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CLASSIFICATION: UNCLASSIFIED

AID 1120-1

PAIP

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE INITIAL PROPOSAL

1. PAIP No. 278-K-646

2. COUNTRY: JORDAN

3. CATEGORY: EXPORT DEVELOPMENT SECTOR ASSISTANCE

4. DATE: OCTOBER, 1989

5. TO: AA/ANE
AID, WASH. D.C.

6. OYB CHANGE NO.: N/A

7. FROM: WILLIAM T. OLIVER
ACTING DIRECTOR, USAID/JORDAN

8. OYB INCREASE: N/A

TO BE TAKEN FROM: N/A

9. APPROVAL REQUESTED FOR: Delegated PAAD Approval
$ 62 million

10. APPROPRIATION: N/A

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: 1990-1992

14. TRANSACTION ELIGIBILITY DATE: 1990

15. COMMODITIES FINANCED

Raw materials and other goods required as input for Jordan manufactured exports.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	X
Limited F.W.:		Industrialized Countries:	X
Free World:	XXX	Local:	
Cash:	XXX	Other:	Developing Countries

18. SUMMARY DESCRIPTION

This Export Development Sector Assistance will provide balance of trade support in the form of a grant of U.S. Dollars to the Government of Jordan for the following activities:

A. Export Development Fund: A Jordan-managed U.S. Dollar fund to finance imports into Jordan of raw materials and other goods required for Jordan manufactured exports.

B. Export Credit Insurance And Guarantee Facility: Start-up capital for a facility to provide commercial and political risk export credit insurance and pre-shipment export credit guarantees.

19. CLEARANCES | DATE

20. ACTION
☐ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE | DATE

TITLE

CLASSIFICATION: UNCLASSIFIED

PROGRAM ASSISTANCE INITIAL PROPOSAL (PAIP)

JORDAN EXPORT DEVELOPMENT SECTOR ASSISTANCE

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PROGRAM ASSISTANCE INITIAL PROPOSAL (PAIP)
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Summary

The Hashemite Kingdom of Jordan (HKOJ), with a worsening external balance of payments position that has been aggravated by a high rate of government borrowing, a decline in workers remittances, and a reduction in receipts of grants from bilateral donors, is in need of immediate balance of payment support. Such support should be structured to fit the adjustment program in which the HKOJ is currently engaged in coordination with the International Monetary Fund (IMF). One of the major recommendations of the IMF plan is for the HKOJ to shift its resources from a public sector consumption orientation to a more outward looking export and trade orientation.

The proposed Export Development Sector Assistance of $62 million over a 3 year period would provide immediate support for the export-led growth strategy that USAID considers essential for Jordan's current economic stability and future growth. This assistance is expected to help offset Jordan's current trade imbalance (and correspondingly have a positive impact on Jordan's overall balance of payments) by fostering an expansion in export activities. This sector assistance would be provided in two components:

A. The major component is a $59 million grant for an Export Development Fund (EDF). This fund, managed in Jordan, would offer U.S. dollar financing of raw materials or other inputs required for Jordan manufactured export products. One of the major obstacles to export growth is the scarcity, or more precisely the high cost of foreign exchange financing of imports. This fund will not only provide import financing for export industries, it also will recycle U.S. dollar payments for such purposes. Its development of export activity will be immediate in impact.

B. The second component is to provide $3 million in start-up capital as USAID's contribution to a Jordan managed Export Credit Insurance and Guarantee Facility (ECIGF). The services to be provided by this facility i.e. commercial and political risk export credit insurance and pre-shipment export credit guarantees, are virtually non-existent in Jordan. The lack of such services is an obstacle to longer range export growth. This facility would provide services which essentially manage the risk element of export activities and over the long range increase the number of new export ventures and expand current exports to new markets.

The mission proposes that AID/W delegate to the USAID/Jordan Mission Director the following:

1. The authority to authorize a PAAD justification on this initial proposal for a total value of $62 million,

2. The authority to obligate a total of $26 million in FY 1990 comprising $23 million for an Export Development Fund and $3 million for an Export Credit Insurance and Guarantee Facility , and

3. The authority, subject to funds availability in later fiscal years 1991 and 1992 and a mission review and evaluation of fund operations, of obligating $18 million in each of those years to the Export Development Fund.

II. Economic Justification

A. Economic Status

The outlook for the Jordanian economy has changed drastically over this decade. The economy grew at a rate of 10% per annum during 1974-82 due to large worker remittances and increased official aid. The large deficits manifested in the current account and the budget were financed by grants from abroad. Foreign borrowing was limited and inflation relatively low. Beginning in 1983, these traditional sources have been decreasing steadily following the economic slowdown in the region brought about mainly by a slump in the price of oil. This led to a considerably slower growth in the Jordanian economy: 5% annually during 1982-84, dropping to 2.5% during 1984-88. At the same time, the structural weaknesses inherent in the budget and the balance of payments became apparent. Despite this reduction in external sources of finance, the Government of Jordan has been able to deal with its structural problems by drawing down on reserves and borrowing from foreign and domestic banks. Now Jordan finds itself at a critical juncture of its development. Burdened with debt, a depleted stock of reserves, and a sizable budget deficit in the order of 24% of GDP in 1988 excluding grants, it must shift gears from an economy consumed with infrastructural development to one dependent on its own ability to earn its way out of debt and compete in the international community. A move towards a more outward oriented trade strategy is essential for growth.

Broadly, trade strategies can be either outward or inward looking. In an outward oriented regime, trade and industrial policies do not discriminate between production and sale for domestic or foreign markets. Since no bias against trade exists, these policies constitute what is often referred to as an export promotion strategy. In effect, this approach to trade implies neutral policies. By contrast, inward orientation, or import substitution strategy, encourages trade and industrial policies that are biased towards production for domestic rather than export markets. Although laissez-faire is neutral hence outward looking, intervention is not necessarily biased and inward looking. For trade regimes to be classified as neutral, the overall incidence of both trade and industrial policies should offer balanced incentives for all sectors of the economy. The World Development Report, 1987 as well as other empirical studies conclude that outward looking policies lead to higher growth rates hence more rapid development as trade allows countries to exploit their comparative advantage. The export development sector assistance proposed herein is consistent with a move towards an outward oriented trade strategy.

To reverse the weakening in its external position and bring about the needed restructuring of the economy for sustainable growth the Government of Jordan negotiated with the IMF a Standby Arangement in April 1989, that allowed the GOJ to reschedule its bilateral and commercial debt through the Paris and London Clubs. The crux of the medium term adjustment effort underlying this agreement deals with curtailing expenditures and raising revenues, thus reducing the budget deficit to a level that is sustainable by 1993 without resort to excessive foreign and domestic borrowing. Major external sector objectives are to bring about a steady reduction in the current account deficit of the balance of payments. This is to be achieved by promoting exports, decreasing import demand, reducing reliance on foreign grants, improving the external debt profile over the longer run and revamping the foreign exchange reserves.

Jordan's persistent trade deficit narrowed from $2456 million in 1983 to $1691 million in 1986, and the current account declined from the equivalent of 10% to 1% of GDP over the same period. The trade deficit remained in the $1700 million range during 1987 and 1988. In 1987, there was a sharp turnaround with the current account deficit expanding to the equivalent of 7% of GDP due largely to a decline in net remittance inflow and a rise in the import costs of petroleum and other inputs. It is expected that with proper policy adjustments, the current account can be balanced by 1993. Export performance has been improving steadily from 1983, with the exception of 1986 when export performance deteriorated marginally.

Domestic exports are comprised of three main categories of commodities: mineral and fertilizer related products (traditional exports), agricultural products and a wide variety of manufactured goods (non-traditional exports). The main markets for Jordan's mineral and fertilizer exports are the Far East and Eastern Europe, whereas the destination of agricutural products and manufactured goods is largely the Arab World. Domestic exports increased 19% in 1988 over 1987 to US $844 million. This increase needs to be appropriately weighed, however, as it only reflects the expanding volume in the fertilizer and potash exports and a significant increase in exports of chemicals. This more than offset the reduced exports of foodstuffs and stagnant exports of manufactures which were due primarily to the effects of the regional recession and increased competition from other sources. With export growth potential for Jordan lying in the non-traditional exports, incentives are needed to enable this growth to be realized. Based on IMF statistics the Jordanian Dinar has lost almost 19% in real effective terms as of January 1989 compared with June 1988 which is expected to provide a further boost in exports during 1989. With a more competitive exchange rate, there is greater potential for growth in non-traditional exports if adequate incentives are provided for the export sector.

Increased earnings from the sale of goods and services are essential for improving Jordan's foreign exchange position. With foreign exchange reserves falling to $110 million at year end 1988 from $425 million at year end 1987, and the stock of gold depleted by 25% during 1988, the Jordan economy is in dire need of foreign exchange. Gross official reserves of the Central Bank (excluding gold and claims on Iraq) reached the equivalent of two weeks of imports during 1988 as compared with about two months of imports at year end 1987.

The sector assistance proposed herein will address several of the above economic issues: i.e. the immediate provision of foreign exchange under the Export Development Fund will improve the foreign exchange situation, generate an increase in non-traditional exports, and, in general, contribute to a narrowing of the trade deficit and to a more outward looking economy. Similarly, USAID's participation in the establishment of an Export Credit Insurance and Guarantee Facility will provide a longer range contribution to the expansion of outward oriented trade.

B. Policy Issues

Positive far reaching policy measures have been implemented over the past eighteen months to address some short term and structural problems in the economy. In a move to achieve a more market oriented economy the Government of Jordan in August 1988 introduced a comprehensive package of measures to simplify business licensing and registration, reduce protectionism, and encourage investments. Also, in a further effort to open up its economy and deal with its balance of payments difficuties, the exchange rate of the Dinar was devalued and interest rates deregulated. Through successive depreciations of the currency the Jordanian Dinar lost 45% in value vis-a-vis the US dollar during the course of the past year. This exchange rate adjustment potentially helps promote exports as they become more competitive internationally. With imports becoming more expensive, consumers will be encouraged to switch to purchases of domestic goods and services thus fostering import substitution.

Much however remains to be done. To sustain Jordan's medium term adjustment, the World Bank is finalizing a $150 million Industry Trade and Public Expenditure Policy Adjustment Loan which aims to strengthen the expansion and diversification of industrial output and exports. The Bank realizes that a stable and competitive macroeconomic environment is essential for a successful adjustment process and is working closely with the IMF to achieve this objective. Under this loan the GOJ is encouraged to energize its export sector by rationalizing its trade regime, investment incentives, and export financing, while strengthening relevant institutions.

Rationalizing the trade regime involves simplifying customs procedures and reducing variation in tariff structure. A World Bank study on small and medium scale manufacturing concluded that the average nominal rate of protection in the Jordanian economy is not high when compared with other developing countries; however, wide variation in the tariff structure exists, making for large differences in the protection given to various sectors of the economy. The variation needs to be reduced. In addition, customs procedures have to be simplified.

Rationalizing incentives for investment will require more than is provided for under Jordan's Encouragement of Investment Law which has been used to channel investment into specific sectors. The process of investment project selection has been both cumbersome and discretionary.

With regard to export finance, the Central Bank of Jordan has operated an export rediscounting facility where funds are made available to all exporters at a subsidized interest rate. However, subsidization caused rationing to large firms and this, together with the absence of a guarantee program, effectively discriminated against small and medium-sized firms engaged in non-traditional exports.

In terms of strengthening institutions, the government is planning to establish an Export Credit Insurance and Guarantee Facility. This facility would provide commercial and political risk export credit insurance and pre-shipment export credit guarantees.

Proper policy adjustments, including market-oriented interest rates, would restructure incentives thus allowing resources to flow to sectors in accordance with their comparative advantage. USAID's proposed assistance is intended to provide support for the above adjustment activities by providing incentives through the Export Development Fund to foster export trade, and providing a contribution in start up capital to the institution that will provide export credit insurance and guarantees.

C. Resources Provided by Other Donors/Institutions

In April, 1989 the GOJ reached a stand-by arrangement with the International Monetary Fund in the order of SDR 60 million. Under the terms of this agreement the GOJ is committed to reducing the trade deficit from an estimated 37.4% of GDP in 1988 to 32.6% of GDP by 1993. The current account is projected to be balanced by 1993.

Jordan is currently negotiating a $150 million sector loan with the World Bank for Trade and Industry. The IBRD loan provides funding for the importation of raw materials and equipment for productive enterprises. As a condition for IBRD disbursement, the GOJ is expected to undertake studies on tariff reform as well as to create a new export credit guaranty and insurance agency.

The United Nations Development Program (UNDP) International Trade Center (ITC) is currently in the second year of a two year program to upgrade the services provided to Jordanian exporters by the GOJ's Jordan Commercial Centers Corporation. To date, the results have been somewhat disappointing, although a trade information system is supposed to be in place by the end of project. ITC has expressed interest in a follow-on project that might target assistance to a sector or sectors with high potential.

D. Relevance to FY 85/86 CIP Evaluation

In the summer of 1989, an evaluation of Jordan's FY 85/86 CIP was conducted. One of the major recommendations of this evaluation was to make private sector enterprises with export potential the sole beneficiary of the next program and to exclude participation by state owned enterprises and mixed firms with majority government ownership. In addition, the evaluation team recommended a focus on small and medium-size firms that manufacture non-traditional exports, and that the next program ought to provide support to activities that enhance export promotion such as export risk insurance, export finance and technology transfer.

The assistance proposed by the Mission directly responds to these recommendations. The $59 million Export Development Fund will be targeted to small and medium-size firms engaged in manufacture of non-traditional exports. It will provide export finance to these firms by financing the purchase of the inputs needed for the manufacture of their export products. Export risk insurance and guarantee services will be provided through The Export Credit Insurance and Guarantee Facility that will be created with the help of $3 million in start-up capital also provided as part of this sector assistance.

E. Relevance To CDSS And Other AID Projects

USAID/Jordan's County Development Strategy Statement (CDSS) strongly emphasizes developing Jordan's private sector into the new "engine" of Jordan's economic growth. USAID has pursued this strategy through a number of private sector projects which the sector assistance contained in this proposal would complement.

Ongoing projects already provide assistance to Jordan's private sector in the export area e.g., the $9.5 million Industrial Development Project is concentrating on improving marketing and production of Jordan manufactures; the $10 million Private Services Development Project provides export marketing support services; the Loan Guarantee Project for Small Enterprise Development provides credit to micro and small enterprises to produce and sell to local and export markets.

This Export Development Sector Assistance will even more closely support activities planned under a new project, the Export Trade and Productive Investment Project. This project will seek to enhance export activities from a number of directions e.g. through policy research, marketing, technology transfer, and improvements in financial intermediation. Included under this project will be a technical assistance component that will provide the expertise needed to establish and maintain the Export Credit Insurance and Guarantee Facility described in this proposal.

III. Assistance Proposal

To provide immediate balance of trade and export development support, the Mission proposes a multi-year (FY 1990-1992) Export Development Sector Assistance Grant. This grant would have two major components:

A. An export-oriented import financing component, the Export Development Fund, and
B. An Export Credit Insurance and Guarantee Facility component.

Mission proposed assistance under this Export Development Sector Assistance is according to the following table in millions of dollar:

	FY 1990	1991	1992	Total
Export Development Fund	$23.0	$18.0	$18.0	$59.0
Export Credit Insurance and Guarantee Facility	$3.0	-0-	-0-	$3.0
Total	$26.0	$18.0	$18.0	$62.0

These are described as follows:

A. Export Development Fund (EDF):
Over a period of 3 years, (FY 1990-1992) $59 million would be provided in grant funding to finance export-oriented imports (i.e. of raw materials or other goods needed to produce Jordan manufactured export products).

1. Background:

The idea for USAID's Export Development Fund arose in the summer of 1989 when the Government of Jordan urgently approached USAID to find a mechanism to provide Jordan exporters with foreign exchange financing for their raw material inputs. At that time there was a significant foreign exchange shortage that reached a point where goods began to disappear from Jordan's shelves. Without foreign exchange to finance their raw material inputs, Jordan manufacturers could no longer produce either for the local market or for export. USAID, with AID/W approval, responded to this urgent GOJ request as follows:

(a) By restricting commodity eligibility for the remaining $9.7 million under the Private Sector CIP to raw materials or other inputs required for export products.
(b) By requiring that Jordan importers, after having financed their raw materials with CIP funds, and manufactured their export products in Jordan, to pay back the amount financed in U.S. dollars at the time exports proceeds were collected.
(c) By requiring that these dollar payments be deposited in an Export Development Fund account at the Central Bank of Jordan for recycling to finance additional export-oriented imports.

These changes are currently being implemented with the Government of Jordan in coordination with the Central Bank of Jordan and Jordan's Industrial Development Bank. Thus, the first Export Development Fund is expected to be established before the end of CY 1989.

2. Current Proposal

The scarcity of foreign exchange has abated somewhat over the past few months. It is now more readily available but at a high cost, i.e. local banks are requiring downpayments of 100% of the Letter of Credit value in many cases. The Export Development Fund proposal described herein will be USAID's second contribution to this Export Development Fund but with a major difference. There will not be a CIP element. A Commodity Import Program, which in Jordan has been successful in capital equipment import financing, is not the appropriate vehicle for sustained raw material import financing because the bulk of raw materials used in Jordan export products come from Europe and the Far East. Accordingly, the proposed $59 million for an Export Development Fund would be transferred directly to a GOJ U.S. dollar account and AID Geographic Code 935 countries approved as source/origin for raw materials and other inputs for export products. The Export Development Fund would be managed in Jordan by Jordan's Industrial Development Bank (IDB) or a similar entity. The fund would promote an export development strategy by financing local importer requirements in the following order of priority:

(a) Highest priority to be given to financing raw materials required for export products.
(b) Second priority to be given to financing unfinished or intermediate goods required for export products.
(c) Third priority to be given to financing capital equipment required for export activities.
(d) Last priority to be given to financing raw material, intermediate goods or capital equipment for domestic needs.

3. Financing

Financing would be provided through U.S. dollar loans to Jordanian importer applicants. The fund manager (IDB) would be responsible for:
(a) Advertising the program.
(b) Receiving and reviewing importer applications.
(c) Approving loans.
(d) Collecting repayments in U.S. dollars and,
(e) Recycling U.S. dollar repayments for additional loans.

Small and medium-sized private sector export firms would be targeted for this financing. State owned enterprises and parastatals would be excluded. Guidance on management of the funds, e.g. criteria to be met by importers and AID requirements related to the operation of this fund, would be formalized in a Letter of Understanding to be agreed between USAID and the Fund Manager.

The mechanism for establishing the FY 1990 fund ($23 million) and providing the additional amounts in FY 1991 and 1992 ($18 million each) would be through a transfer of U.S. dollars to an account located at the Central Bank of Jordan that has been designated for this fund. Once the U.S. dollars are in place in Jordan not only can financing begin, but there will also be an immediate balance of payments impact resulting from the addition of foreign exchange to Jordan's reserves.

B. EXPORT CREDIT INSURANCE AND GUARANTEE FACILITY

1. Background:

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

Many Jordanian producers need export credit insurance/guarantee support because new markets and new buyers are not well known, and some producers may be relatively small and new to exporting. Further, many exporters of manufactured products and some agricultural exporters may be small/medium-sized firms which have limited access to bank financing for their exports because the companies are not well known to banks and/or lack sufficient collateral to obtain needed financing. These conditions appear to exist in Jordan and argue for the use of export credit insurance and guarantees to support expansion of exports.

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

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

2. Program Description:

While the Export Development Fund will be providing financing for exporter inputs in the short-run, the Government of Jordan will establish an Export Credit Insurance and Guarantee Facility to provide services that will have a longer range impact in expanding exports to new markets. The services to be provided will include commercial and political export insurance and pre-shipment guarantees to help exporters secure financing, primarily from private banks. The establishment of this agency during the period of structural adjustment will enable Jordan to take full advantage of its improved competitive position in the mid 1990's.

The facility will offer insurance for exporters and credit guarantees for banks lending to exporters. The export credit insurance will cover both political as well as commercial risk and will benefit primarily those exporters who do not ship under irrevocable Letters of Credit. Exporters of either goods or services may not be familiar with markets outside the region, or be trying to penetrate new markets where they (a) are unfamiliar with the foreign buyers, but (b) must extend credit terms to meet foreign competition. The credit insurance enables them to develop these new markets. However, the coverage for the insurance will be generally short (180-360 days).

A second advantage of the insurance is to help in pre-shipment financing. The proceeds of the export credit insurance policies will be assignable to commercial banks in order to facilitate export credit lendings by these banks. Consideration will be given to offering an insurance policy covering lines of credit and payment for services. A bond indemnity policy covering bid, performance and advance payment requirements could be considered as well. Clearly the objective is to expand export financing for the private sector through the creation of this new agency and mechanism.

Complementing directly the credit insurance program will be a pre-shipment working capital export credit guarantee offered to commercial banks to facilitate the provision of finance to exporters. This guarantee is likely to cover a maximum of 75% of the value of the loan made by the commercial bank. Banks would be primarily responsible for administration of the guarantee program through obtaining the exporter's collateral supporting the transaction. The guarantee acts as a further incentive for pre-shipment finance, but, with insurance also in place, its relative importance is lower. Thus, the insurance program is expected to be eighty percent of the new agency's business.

Export credit guarantees and insurance is a highly specialized field. The CBJ, commercial banks and insurance companies appear to agree that expertise in this area is not currently available in Jordan and that this expertise will need to be developed to operate the export credit guarantee and insurance agency as a financially viable scheme that promotes expansion of exports from Jordan. Thus, technical assistance estimated at $1,000,000 will be provided under a separate but complementary USAID project, the Export, Trade and Productive Investment Project. Technical assistance is proposed in the areas of development of specific guarantee and insurance policies, portfolio structuring, premium and reserving strategies, credit investigation techniques, policy administration, claims and recovery procedures, marketing programs, manpower planning and staff training, and accounting/management information systems.

The program assistance of $3.0 million proposed in this document would provide approximately 60% of the start-up capital for the Export Credit Insurance and Guarantee Agency. The balance of the funds needed for the capital would come from private banks who would be participants in the agency. Some additional funds may also come for the Government of Jordan who will be assuming all responsibilities for losses from political risks. The GOJ would also cover losses that exceed the capital and accumulated reserves of the agency. Fees from the insurance and for the guarantee will over the long term cover all costs. With the actuarial data from several years of operating the insurance and guarantee schemes, fees could be set at a level to cover insurance pay out and credit defaults, as well as the operating expenses. The initial capital ensures that funds are available for all insurance and credit pay outs in the initial operating years before the risks can be fully evaluated.

Most likely case projections suggest that by the end of the fifth year of operation the Jordan Export Credit Guarantee Corporation could support exports totalling almost JD 95 million or about 6% of Jordan's total exports and over 10% of non-traditional exports (all exports except phosphates, potash and fertilizers). While the organization would not cover all its operating costs from current operations until the fifth year, income from investment of its initial capital of JD 3.5 million would allow it to show overall profitable results each year and make additions to reserves necessary to support continued annual growth in export support.

IV. Market Analysis

A. Export Development Fund (EDF):

Jordan's exports by commodity for the period 1983-1988 are listed in Table 1 to this proposal. Traditional exports consist of phosphates, potash, and fertilizers. These are currently the major foreign exchange earners; however, these earnings are largely dependent on world prices for these commodities which are not expected to have much room for growth.

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

Non-traditional exports consist of paints, pharmaceutical products, soaps and other detergents, fruit and vegetable products, paper products, textiles, machinery, transportation equipment, clothes and plastic products. Raw materials imported to produce these exports come mainly from Europe and the Far East. For Jordan, the U.S. is mainly a source for capital equipment; however the U.S. is a competitive source for some raw materials for paints, plastics and pharmaceuticals, and with adequate advertising through AID Bulletins, such U.S. firms could participate in the financing provided by the EDF.

The destination of Jordans non-traditional exports for 1987-1988 are shown in Table 2. Arab countries absorb most of Jordan's exports. There appears to be room, however, for export expansion to new markets. A recent Central Bank of Jordan exporter survey showed that among most exporting firms, unused capacity existed to some extent, and for some, unused capacity exceeded 50%. The CBJ concluded there was not only good potential for export expansion in terms of quantity, there was also a potential of expanding to newer markets. Such expansion however, is dependent on other factors besides production capacity and willing buyers. A large part of Jordan's manufacturing sector depends on imported inputs to produce goods that, with about 40% value added in Jordan, are then exported. Accordingly, there is a constant need to obtain foreign exchange to purchase inputs for export products.

In mid-1989, the difficulties of the export industry in finding foreign exchange to finance raw material imports reached such a point that local shortages occured. Jordan manufactured products that were being supplied to local and export markets were suddenly not available. Over the past few months this situation has abated somewhat. Foreign exchange is available but at a price. Currently many local banks providing Letter of Credit financing for imports are requiring up to 100% downpayments from the importers.

In brief, the Jordan market appears quite ready for a new source of import financing that will make foreign exchange readily available which in turn will enable exporters to export to their capacity.

B. Export Credit Insurance and Guarantee Facility:

Both a Central Bank of Jordan study and the August 1989 AID-financed First Washington Associates Ltd. study show that establishment of such a facility is feasible and has support within the GOJ, commercial banking circles and in the Jordan exporter community. The Central Bank of Jordan in a September 1989 letter to the USAID Director advised that the recent AID-financed study has reinforced its determination regarding the necessity of establishing such a program in Jordan.

The AID-financed report, on the potential demand for such a program, states " ...the results of the CBJ study and discussions with banks, trade associations and exporters, as well as the experience of other countries suggest that Jordanian exporters could benefit from export credit insurance and guarantees. This appears clearly to be the case for exporters attempting to penetrate industrialized country markets where increasingly sales are made without letters of credit and deferred payment terms are required to be competitive. As noted, several exporters contacted have already experienced such requests.

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

V. Implementation

A. Export Development Fund:

An Export Development Fund, similar to the one proposed for FY 1990 is expected to be established before the end of CY 1989 with the remaining balance under Jordan's Private Sector CIP. The Central Bank of Jordan has already advised it has no objection to establishing an interest bearing U.S. dollar account for this fund, and the Industrial Development Bank (IDB) is finalizing their review of the procedures proposed by USAID for the management of this fund. Attachment A to this proposal provides a draft Letter of Understanding between USAID/Jordan and the IDB that would comprise the implementation details for this fund.

B. Export Credit Insurance & Guarantee Facility:

Implementation actions that would establish and maintain this facility are expected to follow the timetable provided by the First Washington Associates Report. This timetable is provided as Attachment B to this proposal. In brief it consists of 3 phases:

1. Approval and Legal Establishment of the Facility.
2. Organization of Operations, Policies, Procurements, Training and Marketing.
3. Commencement of Operations.

Under the proposed sector assistance, AID's contribution of start-up capital would be required during phase 1. Technical assistance provided by AID under the new Export Trade and Productive Investment Project would be during all three phases.

VI. Special U.S. Interests

The U.S. Government has an excellent ongoing relationship with the HKOJ. This relationship, in terms of development activities, has evolved over the years from one characterized by cooperation in major infrastructure investments, e.g. in large agriculture projects in the Jordan Valley, to one characterized by economic policy dialogue and the provision of technical assistance in areas which harness the private sector as the engine of economic growth.

Jordan's role in the peace process and in promoting regional political, economic and social stability is highly valued. Jordan has continued over the years to exert a positive, steadying influence in a region sorely in need of moderation. U.S. Government assistance that helps strengthen this moderating influence of Jordan is invaluable. Accordingly, at a point in time when Jordan is faced with making major painful economic adjustments, the U.S. Government has an opportunity to provide stabilizing economic support that is both immediate in impact and complementary to a longer-term strategy of export-led economic growth.

VII. Requirements for Preparation of Program Assistance Approval Document (PAAD)

USAID/Jordan's staff which includes a full-time Commodity Management Officer, a Regional Legal Advisor, an Economist and a large Project Development and Private Enterprise Office is quite capable of preparing a Program Assistance and Approval Document based on this initial proposal. The time required to complete such a document is estimated at 3 to 4 weeks.

VIII. PAAD Authorization Delegation Request

USAID requests that AID/W delegate to the USAID/Jordan Mission Director the following authorities:
1. The authority to authorize a PAAD based on this initial proposal for a total value of $62 million,
2. The authority to obligate a total of $26 million in FY 1990 comprising $23 million for an Export Development Fund and $3 million for an Export Credit and Guarantee Facility and,
3. The authority, subject to funds availability in later fiscal years 1991 and 1992 and a mission review and evaluation of fund operations, to obligate $18 million in each of those years to the Export Development Fund.

TABLE 11

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

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

Source: Central Bank of Jordan

TABLE 2

NON-TRADITIONAL EXPORTS BY DESTINATION, 1987-1988*
(Thousands of JDS)

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

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

Source: CBJ External Trade Statistics

TABLE 3

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

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

Source: Derived from CBJ, World Bank/IMF estimates

Draft Letter of Understanding between the IDB and USAID on the administration of the Export Development Fund

This letter confirms and sets forth mutually agreed upon uses and procedures for administration of the Export Development Fund by the Industrial Development Bank (IDB).

Article I: Establishment of the Export Development Fund

In accordance with agreements reached between USAID and the Ministry of Planning of the Hashemite Kingdom of Jordan, an interest bearing U.S. dollar account entitled Export Development Fund shall be established in the Central Bank of Jordan with the Industrial Development Bank (IDB) designated as Administrator of this Fund.

Article II: Administration of this Fund

The Industrial Development Bank (IDB) will have the authority to loan funds which accrue to this account from (1) Initial deposits to this account,
(2) principal and interest payments (minus IDB administrative fees) from loans provided from this fund and (3) interest accruing to this Export Development Fund and credited thereto by the Central Bank of Jordan, provided that such loans are in accordance with the uses and procedures as described in the Annex to this letter and as from time to time amended by the parties of this letter when economic conditions or other circumstances so warrant.

Article III: Records and Inspection

Documentation in support of deposits to and disbursement from the Export Development Fund shall be maintained by IDB for a period of three (3) years following the date of the last disbursement by AID. During this period and three years thereafter, such records may be inspected or audited by AID or its authorized representatives at any reasonable time. Documentation and records to be audited shall include:

(a) Application documents submitted by importers approved for financing.
(b) Approval documents of IDB.
(c) Letters of Credit and documents related to settlement of such letters of credit.
(d) Documents related to shipping of export products, collection of export proceeds, and repayment of financed amounts.

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Article IV: Effectiveness of the Memorandum and Termination

This Letter of Understanding will remain in effect until terminated by mutual written agreement of USAID and the IDB or on the date of 3 years following the initial deposit to this Account, whichever is earlier. Termination of this letter will terminate the obligations of the parties hereunder, except with regard to obligations which may have arisen pursuant to non-cancelled commitments entered into with third parties prior to the termination of the Letter, and subject to the procedures contained in the Annex to this letter.

Article V: Availability of Funds

Funds made available under this Letter will remain available until expended. In the event of termination of the Letter pursuant to Article IV, funds which have not been committed pursuant to non-cancelled commitments entered into with third parties prior to termination will be used for such purposes as may, subject to applicable law, be agreed to between the parties hereto.

Article VI: Communications

Any notice, request, document, or other communication submitted by the IDB or USAID to the other under this Letter shall be in writing and shall be deemed given or sent when delivered to the other party at the following address:

TO THE I.D.B	TO USAID
(Title) Industrial Development Bank Amman, Jordan	Director USAID C/O American Embassy Amman, Jordan

All such communications shall be in English.

Article VII: Representatives

For all purposes relevant to this Letter, the IDB shall be represented by the individual holding or acting as ______ and USAID shall be represented by the individual holding or acting as USAID Director. Either of the representatives may designate additional representatives for all purposes hereunder. Each party shall provide the names of such additional person(s) by written notice to the other along with specimen signatures. The parties may accept as duly authorized any instrument signed by such representatives in implementation of this Letter until receipt or written notice of withdrawal of their authority.

Article VIII: Entire Letter and Amendment

This Letter, including any annexes, attachments or amendments hereto, shall constitute the entire Letter of Understanding between the parties.

Export Development Fund (EDF)

Uses And Procedures

A. Uses

The funds that accrue to this Export Development Fund Account are to be used for:

1. Financing of raw material or unfinished goods used in the production of an export product containing at least 20% added value in Jordan to satisfy an export commitment for which U.S.Dollar proceeds will be generated and used to repay the amount financed. Importers of capital equipment will be eligible provided the equipment is necessary for the completion of the corresponding export order and that loan repayment of equipment can be made with the proceeds derived from the corresponding export. These funds shall not be used to finance luxury goods, consumer goods, complete projects, or goods intended for re-export in essentially the same condition in which imported.
2. Support of IDB's administrative costs in managing this account as set forth in below procedures.

B. Procedures

When U.S. dollars become available IDB shall proceed as follows in administering this fund:

1. Advertise the fund to private sector importers with export products explaining criteria required for applications.
2. Review applications received against criteria which include the following:

   a. Amount of application not to exceed $500,000 in value.
   b. Size of firm must be small or medium i.e. from 5 to 300 employees in size.
   c. Firm must be owned by the private sector with no greater than 10% of firms equity or shareholding held by public sector entities.
   d. Firm must show evidence of confirmed export order or commitment that export sales supported by the import will result in receipt of U.S. dollar proceeds.
   e. Imported and exported items should be of AID Geographic Code 935 source and origin.

3. Approve applications which meet requirements.
4. Provide U.S. dollar financing for the amount approved at London Interbank Offered Rates (LIBOR) plus 1% and at repayment terms that match the settlement date of the export commitment, but not to exceed 180 days from date of loan approval.
5. Collect repayment of loans in U.S. dollars, and immediately deposit such collections into the EDF account.
6. Retain as administrative fee 50% percent of the interest charged on loaned amounts.
7. Report to USAID on a quarterly basis commencing 3 months after the first deposit to the Export Development Fund account. Each report shall show for that quarter the following:

   a. List of IDB loans approved showing:
      1. Name of Importer.
      2. Description of import item financed.
      3. Export item to be produced.
      4. Name and address of firm outside Jordan to whom the export product to be exported.

   b. Collections made broken down by principal and interest against loans shown in the previous report and this report.

   c. Amount of interest credited to this interest bearing account by the Central Bank of Jordan.

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IMPLEMENTATION TIMETABLE, AND MARKETING PROGRAM

A. Implementation Timetable

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

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

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

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

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

Contract for Technical Assistance

Approve Legislation

Convene Potential Shareholders
Obtain Preliminary Commitments from Shareholders

Search for Managing Director

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

Convene Board of Directors
Conclude Agreements with Government

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

(12 MONTHS)

Obtain Office Space, Furniture/Fixtures, Equipment

Hire Key Staff

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

Draft Policies, Forms
Draft Manuals, Handbooks

Make Arrangement for Credit Information

Prepare reserving, investment policies

Prepare Marketing Plan
Prepare Marketing Materials

Design Accounting, and Computer systems

Begin Training of Key Staff at Other Agencies

Conduct Mail, Seminar, Calling Pre-Marketing Campaign

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

Commence Operation

Conduct Intensive Marketing Campaign

Establish Contacts with Berne Union

Explore Reinsurance Possibilities

Continue Staff Training Abroad and in Jordan

Complete Computer Design

Complete Procedures for Claims, Recoveries

Design Additional Policies

B. Marketing Plan

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

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

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

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