usually significantly higher. The potential for fluctuations in political conditions or rapid changes in relationships with existing markets (for example, the disappearance of the protocol with Iraq), the lack of competitiveness on an international scale or breadth in

management skills within any one company (many companies are one-person shows with the owner/CEO managing and making decisions on production, marketing, administration, finance and a myriad of other issues), and the relative dearth of support structures for and willingness of many companies to use training and technical assistance are among the many factors which greatly increase business and therefore lending risk. The IDB, for instance, showed overdue loan installments at 12/31/95 equal to 30% of total amounts currently due and 10% of total loans. Although the IDB holds that its actual losses are about 1%, the high past due amounts hint at the increased risk of lending in Jordan.

Borrower Leverage: Banks generally like to deal with clients whose debt is no more than 150% of their equity, although they do lend to companies with debt/equity ratios in the range of 200% or more. Because many companies are undercapitalized, the difficulty of obtaining additional credit is increased. The IDB seeks to finance no more than 50% of a project.

Loan Requests: Most financial institutions require a reasonable, clear, loan request from a borrower, particularly for long-term loans. Because new small companies often don't or can't prepare good business plans, institute proper financial controls, prepare budgets or long-term plans, they have unusual difficulty obtaining credit. The IDB works with some of these companies to actually help managers prepare loan requests. Commercial banks are less likely to take the time to do this, unless the project is exceptionally promising. The IDB funds a mix of about 50% new clients and 50% existing clients, but deals with only about 140 to 200 new loans per year.

Turnaround of Loan Requests: Commercial banks did not indicate how long they generally take to turnaround a loan request. However, the IDB claims it takes about one month to properly analyze a term loan request, once the request is complete (i.e., the time it may take to help the client structure a proper loan request is not factored into the calculation). The IDB visits the client's premises and proposed project site prior to making the loan.

Repayment Terms: Commercial banks in Jordan will lend for up to five years, although shorter-term loans are much more common. The Industrial Development Bank will lend for up to ten years, if justified by the loan request. Long-term loans outstanding (including the current portion of such loans) make up over 93% of IDB's total outstanding loans, versus no more than 25% in the overall banking sector.

Loan Interest Rates: Commercial banks generally charge in the range of 12% - 17% on loans, although some credit facilities carry an up-front, one-time fee of 1%, whether the facility is used or not, adding to the overall cost. One bank also indicated that most commercial banks provide loans to exporters outside the Gulf area at 1-2% below the normal rates. The Industrial Development Bank normally charges about 1% - 2% less than a commercial bank for a similar loan. As a matter of note, banks said that if they have to resort to legal procedures to collect a debt, the maximum interest a court will allow them to recover is 9%.

Grace Periods: The IDB regularly provides grace periods of one to two years on its loans, depending on the requirements of the entity being financed. Commercial banks may do the same, but are less likely to do so and are not as lenient.

Lender Loan Ceilings: Lenders frequently set loan ceilings for maximum loans to any borrower or related group of borrowers (soon to be set by regulation at 15% of a lender's capital), as well as ceilings to certain industries. For instance, the Industrial Development Bank lowered its ceiling for loans to the tourism industry from 30% to 20% during 1995, and uses a ceiling of 5% of capital (including statutory reserves) per client and 7.5% to a related group of clients. The general lack of interest among the major commercial banks in lending additional funds to the hotel industry for establishment or upgrading of large hotels in Amman is an illustration of ceilings, either formal or informal.

Loan Guarantees: The Loan Guarantee Corporation (LGC) can provide guarantees to banks of up to 75% (pari-passu) of a loan, in return for a fee of 1%. They work actively with 7-8 banks, including the IDB, focusing on loans up to five years long from JD1,000 to JD40,000, with most in the range of JD10,000. The LGC does not actively market to banks, but waits for them to come to the LGC when they find existing collateral on a proposed loan to be insufficient, particularly outside Amman. Although difficult to prove, some people believe that banks use the LGC as a way to obtain excess collateral coverage at no cost to the bank (the fee is passed on to the client). Most banks stated that while they use the LGC, they do not actively seek or market such loans, indicating that the banks believe that they currently have sufficient loan demand from clients with acceptable levels of collateral.

The LGC is about to begin a program to provide guarantees on loans for importing raw materials and loans to exporters awaiting payment from clients. Approximately JD 25 million of capital will go to support LGC's regular line of business and JD10 million will be allocated to the export guarantee program.

Women Borrowers: Although they do not appear to track the figure specifically, banks indicate that they are lending to female borrowers, without requiring the signature of a spouse. The LGC indicates that 10% of its guarantees are on loans to women.

Other Factors: Although all financial institutions look carefully at a loan request, the IDB probably is the most thorough in analyzing a proposed loan, including assessing management quality. Unfortunately, most private companies do not provide audited statements, which greatly increases loan risk.

Geographic Distribution of Loans: Given the business density within the Amman region, it is not unexpected that the majority of bank loans are in Amman. Jordan Gulf Bank, for example, has 70% of its loans in the Amman region. However, in 1995, it approved over 57% of its new loans outside the Amman region, up from 49% the previous year. Companies in the Zarqa governate received the second largest volume of loans (24% of new loans in 1995).

Loan Demand: Based on the assessment of critical barriers to increased business activity among small and medium-sized businesses, the demand for credit is surprisingly low in Jordan, reflecting businesses' perception that good business opportunities - either expansion of existing business or development of new businesses - is limited. The most critical hurdles noted in the interviews were access to markets and customs problems, with the lack of qualified labor and availability of appropriate technology mentioned as often as difficulty of accessing credit. Lenders and other business persons noted the same soft outlook among businesspersons regarding opportunities for business growth. They also noted that many companies are not operating at full capacity and don't envisage the need to expand.

The exception to this at the present time is the high demand for credit for upgrading or installation of first class hotels in Amman. However, banks are reluctant to take on too much new hotel credit as they are fearful of a glut in the market with at least 4-5 major chains undertaking new projects.

### C. Other Financing Sources

World Bank: It was reported that the World Bank has recently given a \$40 million grant to be distributed throughout thirteen local banks for loans of up to 8 years at 3-4% below market rates with maximum amounts up to 100% of a borrower's equity. Ten million has already been utilized and an expansion has been approved. Loans are for trading companies and industrialists.

Leasing: As Jordanian law does not allow for the effective mortgaging of moveable collateral, leasing has not been an available financing option to date. Depending on the outcome of the reported rewriting of financial laws, it may prove to be a viable source of equipment financing in the future.

Venture Capital: There is some venture capital financing and related technical assistance available in Jordan, but it is quite limited. This is not unusual in developing countries as venture capitalists generally look to earn sufficiently high returns to offset the high risks they take by selling successful companies on the stock market or to other private investors after 3-7 years, taking a large capital gain on their investment. This avenue is generally not available where the public equity markets are of limited size.

However, the following venture capital groups have been identified:

- **Jordan Technology Group:** This group sees itself as an incubator for small technology-related business. Funding for the group is from "Gulf sources, but originally was from the Social Security system, Jordan Investment Company and the Jordan Development Association." They have set up seven companies, primarily in what they term "brain intensive" businesses such as computer animation, music, engineering, and information technology.

JTG shoots for at least a 25% return without going to the stock market but has not been able to realize that on its initial investments, admitting that most cannot survive outside the JTG umbrella which provides administration, marketing and financing, leaving the owner to work on the technical side of the business.

- **Tridex Investment Development Fund:** This is a U.S., Jordanian and Israeli fund with about \$1 million in capital, set up to provide inexpensive financing for trilateral projects. Due at least partially to the conflicts with Israel, nothing has materialized to date. JTG participates in trying to develop projects for this fund.
- **Cairo Amman Bank:** The bank is said to be forming a venture capital group with \$30mm of OPIC money and \$15 million of local capital including Omani, West/Bank Gaza and Jordanian money. OPIC has supposedly done this successfully in 20 places around the world.
- **Jordan Venture Projects:** This firm is supporting projects involving asparagus growing and hotels.

Supplier Credits: Suppliers to some markets/countries will sometimes provide long-term credit to buyers. In Jordan, the 50% devaluation in 88/89, scared off most the suppliers willing to do this. However, the general terms on commercial invoices is still 180 days.

Credit Unions: Credit unions do not exist in Jordan.

Credit Cards: Although often overlooked, credit cards are used as a source of financing for many middle class and small businesspersons. Unfortunately, the exact extent of usage is unknown.

Amman Stock Exchange: Only the best and largest of Jordanian companies can access the Amman stock exchange with new equity issues. The Exchange presently has a market value of about \$70 million. Trading activity in May, 1996, totaled JD15.4 million, almost half of which was in manufacturing and mining companies.

Private Stock Issues: Companies can access family, friends and other persons in the form of a limited private group to provide equity for a company. Families are frequently a source of credit and equity for small and micro businesses, particularly those just starting up. Until recently, however, the law required that equity be raised in a series of four tranches of partial shares, which led to situations where investors could not meet pledges they had made earlier, interrupting or seriously curtailing the growth plans of some companies using this vehicle. A new law eliminates the requirement to tranch the investment.

Investment Companies: Most investment companies are said to manage social security funds for the GOJ and look for very safe investments. Most are small. Others act as holding companies for corporate investments held by a common owner.



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**Re: USAID Contract No. PCE-0025-Q-00-~~34071~~-00 Deliver Order No. 37**

Enclosed are two copies of the "Private Sector Needs Assessment" final report.

Sincerely,

Donna James  
Executive Assistant