**Achievement of Market-Friendly Initiatives and Results Program
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# MFW Business Plan Review 2004

Final Report

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*This report was prepared by Graham Perrett, in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.*

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## SUMMARY REPORT

In accordance with the Scope of Work, the consultant spent two days reviewing the Business Plan for Microfund for Women (MFW) for FY 2004 – Annex I attached.

*The Basic Strategy of the Business Plan:*

MFW is proposing to build the growth of its loan portfolio on product diversification, which is a sound approach given the limited demand for microfinance services in Jordan. The Group Guarantee Loan (GGL) product will, however, remain the main loan vehicle for MFW. The Updated Credit Demand Survey (October, 2002) indicates, however, that the growth prospects for the GGL are limited, especially in the branches at Zarqa, Russaifa, Madaba, Balqa and Jerash.

On the other hand, though, there are good prospects for growth of the individual loan product, the disbursements of which will increase from JD 762,000 (through November 2003) to JD 1.417 million in 2004. While the proposal to provide services to a limited number of men is sensible in terms of achieving economies of scale, it does run the risk of weakening the exclusive mandate that MFW has of being “the women’s bank in Jordan” and the cache that this brings.

The broadening of the product line to include the education loan is sound, since research undertaken earlier in 2003 suggested that there is a strong pent-up demand for this product. Caution needs to be exercised, however, regarding the opportunity loan, with its built-in double credit exposure, and the consumer- type instant loan product. In regards to the latter, consideration might be given to delaying its roll-out until a credit bureau mechanism is operational. Experience has shown that loans of this type often are used to pay-off other debts, thereby continuing an already poor debt situation.

The relatively slow build-up in these loans is, therefore, a prudent approach. The decision to have specialized loan officers handle the individual loans is sensible, given the more detailed financial analysis (and greater risks) involved with these loans. The emphasis placed on training, therefore, is appropriate, and should be ongoing. Management must, ensure, however, that the requisite credit manuals and loan approval procedures are in place and are kept current.

The impact of the build-up in the individual loan product is reflected in the increase in the average loan size outstanding, which rises from JD 190 in 2003 to JD 248 in 2004. Over the same period, the case load per loan officer increases slightly, from 356 clients to 368 clients. This indicates that the bulk of the portfolio will derive, therefore, from the increased loan size and the hiring of an incremental 10 loan officers, rather than from increased productivity per loan officer. This increased number of loan officers, and the large number of branches, could place strains on the current management team.

Consideration should be given to strengthening the credit team, which also would reduce the potential bottleneck at the loan approval stage. Moreover, with the large number of branches, and the proposed decentralization of tasks to the branch level, the hiring of a second internal auditor would ensure a better degree of control, and adherence to established policies, procedures and practices.

The business plan notes that over the last 12 months interest rates in Jordan have fallen, and in order to remain competitive, management has lowered its own interest rates. This policy also makes good strategic sense, since it will help retain repeat clients, who tend to be better credit risks, and are cheaper to service on an ongoing basis.

As was discussed with management last year, consideration should be given to preparing a business plan for a period longer then 12 months. Preparing and analyzing projections over a 3-5 year period enables management to take a longer term view of their activities, and to better understand how the decisions taken now will affect the activities of the MFI over time.

*The Projected Results of the Business Plan:*

The Microfin model projects that the loan portfolio outstanding will increase by 51% during FY 2004, yet the loan loss provision and loan write-offs for the year amount to JD 13,000 and JD 9,000 respectively. Given the sharp rise in the overall portfolio, the fact that it is mainly driven by individual loans, and the relatively new loan products, MFW could be under-reserved regarding potential loan losses. It is suggested that the loan loss reserve be increased to 2.5% of the loan portfolio outstanding, and the level of loan write-offs be increased from the current 28 basis points to, say, 75 basis points.

The FY 2004 projections indicate that losses are expected in both the Jerash and West Amman branches. While a loss is to be expected at the West Amman branch during its initial year of operations, the results at the Jerash branch would appear to be the second year in which the branch has incurred losses. Management should set a firm target date for the profitability of its new branches, and if they fail to meet those dates, the decision should be made to cut the losses incurred and close the branches, rather than risk an ongoing stream of future losses.

The financial results, and the capital structure of MFW, will be enhanced considerably upon the distribution of capital upon the termination and closure of the WFF. This impact will need to be factored into the projection.

In common with the other MFIs, MFW derives considerable financial benefit from its low weighted average cost of capital. This is due to the JD 1.78 million in donated equity. If this donated equity is costed at the current price of the WFF-Citibank loan (7.5%), MFWs net income would be JD 133,000 lower than the projected JD 249,000. Furthermore, the weighted average cost of capital will further decline on receipt of the distribution from the Wholesale Funding Facility (WFF).

*Issues With the Microfin Model and The Report Itself:*

Some sensitivity analysis should be undertaken, so as to measure the ability of MFW to weather any potential negative shocks. These would include a variation in the interest rates being charged on the Citibank Loan, changes in the interest and fees levied on MFW's loan products, and a shortfall on the volume of loans disbursed.

A section on risks, and how they are to be managed, should be included in the business plan. Some of the risks that should be covered would be: potential staff poaching by the Bank of the Poor, the effect of a potential increase in interest rates in Jordan in late 2004, and the impact of the imposition of sales tax on microfinance activities.