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JMCC 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.

TABLE OF CONTENTS

SUMMARY REPORT

In accordance with the Scope of Work, the consultant spent two days reviewing the Business plan prepared by senior management of JMCC.

The Basic Strategy of the Business Plan:

Senior management rightly recognizes that the demand for microfinance services in Jordan is limited. It is addressing this by broadening its product line, marketing to a larger borrower, and expanding into new areas. This approach has certain risks and issues:

(i) JMCC is anticipating a basic continuation of good overall performance by the Jordanian economy. Independent reports indicates that the economy should perform well over the next 12-18 months with low inflation, stable interest rates and good demand, which likely will be driven by a recovery in the export markets to Iraq and the U.S., and a recovery in the tourism industry. There is, however, a likelihood that interest rates will raise in late 2004 in tandem with the US market. Moreover, the current low oil prices are based on short term agreements with the UAE, Kuwait and Saudi Arabia. Should these agreements not be renewed, the price of oil will increase sharply.

A further risk is that the current budget surplus, and positive current account balance, are heavily reliant on grant from the U.S. Should these grants be curtailed as American priorities move elsewhere, the Central Bank could be obliged to raise interest rates sharply to protect the JD: US$ exchange rate peg. This would severely impact lenders with a portfolio of longer term loans.

(ii) The handling of a wide range of loan products by loan officers. Staff will have to be trained to manage a wider range of products, which will be costly as well as possibly causing confusion at the loan officer level. An alternative might be to have specialized staff handling certain products only. For the Development Loan and Elite loan products, special credit analysis systems will need to be developed, with emphasis being placed on “second way out” (second source from which the loan can be repaid) analysis.

The Microfin model indicates that in FY 2005-2007 the loan officers will be disbursing 24-25 loans per month (i.e. one per day). Given the loan sizes and the different loan products, this could prove to be a challenging goal, especially with the necessary individual loan analysis and the need to focus on credit quality.

(iii) There is a rapid build-up in the number of loan officers, with the numbers increasing from 14 in May 2003 to 30 by FY2003 to 47 by FY 2007. An increase in the number of branches also is envisaged. This will place considerable strain on the existing management team, even with the devolution of responsibility down to Branch Managers. Careful attention will need to be paid to ensure that the operating systems and manuals are effective.

Furthermore, thought should be given to a further strengthening of the Credit Manager staff, since each credit manager will have responsibility for 23 loan officers, which looks a little thin. The hiring of an internal auditor also will become increasingly important for ensuring that policies, procedures and practices are being followed.

(iv) The growth in the loan portfolio is to be driven by: (a) additional loan officers, (b) increased productivity per loan officer, with the case load rising from 73 to a reasonable 120 loans per loan officer and (c) an increase in the average loan size disbursed from JD 1,075 in FY 2003 to JD 1,445 in FY 2007. In addition to the challenges of managing a large team of loan officers, management will have to address the issues arising in (b) and (c) This entails identifying how productivity is going to be increased over and above the time savings derived from locating loan officers closer to their clients, and how the increased competition resulting from the progressive move upmarket into larger loans is going to be handled.

(v) The focus on the Amman, Zarqa and Irbid governorates is realistic, given that the market survey indicates that they represent 84% of the effective market demand. The business plan, however, calls for 75% of the portfolio outstanding in each year to be represented by Amal and Development loans, with these totaling JD 1.1 million and JD 2.8 million respectively by FY 2007. Based on the October, 2002 Market survey, the effective demand for the loans of the proposed amounts in these governorates currently is about JD 15.1 million for Amal loans and about JD 12.0 million for development loans. If 20% of those willing to borrow are judged to be not creditworthy, these creditworthy effective demand figures would drop to JD 12.0 million for Amal loans and to JD 9.6 million for Development loans. This indicates that JMCC anticipates achieving a 9% market share for the Amal loan market niche and a 29% market share for the Development loan niche. Even if the demand for these loans grows by 5% per annum in the interim, this market share still looks large, especially for the Development loan segment.

This high level of penetration is further magnified given the large interest spreads predicted (which other lenders will find attractive) and the considerable number of competitors operating in those governorates. These include the other MFIs and nearly all other SME lenders. Consideration should be given to reviewing this rate of growth. Furthermore, given the limited success of other MFIs in the Aqaba market, management may wish to reconsider commencing operations there.

(vi) The business plan reports that the average maturity of loans in the portfolio is now about 20 months. Management should be cautious to ensure that long term loans are granted on their long term investment merits, rather than as a methodology to match borrowers' limited capacity to service short term loans.

The Projected Results of the Business Plan:

(i) The Microfin model projects that JMCC will earn JD 1.55 million over the five year period FY 03-FY 07. A major contributor to this is the low cost of funds enjoyed by JMCC, deriving from the projected JD 743,000 disbursement from the Wholesale Funding Facility (WFF), the grant funds from AMIR, and the subsidized loans from DEF. As a result, the weighted average cost of capital rises over the five year period ranges from 0.3% to only 1.5%. This provides JMCC with a net yield on portfolio varying between 26%-31% per annum over the five year period. If these subsidized loans, grants and pay-out from the WFF are costed at the stated market rate of funds of 7%, the accumulated earnings over this period would be about JD 830,000 less than projected.

(ii). The cost per employee is forecast to fall from JD 9,143 in FY 2003 to JD 8,240 in FY 2007 despite scheduled salary increases of 10% p.a.. This is largely due to a projected decline in Administrative Other Operational Expenses, which are to fall from JD 126,819 in FY 2003 to JD 125, 350 in FY 2007. It is suggested that Management revise the estimates for telecommunications, legal fees (likely more court cases), marketing (increased competition), training (more staff, multiple products) and MIS software costs.

Issues with the Microfin Model and the Report Itself:

The following points are noted regarding the financial statements:

(a) In the forecast balance sheets, other current liabilities are projected as being JD 263,989 for each of the five years. By their nature, current liabilities are those that fall due for repayment within the succeeding 12 months from the date of the Balance Sheet. Hence, these should be paid off in FY 2004. Allowing for this will impact the liquidity of the projections, and increase by about JD 15,000 the cost of borrowing in each successive year.

(b) The interest rates for the loan products in the Table on page 7 do not agree with the interest rates included in the Microfin projections (e.g. Co-operative loans in Microfin are at 25% flat, while the table shows 20% annual interest). The rates in the Table need to be changed.

c) The inclusion of a variable JD value of a negative long term asset under Other Long Term assets in the Balance Sheet needs to be explained.

(d) Point 2 of the Executive Summary notes that the expected receipt from the WFF liquidation and disbursement is JD 743,000. The Balance Sheet, however, records an inflow of JD 716,096.

(e) The business plan should include a discussion of the risks facing JMCC, and sensitivity analysis on some key assumptions. These should include the impact of increased oil/gasoline/petrol prices, an increase in interest rates, a rise in non-performing loans, and the impact of the Bank of the Poor.

Annex I

JMCC Business Plan Report

2003 – 2007

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Table of Contents

Executive Summary:

Business Planning is a continuous process in a healthy institutional environment; plans may change positively accordingly with the demands of the market and the changes in the economic environment. Although, the business plan should remain the guideline for the institution to measure its achievements and to pinpoint its targets. Hence, a revision for the previous business plan was essential, in order to keep performance figures up-to-date and to ensure the progress needed to achieve the strategic institutional objectives.

The Executive Director of JMCC, supervised both the Credit Manager and Chief Accountant, who jointly worked on developing the Microfin model. This report, however was mainly prepared by the Credit Manager with some assistance given by the Executive Director. The detailed Business Plan, and the five-year performance projections, are attached. Summarized below, we list the main conclusions and recommendations of the detailed Business Plan and projections.

1. The Business plan projects that JMCC is already operating on a sustainable basis, and will continue doing so throughout the five-year projected period. The loan portfolio outstanding was JD 1,788,710.00 by the end of October 2003, while it is projected to reach a significant amount of JD 4,993,651 by the end of 2007. The number of active loans was 2039 by the end of October 2003, while the projected number is expected to reach 5,653 active loans by the end of the projected period. Operational sustainability is expected to reach %147 by the end of year 2004. Nevertheless, the financial sustainability approximately will reach %128. The financial sustainability will reach a positive %159 by the end of 2007 and the operational sustainability will be %174.

2. JMCC will submit a graduation application from the Whole Lending Facility (WLF) program. Since nothing seems to stop this process, it is expected to receive an amount of JD 743,000 from AMIR program by February 2004; this will indeed boost the ability for JMCC to increase the volume of its portfolio during the coming two years specifically. JMCC will need to borrow from the commercial banks in the early beginnings of year 2006. This is likely to happen thanks to the wholesale lending facility, which increased the local commercial banks trust in the microfinance sector; specifically JMCC. The Jordan Kuwaiti Bank already approached JMCC offering to lend JMCC enough loan capital and to leverage JMCC equity to an appropriate percentage.

3. Interest rates and loan maturity have been modified to compete with other micro-credit providers, along with the launch of new loan products such as the (Amal Loan) which showed tremendous success from the minute it was introduced. This features a significant segment of the market that was not satisfied with the current loan products provided from all MFIs in general. Specifically speaking, all previous loan products have been amended to satisfy the needs of the current and prospected clients due to this founding.

4. JMCC will be featuring a series of announcements to open more new branches in Amman and Zarqa. This is due to the fact that loan officers are wasting too much time in transportation to reach their coverage areas, rather than utilizing such precious time with prospect clients and producing more loans. This action will indeed enhance the productivity of loan officers, and of course, will make it easier for clients to reach the branches and receive their checks for their approved loans.

5. JMCC will continue to focus on the urban and peri-urban borrowers, in addition to the efforts that will be concentrating on increasing the percentage of women borrowers to %50. Currently, JMCC has around %38 female active borrowers.

The main changes to the previous business plan for the year 2004 were as follows:

Item	*Former Business Plan*	*Current Business Plan*
Outstanding Loan Portfolio	2,300,585	2,303,707
No. of Active Clients	2065	3230
No. of Loan Officers	17	30
No. of Branches	2	5
Operational Sustainability	164%	147%
Financial Sustainability	148%	128%

Socio Economic Overview Of Jordan:

Despite adverse regional and international conditions, especially in Iraq and the West Bank, the government of Jordan has proved to be resilient during the past two years, achieving its best growth performance for some years. Available national economic performance indicators show that GDP, at constant market prices, grew by 4.9 percent by the end of 2002 (4.2 percent in 2002).

Both commodity-producing and services sectors contributed to the achievement of this rate of growth. Industrial sector grew by 10.7 percent, followed by “transport, storage, and communications” sector at 5.7 percent and “finance, insurance, real estate and business services” sector at 2.9 percent.

The GDP growth was driven by the upsurge in total exports to record levels and the resurgence of the tourism sector after a two-year downturn. The launch of projects under the Plan for Social and Economic Transformation (PSET) as well as investment and infrastructure projects in the Aqaba Special Economic Zone (ASEZ) also contributed to the higher rate of growth this year. In addition, the government pursued its restructuring and reform program, mainly through privatizing a number of public entities.

The GDP growth was all the more remarkable as it took place in an environment of price stability. The inflation rate, measured by the relative change in the Consumer Price Index (CPI), did not exceed 1.8 percent for 2002.

Taking into consideration the population growth rate of 2.8 percent, real per capita GDP rose by 2.0 percent, a rate deemed to improve the living standards of the ordinary citizens. Likewise, Gross National Disposable Income (GNDI), at constant market prices, grew by 4.7 percent, causing per capita GNDI to increase by 1.8 percent.

Nevertheless, poverty and unemployment continue to pose challenges to the national economy. This prompted the government to accelerate efforts aimed at eliminating or alleviating the negative impact of these social problems. Such efforts focused on providing conditions conducive to investments that are capable of stimulating the national economy, providing new job opportunities and developing human resources needed for the changing needs in the labor market. Microfinance will still hold a core role in the overall process, hence, the expansion of outreach and credit capital will have a greater influence in the coming years.

The Demand for Credit In JMCC's Target Market:

In June 2002, AMIR commissioned CDG to conduct a market survey nationwide with the objective of updating information on micro-loan demand. Its main purpose was to estimate micro-credit national demand and provide approximations by Governorate and many other prospectives that have been helpful to design the projected products.

The sample consisted of 4060 establishments surveyed, distributed nationwide. Out of those, 2000 were registered businesses and 2060 non-registered. In terms of gender, male-owned businesses surveyed amounted to 2686, while those owned by women were 1374. In terms of urban-rural location, 3489 questionnaires were filled in urban areas and 571 in rural areas.

To estimate micro-credit demand, (2) indicators were used. The first was the potential size of demand, determined by the *willingness of establishments to borrow*. The second was the effective market demand, which was determined by the monthly installment *micro-entrepreneurs can afford to pay*. The latter provided a more accurate approximation of actual market demand for micro-loans.

Potential Demand Size: It was estimated at JD 220 million. Of this total, JD 146 million is attributed to registered businesses and JD 74 million to non-registered. As regards urban-rural location, JD 185 million is generated from urban-based establishments and JD 35 million from firms located rurally. The following facts are worth mentioning:

- Demand for loans below JD200 and above JD10,000 is significant. Below JD200 only 0.5% of micro and small enterprises (MSEs) are interested, while above JD10,000 the percentage is 2%.
- 38% are willing to borrow demand loans within range of JD201 and JD1000.
- 22% are willing to borrow demand loans within range of JD1001 and JD2000.
- 17% are willing to borrow demand loans within range of JD2001 and JD4500.
- 14% of MSEs willing to borrow demand loans within range of JD4501 and JD7000 and,
- 6.5% of them are willing to borrow within range of JD7001 and JD10,000.

Effective Demand: It was estimated at JD 86 million. Of this total, JD 54 million is attributed to registered businesses and JD 32 million to no-registered concerns. As regards urban-rural location, JD 74 million is generated from urban-based establishments and JD 12 million from firms located rurally. The following facts are worth citing:

- 13% are willing to borrow can only make monthly payments below JD25.
- 37% are willing to borrow can only make monthly payments within range of JD26 and JD50.
- 31% are willing to borrow can only make monthly payments within range of JD51 and JD100.
- 12% are willing to borrow can only make monthly payments within range of JD101 and JD200, and ..
- 7% of MSEs willing to borrow can only make monthly payments of above JD200.

The breakdown of potential and effective demand by governorate was shown as below:

Governorate	MSE Population	MSEs willing to Borrow	Potential Demand (millions of JD)	Effective Demand (millions of JD)
Amman	66,702	33,264	107.0	44.9
Zarqa	30,212	17,387	45.3	18.4
Irbid	16,702	9,130	31.6	10.1
Aqaba	7,086	4,004	12.4	4.3
Al-Balqa	4,304	1,945	5.6	2.1
Madaba	3,900	2,527	7.9	2.1
Mafraq	3,412	1,931	2.6	1.1
Al-Karak	1,600	1,163	3.6	1.4
Al-Tafeeleh	1,344	747	2.3	0.8
Ma'an	1,250	1,031	1.0	0.3
Ajloun & Jerash	1,042	916	0.7	0.5
Total	***137,374***	***74,045***	***220***	***86***

Taking into consideration the fact that, based on credit history, commercial banks have been able to capture, at most, only 10% of prospective customers, the market segment that can be captured by MFIs is of considerable size. Given the fact that NGO activity is not that significant, this means that MFIs can potentially capture almost 90% of the market. However, it must be emphasized that 90% of potential and effective demand is concentrated in just four governorates – Amman, Irbid, Zarqa and Aqaba. The rest of the governorates do not exhibit a critical population mass, which would enable MFIs to operate with large volumes of loans and, consequently, with significantly lower operating cost.

Due to this fact, JMCC has considered the necessity of expansion in these four governorates, since they consist of 90.4% of the nationwide effective demand for MSE credit.

Proposed Marketing Strategy for JMCC:

Based on the above analysis, the Board and Management have decided the following:

The Loan Methodology:

The individual loan methodology will continue to be used, plus launching a group lending product due to the fact that women, in general, seem to be better prospects than men. Not only are they more willing to borrow and are, on the whole, safer risks. The significance of this finding should not be ignored by JMCC.

JMCC is undertaking the process of conducting a comprehensive market research, which may be funded by AMIR, to determine the demand and feasibility for group lending and to design an appropriate product that will meet customer satisfaction, and at the same time, be beneficial for JMCC.

The Geographic Target Areas:

JMCC will continue to concentrate on the urban areas of Amman, Baqaa, and Irbid. Other governorates will be covered such as Zarqa and Aqaba, since studies have shown that Zarqa and Aqaba possess considerable market demand and they will be considered in the plans of JMCC's desires for expansion and outreach during the next five years of projections.

JMCC will be featuring the opening of five more branches during the coming five years, since the number of loan officers will increase from the current number of 30 to 47 loan officers in the fifth year of projections. Due to this prospective, JMCC will need to open two new branches in Amman, one in Southern East Amman and another in Northern Hashemi, in addition to a third branch in Rusayfa. As mentioned earlier, this is because loan officers are wasting too much time in transportation to their current operating areas rather than utilizing that time with customers. This will eventually increase their productivity and capability to disburse more *quality* loans.

Two other branches will be opened in year four of the projections, in Zarqa and Aqaba. This expansion theme will enable JMCC to provide almost nationwide credit, which will gradually create more ground for operations and increased market share.

The Loan Products:

In response to intensive market research, JMCC has considered the fact that customers prefer smaller installments with affordable interest rates, due to fierce competition from other operating MFI's. JMCC has modified the previous single loan product line to several product lines in the attempt to attract more customers of all segments. JMCC's current product programs consist the following:

Type of Loan	Loan Amount		Interest Rate Annually	Term months	Grace Periods	Application Fees (JD)
	Min	Max				
Emergency Loan	150	600	21.6%	10	None	3
Cooperative Loan (Group Loan) (4 individuals)	480	1,440	20%	12	None	4
Amal Loan	400	900	12%	24	0 or 4	5
Development Loan	1,000	6,000	13.2% - 15%	1 – 24	0 or 2	10
Elite Loan[1]	7,000	15,000	12%	1 – 24	None	30
Taxi Loans	600		15%	12	None	7

[1] In Certain cases, and if the client provides solid collaterals, loan term may be increased to 30 months. Nevertheless, JMCC did not disburse such long-term loans so far.

The interest rate will still be deducted upfront for all mentioned loans, and the repayment frequency is once at the beginning of the every month.

JMCC has experienced the necessity of satisfying all segments of the market, trying not to ignore competition provided from other MFI's, and the customer's option to choose among all providers of credit that meets his/her financial needs.

The 2003 -newly launched- Amal Loan had tremendous success since the first day. More than 1100 new loans were disbursed during the first eight months of its introduction. This proves that there is a large fragment of the market that can be attracted through such types of loans.

It is important to emphasize that even when the client has the option of selecting the loan term and loan amount, JMCC loan committee will carefully analyze the project and clients characteristics to define the suitable loan amount that will fit the needs of the client and his/her project without imposing a burden over his/her business or personal family income.

The change in methodology from stepped to tailored loans enabled JMCC to capture other segments of the market that did not fit into the previous loan scheme. This modification in concept pushed JMCC to the top of consistency. Market demand and Loan Officer feedback were the main reason for such amendments.

Nevertheless, although the effective annual interest were reduced a fracture, yet the volume of disbursements justified the reduction. Thus monthly loan disbursements have steadily maintained to be over JD200,000, and number of new loans are representing at least 60% of disbursements, this eventually will create a more stable portfolio on the medium and long run.

The Issue of Gender:

JMCC is still adopting the original goal of reaching a 50% representation of woman in its portfolio. With the introduction of Amal Loan and Cooperative (Group) Loan, this assumption can now be a reality, and the percentage of woman representation jumped from 29% in March 2003 to 36.7% in September 2003, and this percentage is growing month after month. JMCC is seeking to achieve the original objective at some stage in the coming three years.

The Identified Strengths and Weaknesses/Challenges of JMCC:

During the course of preparing the Business Plan, the following strengths and weaknesses have been identified:

Strengths:

The focus on loan portfolio quality:

JMCC has been successful in maintaining an excellent financial sustainability throughout the past two years, and an outstanding repayment rate well above 98.5% and a PAR rate beneath 2%. This efficiency rate will be preserved during the next five years of projection.

Staff dedication:

The commitment and dedication of the staff, especially the loan officers, helped to keep the image of JMCC in good repayment; this is the main reason why JMCC has been able to conserve such a good collection rate.

Management Flexibility:

This is obvious due to the fact that the Management had prompt response to market demand and feedback from Loan Officers, who took courageous decisions regarding the restructuring of the loan products. The current loan products found their way to attract more clients and held a competitive edge among other products provided from other MFI’s.

Weaknesses/ Challenges:

High interest rates:

Despite all efforts to reduce interest rates, JMCC still charges high interest rates on its current loans to maintain financial sustainability. The increase in portfolio volume is a vital requirement for the intention of reducing initial interest rates to a competitive price. This objective can be achieved in year five of projections when the outstanding loan portfolio is projected to reach a significant volume of more than JD 5 million, while the financial sustainability ratio will be stabilizing at 154%.

Centralization:

JMCC is considering the necessity of delegating more authority to branches in loan approving, rather than the current policy that is sustaining the decision-making in loan approval within the hands of the credit manager and the Executive Director. If JMCC is looking forward to increasing its portfolio volume, this level of delegation is a must along with opening new branches in various areas of Jordan. This delegation strategy will upraise the flexibility needed for disbursing loans, in addition to the speeding up of the loan approving process. This will eventually influence on the volume of monthly disbursements that will increase rapidly.

Anyhow, the level of delegation will be studied comprehensively, to maintain the quality of loans that JMCC has been disbursing since inception.

Limited Effective Market Demand:

JMCC, as all MFI’s, will be facing the reality of limitation in effective market demand. It is known that more than 12 micro-credit providers are operating in the market, and the number of these institutions is tending to grow. Competition is growing fiercer also, and the customer has many options to get his suitable credit. This will be a severe factor to consider in the coming few years to come.

The New Bank for the Poor Law:

JMCC, as all MFI’s, will be facing the reality of establishing the new bank for the poor anytime during 2004. Although the government and the AGFUND are promising that this bank will perform according to best practices and will concentrate mainly on rural areas, it is likely to see the bank operating on subsidized rates and disturbing the market. The Bank enjoys taxes and customs deletion and will not bear the same costs any MFI had to pay upon establishment.

<u>The Basic Assumptions for the Business Plan Projection:</u>

Detailed below are the main assumptions for the JMCC Business Plan:

Opening of Branches:

Five new branches are to be opened within the next five years of projections, the reason behind this is JMCC’s desire to gain more outreach in the surrounding areas of Amman and other governorates, in addition to the fact of the waste of time in transportation which the Loan Officers are spending in order to reach the operating areas, which means that this time can be utilized to serve more clients rather than wasting it in transportation. This will indeed have greater influence on generating more loans to disburse.

The Amman branch alone will not be able to provide the growing demand on loans during the next year, especially if JMCC is planning to increase its portfolio as it has projected in the current business plan.

The projected branches that are planned to open are as follows:

- Amman Governorate : Hashmi Branch in January 2004.
  Wehdat Branch in January 2005
- Zarqa Governorate : Rusayfa in April 2004
  Zarqa in January 2006
- Aqaba in January 2006

Loan Officers and Supervisors:

The total number of Loan Officers in the fifth year of projections will be 47, along with seven Branch Managers and one Loan Supervisor. They will be allocated as follows:

- Amman Main Branch : Five Loan Officers and one Loan Supervisor
- Baqaa : Six Loan Officers and one Branch Manager
- Irbid : Six Loan Officers and one Branch Manager
- Wehdat[2] : Ten Loan Officers and one Branch Manager
- Rusayfa : Five Loan Officers and one Branch Manager
- Hashmi : Six Loan Officers and one Branch Manager
- Zarqa : Five Loan Officers and one Branch Manager
- Aqaba : Four Loan Officers and one Branch Manager

The caseload per loan officer will be 120 loans in the fifth year of projections. New loan officers will require 45 days of training before distributing them to their determined areas. They will be expected to generate 25% of optimum portfolio load during the first six months of operation, the remaining 75% will need another 16 months to be accomplished. On the other hand, branch Managers will not be generating any loans; theirs efforts will be concentrating on assessing loans and following up on delinquent payments, in addition to planning and marketing.

The Growth in Loan Portfolio:

The loan portfolio outstanding, and the average loan size disbursed, is projected to grow as follows:

Year	No. Of Active Loans Consolidated	Total Amount Of Loans Outstanding
2003	2,195	1,726,307
2004	3,230	2,303,707
2005	3,753	3,077,628
2006	4,785	4,206,771
2007	5,653	4,993,651

The average loan size disbursed for each loan product is as follows:

Year	Amal Loan	Development Loan	Elite Loan	Cooperative Loan	**Total Average**
2003	700	1,702	8,000	960	**1,075**
2004	700	1,934	8,000	987	**1,422**
2005	717	1,940	8,953	1,110	**1,400**
2006	718	1,934	9,109	1,173	**1,384**
2007	723	1,937	9,525	1,223	**1,445**

[2] South East Amman

Loan Products:

There will be six different loan products as follows[3]:

Type of Loan	Loan Amount		Interest Rate Annually	Term months	Grace Periods	Application Fees (JD)
	Min	Max				
Emergency Loan	150	600	21.6%	10	None	3
Cooperative Loan[4]	480	1,440	20%	12	None	4
Amal Loan	400	900	12%	24	0 or 4	5
Development Loan	1,000	6,000	13.2% - 15%	1 – 24	0 or 2	10
Elite Loan	7,000	15,000	12%	1- 36	None	30
Taxi Loans	600		15%	12	None	7

The different loan products displayed above are based on tailored loan methodology, since the previous stepped loan methodology was abandoned early this year due to competition, market demand, and the loan officers feedback from the existing clients who showed disturbance from the stepped method of lending.

However, this does not mean that a client will get the loan he desires. On the contrary, the loan size is determined after comprehensive project assessment and credit worthiness of the client and his business progress. It is expected to have an average retention rate of 85 - 90%.

The Loan Loss Reserve:

The Loan Loss Reserve ratio is being projected to stabilize between 1.4% and 2% throughout the five-year business plan.

The Draw Down of Grants from AMIR Program/USAID:

As JMCC is expected to graduate from the whole lending facility (WLF) at the end of year 2003, after achieving certain sustainability requirements, JMCC will earn a grant of JD 743,000 in January 2004. This Grant will be perfectly on time to assist JMCC in expansion strategies in terms of the portfolio size, since the demand is increasing with fewer repayments to cover, as well as slowing down the borrowings from DEF for elite loans.

Borrowing from the Wholesale Lending Facility (WLF) and/or other Banks:

JMCC managed not to borrow anymore from Citibank, and instead tried to finish the repayments earlier than scheduled as it appears in month 5, 2003 when JMCC paid two installments of JD 20,000 to settle the loan. Citibank lowered their prime interest rate to 7.25% instead of 7.5% to reflect the dropping market rate as of Jan 2003.

Borrowings from Development & Employment Fund (DEF):

- DEF Start ups: Only one and last withdrawal made in month 2, 2003 and with this, the whole DEF Start ups loan reached JOD 266,450. JMCC stopped this withdrawal because DEF offered JMCC enough loan capital to launch the Amal Loan as explained later. JMCC will continue to repay the remaining balance of the loan on monthly payments plus the interest (5% annually).

- DEF Amal: An interest free loan of JOD 400,000 was granted to JMCC restricted only to clients with micro businesses that would need small loans (400-900). JMCC fully received

[3] Taking into consideration that Microfin only calculates four loan products, therefore, the Emergency Loan and Taxi Loans were not included in the projections since they present the smallest percentage of the portfolio
[4] It is a group loan. Each group consists of (4) members.

the loan in 3 Payments and yet used other sources to serve the great demand of this type of loan. Repayment of the JOD 400,000 are shown clearly in the financials flows of the microfin module.

- DEF Elite: Is another restricted loan of JOD 1,000,000 to serve clients with larger projects with loans between (7000-15000). This loan is a 4% declining interest rate and funded through DEF by the ministry of Planning.

Grants from DEF:

In order to manage the DEF Amal loan, JMCC received a total grant of JD 18,000; it was allocated when paid to cover the whole period of the loan (6 years).

Salary Structures:

All staff salaries are projected to increase by 10% per annum, representing a 8% real annual increase, plus the expected annual inflation rate of 2%.

New recruited loan officers have been projected to be paid 230 JD at the entry level, at the secondary level they will be paid 280 JD, at the intermediate level they will be paid 320 JD, and the senior loan officers will be paid 375-400 JD.

Loan Supervisors will receive 400 JD, while the Branch Manager will be paid 500-550 including incentives and commissions.

Reallocation of the Head Office:

It is expected for the program level to be completely separated from the HO by June 2005, which means that Amman will be featuring the opening of three branches excluding the HO. When this occurs, the HO may have to be reallocated to a new location in the western part of Amman, while the other three branches will be allocated in the "demand" eastern parts of Amman.

This action will save more time for the loan officers to spend with their clients rather than wasting that valuable time using complicated transportation to get to their operating areas. This will eventually have obvious influence on productivity and time consumption. However, the expenses of relocating the HO and the opening of new branches will not differ from what JMCC is currently paying.

Motor Vehicles:

JMCC possesses no vehicles at the time being, despite the approval of JMCC Board of Directors for the purchase of one vehicle. In order for JMCC to have effective control over the numerous branches, it will be in need to purchase at least three vehicles for that purpose. However, the purchase of those three vehicles was not calculated in the microfin module due the fact that such vehicles may be funded through an outside grant next year.

Analysis of the Projections:

Profitability and Sustainability:

Microfin projects that JMCC will sustain operational and financial sustainability throughout the five-year projection business plan. It is expected that JMCC will reach 154% by the end of year 2007, averaging at 134% during the projection period. Nevertheless, it is clearly noted that financial sustainability will be more secure as long as the volume of the portfolio is relatively getting larger. This assumption is a logical calculation between the volume of net income and non-expected expenses, whenever the volume of net income is at a stage, that it preserves covering any non-expected expenses with ease, this expresses more institutional stability due to the fact that it will be able to endure any unexpected financial issues.

It is projected that JMCC will be generating 418,000 JD net income in the year 2006 and 600,000 JD in the year 2007; this emphasizes institutional stability during that period. The yield on the portfolio stabilizes in the 28 – 30 % in the coming four years, as the average maturity of the loan outstanding lengthens to 20 months in average.

The limited size of effective market demand in Jordan, and the high competition provided by other operating credit providers forced JMCC to investigate new opportunities in other territories other than Amman. Amman is facing fierce competition; this paved the way for JMCC to look for the announcing of new loans that may have a competitive edge in the market that meet customer needs. Amal Loan was a breakthrough from the minute it was introduced, nearly 1100 loans were disbursed, many of them were new loans, since March 2003. This will create a good pool of potential clients to grow with JMCC during the next five years. It is projected to disburse nearly 6,000 Amal loans during the coming four years, 1000 loans have already been disbursed. Almost 60% of these clients will eventually graduate to the Development Loan product, which means the renewal of these loans will be more profitable in the years 2005 and beyond.

The launch of the Cooperative Loan product will give JMCC the tool to get back to that segment of the market that has been abandoned for a long period of time, plus the good effective rate of 41% this loan will be generating. It is expected to disburse nearly 2,000 loans during the coming four years of projection.

While the tone of competition is getting fiercer, JMCC may need to reconsider the interest rate charged on larger loans, and may have to reduce it to get it more appealing to the client. This is one of the main reasons behind the launch of the Cooperative Loan and Amal Loan.

If nothing of the above strategies work, or are not considered viable, JMCC may have to recall the option of merging with another MFI or become the lending arm of a commercial bank or financial institution. Taking such a decision under these complicated situations may give JMCC the breath it needs to survive in such a high competitive environment.

Cost of funds:

The major demand of funds is projected to start in mid 2006, thus the cost of these funds will start to reach higher amounts down the road. Unless JMCC is able to cover this demand from its loans income and repayments, JMCC will need to seek new interest – free sources. If JMCC is not able to get interest-free funds, it will indeed need to obtain credit from commercial credit providers such as banks or other financial institutions to cover the increasing monthly disbursements.

Depreciation:

No major acquisition of new fixed assets is being projected during the next five years; thus, depreciation expenses will remain in the average with minor changes.

Expenses:

For the five coming years, JMCC will have to face the expected increasing expenses as a result of hiring more loan officers and the opening of the new branches. As expected, personnel and Admin expenses are the two largest portions, and the operational expenses form the second largest. This, of course, will remain one of JMCC's main challenges during the coming years. JMCC is expected to hire two additional accountants and one data entry staff to handle the growing demand on credit, and to maintain high-quality customer service. Hiring a deputy Executive director in Jun 04 will also impute a heavy increase on admin salaries.

The new lawyer contract, which is 3 times the previous contract, also caused an increase in lawyer and legal fees in Jun 03.

Productivity:

JMCC's productivity as measured by the average loan portfolio per loan officer is relevant to the current situation as follows:

Year	Average Active Loans	Average Loan Portfolio
2003	73	57,544
2004	108	76,790
2005	121	99,278
2006	120	105,169
2007	120	106,248

This level of productivity is to maintain the quality of loans JMCC has been doing so since inception, this caseload maybe revised if necessary if it is not justified in profitability.
Outreach:

Outreach will remain the most critical factor for JMCC. It will have to figure out solutions to attract as much clients as it possibly can, and as mentioned previously, fierce competition and the limited pool of credit demand will force JMCC to develop more attractive products in the near future. This may include the restructuring of the pricing of products and the reviewing of procedures undertaken regarding collateral. Although this may have negative results concerning profitability and quality loans, but in the end, outreach will be the definite factor for survival and continuity.

As projected in the business plan, JMCC may have some opportunity to take some action regarding interest rates and collateral requirement in the years 2006 and 2007, when the financial sustainability and volume of portfolio will pave the way for JMCC to make such critical decisions.