OFFICIAL LOAN SUPPORT PROGRAMS FOR SMEs

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USAID JORDAN ECONOMIC DEVELOPMENT PROGRAM

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TASK NO: 1.14.1.08.1.2 IDENTIFIES AN EFFECTIVE SME LOAN SUPPORT PROGRAM THT WILL IMPROVE SME CREDIT PROCESS AND RESULTS

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EXECUTIVE SUMMARY

It is common knowledge that the global “credit crisis” is adversely affecting SMEs in Jordan and elsewhere. It is also generally known that the SME loan guarantee programs currently operating in Jordan do not affect the vast majority of SMEs. The time has come for the GOJ to consider its options.

This Report analyzes loan support programs in North America and Europe and describes the special programs created to assist SMEs caught in the credit crisis. In North America emphasis is placed on loan guarantee programs. Clearly, neither the U.S. nor Canada funds these programs with a view of returning profits to the treasury. Programs in the UK and Europe received more funding recently because of the credit crisis. The UK continues to offer a mix of grants, loan guarantees and direct loans, while Europe utilizes mainly loan guarantees along with medium to long term credit lines to banks. Risk sharing is standard with lending banks. Most importantly, both the UK and Europe commissioned a study to identify inefficient program practices, improve utilization and increase cooperation among participants. In both cases recommendations were made public and implemented.

The United States Government (USAID, DCA and OPIC) and the IFC/World Bank Group have invested in programs designed to enhance SME financing in Jordan. USAID has committed extensive funding and technical assistance. OPIC’s has recently earmarked substantial funding for Private Equity Funds for SMEs. The IFC made a sizable investment in Capital Bank and continues to make important contributions in Jordan on legal framework issues. Both activities should prove advantageous to SMEs’ seeking financing.

The Jordan Loan Guarantee Corporation (JLGC) is under new leadership that, hopefully, will return utilization to previous levels under the SME programs. The Advisor believes this is a tough assignment as banks now have fewer reasons to participate that before the credit crisis when utilization was on a downward trend. Moreover, JLGC’s legal status as a public company listed on the Amman Exchange may limit the company’s ability to be creative or take more risks that may spur utilization.

Finally, “expansion SMEs” face an upward battle obtaining financing to fund growth opportunities. Conventional sources such as banks, leasing companies and venture capital funds will decline, or are unlikely to approve, the amount of financing requested. Regrettably, expansion SMEs typically make important economic contributions when sufficient financing is obtained. Fourth Door Funds are private equity funds designed to invest sufficient amounts of shareholder equity and loan funds in creditworthy SMEs. The funds: currently operate successfully in other markets such as South Africa; can accommodate conventional or Islamic financing requests; and are well suited to private-public partnerships.

The following recommendations are respectfully submitted. The Advisor foresees no one “miracle” solution for Jordan. Instead, consideration should be given to a number of actions including the replication in Jordan of program features considered effective in other markets.

1. Role of Government

The GOJ should determine if economic contributions from the SME sector merit more government support.

2. Change in Loan Support Programs

Assuming the GOJ elects to increase support for JLGC, conditions and accountability should be carefully considered (see below).

3. **International Programs (IFC and USG)**

- GOJ may consider asking the IFC to inject capital and begin a SME program at a second bank. Moreover, the IFC could expand its legal framework activity and support GOJ in developing a new central registry for movable property. This registry would allow creditors to register their collateral interests in one place. Both activities would improve access to financing for SMEs.
- USG support could come in the form of raising key issues at high levels within GOJ. For example, the Mission could encourage the Central Bank, JLGC's main shareholder, to consider the recommendations made herein. Also, the Mission could seek details on OPIC's Private Equity Funds for SMEs. This information would help assess performance and may be useful in designing similar funds or a "Fourth Door Fund" (see below).

4. **JLGC**

The GOJ should consider funding a new and improved SME guarantee program separate from existing programs. The best place to channel such assistance is through JLGC and the banks. However, more funding for JLGC should be subject to conditions, monitoring and reporting.

- GOJ could direct the new funding to an experimental program at JLGC that would be reviewed regularly for performance. Creative features are needed (see programs in North America and Europe) that will increase bank participation and utilization. If banks perceive the same old program features re-packaged in press releases and hype, they will back off. New features may include:

- individual loan requests receive accelerated approval or denial by JLGC
- banks report a portfolio of SME loans (not individual loans)
- consider discretionary approval authority for banks with good track records at JLGC
- less risk sharing by the banks
- expedited review of claims for reimbursement; denial limited to material breach
- reimburse banks up to 50% of the costs to promote the new program
- JLGC to reserve at higher levels given the experimental nature of the program.
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- Another program option:

The GOJ may consider extending credit lines to banks repayable over 3 – 7 years for on-lending to SMEs (see European program). This would allow more term lending to SMEs and could be run by the Central Bank. Normally, banks would assume the SME credit risk. Under present conditions, the GOJ may consider allowing use of these lines of credit along with a loan guarantee for a large percentage of the credit risk.

- Less attractive government options:

Other options include loans subsidies (used in Europe), grant programs (UK), and tax advantages for lenders and special capital treatment for SME loans (already used in Jordan). The Advisor would recommend against subsidies, grants or tax advantages until it has been demonstrated that banks won't respond to a well managed and attractive new loan guarantee program.

Simultaneously with introducing the above programs, the GOJ should consider a comprehensive and independent study of current JLGC guarantee programs similar to the studies commissioned in the UK and Europe. The best case scenario is a study is commissioned and completed in a reasonable timeframe and results in corrective actions. Furthermore, the corrective actions lead to JLGC's guarantee programs that are more effective and more useful to banks and SMEs.

5. Fourth Door Funds

The GOJ and other stakeholders may consider a private-public partnership to establish a "Fourth Door Fund". This fund would consider investing shareholder equity and loans in creditworthy and expanding SMEs. Due diligence must precede serious consideration that would include analysis of existing SME funds in Jordan. A private meeting with OPIC related Fund Managers is suggested that, hopefully, produces useful information. Another option would be for the Mission to obtain the same information through OPIC (see #3 above).

BACKGROUND

A. Terms of Reference

The Advisor has worked on several short term assignments as a SME Credit Advisor in Amman since September 2007. The focus has been SME access to financing and working with banks and leasing companies on developing new SME strategies, credit products and loan processes.

It is generally known that loan support/guarantee programs administered by DCA and the Jordan Loan Guarantee Corporation do not operate effectively in Jordan for various reasons. It is also common knowledge that SMEs in Jordan and elsewhere are becoming increasingly "squeezed" as a result of the current "credit crisis". Therefore, USAID approved three days LOE for the Advisor to:

- Research loan support programs in other markets
- Meet with OPIC experts to understand support program in emerging markets
- Analyze eligibility requirements, financing arrangements, terms and conditions
- Discuss loan support programs with other SME experts
- Identify programs or approaches suitable for Jordan.

B. Expected Results from Assignment

- A fresh look and analysis of programs in other markets
- Knowledge of eligibility requirements, terms/conditions, results, etc.
- Facts and analysis upon which to approach potential users and stakeholders

INTRODUCTION

The first chapter of this Report covers the broad topic of loan support programs. It begins with the host government's role in developed and emerging markets. There is strong evidence that banks believe government loan guarantees are the most important programs influencing SME financing. Consequently, most of this chapter focuses on national loan guarantee programs in North America and Europe, international programs that impact SMEs in Jordan (IFC/World Bank and U.S. programs) and loan guarantee programs in Jordan.

The second chapter highlights the obstacles to financing encountered generally by "expanding" SMEs and offers a possible solution in the form of Fourth Door Funds. Fourth Door Funds are Private Equity Funds that invest equity and loan funds in growing, creditworthy SMEs. The structure and advantages of a fund is explored along with the prospect of one based on a private-public partnership.

The last chapter draws conclusions from the Report and offers recommendations.

The extensive material in the Appendix section provides more details of loan support programs and compares various program features. This section is intended to increase the reader's understanding in areas of interest.

LOAN SUPPORT PROGRAMS

A. ROLE OF GOVERNMENT

The World Bank completed a study in 2008[1] on bank financing for SMEs around the world. The study was based on a survey of 91 banks in 52 developed and developing countries. Part of the survey focused on the "role of government programs and regulations".

Banks reported that government programs to promote SME finance existed in 6 out of 7 developed economies and 32 out of the 45 developing countries (including Jordan).[2] Consistent with other evidence cited in the study, "guarantee schemes are the most common government program used to support SME financing among developed and developing countries". Directed credit programs are the second most popular among developing countries while interest rate subsidies are the second most common among developed countries. To a lesser extent, interest rate subsidies were seen as "prevalent" among developing countries.

In general, banks in developed and developing countries have a positive perception of government programs to support SMEs. In developing countries more than 70% of the banks rate the impact of guarantee programs, direct credit programs and interest subsidies as "positive". Regulatory schemes were seen as less positive. The study concludes with "not surprisingly banks from developed and developing countries rated loan guarantee programs as the most important government program influencing SME financing".[3]

This Report will cover the role of government in SME loan support programs with emphasis on loan guarantees. By so doing, we remain within the terms of reference and on point with the results of the World Bank study noted above. The United States, Canada, United Kingdom and Europe are the areas of analysis in this Section. Small businesses and entrepreneurs contribute substantially to these economies and, consequently, SMEs receive significant government attention and resources.

It is common knowledge that unstable financial sectors, recession and poor economic projections in developed countries have led to extraordinary government action intended to benefit businesses of all sizes. It is hoped that larger government roles and new programs will stabilize financial sectors and stimulate lending, which has contracted dramatically. Therefore, this Section will review conventional government roles regarding SME loan support and refer at times to expanded government roles in the face of current conditions.

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[1] Policy Research Working Paper 4785, Bank Financing for SMEs around the World: Drivers, Obstacles, Business Models and Lending Practices; Thorsten Beck & Asli Demirgüç-Kunt & María Soledad Martínez Pería, The World Bank, Development Research Group, Finance and Private Sector Team, November 2008

[2] Ibid, Table 1, pg. 19, one unnamed Jordanian bank participated in the survey

[3] Ibid, pg. 8

B. NATIONAL PROGRAMS

1. COUNTRY / PROGRAM: USA / 7(A) PROGRAM - THE SMALL BUSINESS ADMINISTRATION (SBA)

Summary:

SBA offers no grant or direct lending program although free technical assistance is available. SBA guarantees small business loans issued by institutions such as banks. The basic 7(a) Loan Guaranty is SBA's primary business loan support for eligible small businesses. It is also the most flexible program, since financing can be guaranteed for a variety of general business purposes.

Eligibility:

To qualify for SBA's guaranty, an existing or start-up (for profit) business must be considered ineligible for loans through normal lending channel. Size restrictions apply and are assigned by business sector and measured in terms of annual sales, number of employees or, in some cases, tangible net worth and net income (see Appendix C).

Financing Terms and Conditions:

Under the 7(a) Program, loan proceeds are used for working capital, machinery and equipment, furniture and fixtures, land and buildings (purchase, renovation and new construction), leasehold improvements, and certain debt refinancing. Loan maturity is up to 10 years for working capital and up to 25 years for fixed assets. Interest rates are negotiated between the bank and business within maximum guidelines not to exceed 2.25% over prime for loans maturing less than 7 years and 2.75 over prime for loans maturing over 7 years. More details are shown in Appendix A.

Results:

SBA's legislation, history and programs date back to 1953. The agency perceives its current role to "help Americans start, build and grow businesses", mainly through loan guarantee programs. By far, the 7(a) Loan Guarantee has been the most popular loan support program in terms of gross loan amounts.[4] Therefore, the results shown below reflect 7(a) performance over the last 10 years. It is difficult to compare these results with support programs in other countries due to transparency and bookkeeping differences.

[4] SBA Program Office, Budget and Performance shown through fiscal year end 2008

	Average Amount (in USD millions)	*Actual Amounts - Last 5 Years (in USD millions)*				
Years	1999 – 2003	2004	2005	2006	2007	2008
Total Gross Loan Approvals	$ 10,160	$ 13,708	$ 15,407	$ 14,728	$ 14,479	$ 12,820
Total Charge-offs	315	197	100	674	367	793
Total Recoveries	180	215	217	222	214	173
Total Recovery Rates (%)[5]	32%	28%	27%	24%	14%	-

Recent Government Action:
To generate more business lending across the board, the government decided to first stabilize the financial sector with a combination of:

- forced mergers of weak banks with stronger banks subject to government commitments on loss amounts (Wells Fargo – Wachovia, Bank of America - Merrill Lynch)
- direct takeover of weak banks followed by sale of deposits and assets (various thrifts)
- purchase of convertible preferred stock under Capital Purchase Program, which is part of the Troubled Asset Relief Program. Commercial and investment banks of all sizes have participated.
- special assistance to large banks such as Citibank to reassure counterparties and the financial sector on obligations related to asset pools and other commitments.

The results of these measures in terms of business lending are not yet known. However, many believe that business lending will remain sluggish until the financial sector is stabilized and the economy improves. The new administration under President Obama is reviewing new measures including some that reportedly will target direct assistance for small business.

2. Country/Program: Canada / Canada Small Business Finance Programs (CSBF)

Summary:
CSBF offers a loan guaranty program on loans made by financial institutions to small businesses. These financial institutions are "expected to apply the same care and procedures in making a CSBF loan as they would for conventional loans of similar amounts". Loan decisions rest entirely with lenders.

Financing Terms and Conditions:
Loans can finance the purchase or improvement of:

- new or used equipment
- real property and immovables
- leaseholds and leased property.

[5] Where recovery in a given year is applied to the applicable year of charge off

Financial institutions can finance up to 90% of the cost of asset acquisition or improvement The maximum loan amount is $250,000. Borrowers pay a registration fee of 2% of the total loan amount, which can be financed and added to the loan, provided that the maximum amount does not exceed $250,000. The maximum interest rate that a lender may charge on a commercial loan is prime plus 3% on a floating rate basis, or the lender's residential mortgage rate plus 3% on a fixed rate basis (see Appendix D).

Eligibility:

Most “for profit” small and medium size businesses in Canada with gross revenues or projected revenues of less than $5 million are eligible. Such businesses can be corporations, sole proprietors, or partnerships. Farming businesses loans are not eligible because such assistance is administered by Agriculture and Agri-Food of Canada.

Results:

CSBF’s objectives are to “streamline loan administration, improve its ability to achieve cost recovery and extend financing that is otherwise unavailable to SMEs.” CSBF refers to the third objective as “incrementality”. Incrementality can also mean to “access financing on more favorable terms or with better security arrangements” than that available absent CSBF’s guaranty. When measuring performance, CSBF places heavy emphasis on assistance to new businesses and start-ups and these firms borrowed $617 million or 60% of the total value of loans under the program for the year ending 2007 (the most recent data available).[6]

CSBF second objective, cost recovery, “means that the program should be self-sustaining, with the costs of paying claims on defaulted loans being balanced by the registration and administration fees being paid to Industry Canada. For the most recent five-year period beginning in 2004:

“CSBF Program revenues amounted to $112 million as of March 31, 2007 while total claim expenses were $54 million resulting in a net balance of $58 million. A positive net balance early in the term of a five-year period occurs because fees on loans start being collected at the time of registration, whereas claims are typically submitted two to four years after loans are made.”

To illustrate the above point, consider that for the first five-year period 1999 to 2004, total expenditures were “$97.0 million greater than revenues.”

More details on CSBF’s results can be found in Appendix D.

3. Country/Program: United Kingdom / Loan, Grant and Guarantee Programs

Summary and Eligibility:

Nearly all funding and administration for business support schemes at the national level reside at the Department for Business, Enterprise and Regulatory Reform (BERR). On April 1, 2008 BERR transferred responsibility for the Small Firms Loan Guarantee Program (SFLG) to Capital for Enterprise Limited, a newly created public company operating under contract to BERR.

Also in 2008, the UK undertook a comprehensive review of some 3,000 targeted products

[6] CSBF Annual Report for 2007, Performance and Financial Review, Objectives and Impact

used extensively to support SMEs and available through local, regional and national government. This led to consolidation into 30 products along with considerable programmatic and organizational changes[7]. Although some government programs are in transition, a recent government publication provides insight into key SME support programs.[8]

Type of Support	Description	Objective	Eligibility	Date Available
Grants	For acquisition of key assets, e.g. building, plant and machinery. To create or safeguard jobs	Supports sustainable investment, job creation, promotes expansion, modernization and diversification of economic activities in deprived areas	Most businesses operating in "Assisted Areas".[9] SMEs in disadvantaged areas as defined by Regional Development Agencies are also eligible	October 2008
Loan Guarantees (support to Lenders)	Loans from banks to SMEs denied a standard loan due to lack of collateral	Encourage banks to be less risk averse for borrowers lacking collateral	SMEs with a viable plan that lack collateral	January 2009
Small Loans to Business	Direct loans to business with a viable business plan but refused bank finance – typically linked with technical support	Social inclusion by extending opportunity to entrepreneurs who might otherwise struggle to raise finance, including women, minorities and those in deprived areas	SME start-up and growth businesses unable to raise conventional financing	January 2009

[7] HM Government, Solutions for Business: Supporting Success, Ministerial Forward by Rt. Hon. Lord Mandelson, Secretary of State for Business Enterprise and Regulatory Reform, October 23 2008

[8] Ibid, page 17

[9] As defined by the European Union

[10] Business Link was designated by the UK government as the official source for product information. This information is found under: Business Link, Finance and Grants, Practical Advice for Business, the Basics

[11] UK government press release, October 2004

[12] Ibid

[13] IFC web page, SME, Improving Lives by Creating Opportunities in Small Business

[14] OPIC in the Middle Ease, an OPIC publication, pg. 3

[15] OPIC's Web Site, Financing MFIs and SMEs, Channeling U.S. Private Sector Capital

[16] Ibid pg. 9

[17] OPIC in the Middle Ease, pg.8

[18] Shareholder Loan Funds for SMEs in Developing Markets, Technical Brief No. 8, USAID Business Growth Initiative, authored by Tom Gibson, published by Weidemann Associates, Inc., www.businessgrowthinitiative.org

[19] Ibid, pg. 16

[20] Ibid, pg. 17

[21] Ibid, pg. 17

[22] OP.CIT.

The above is by no means a complete list.

Grants and Loan Guarantees:
There are various Grants and Loan Support products. Unlike the US and Canada, the writer was unable to identify a dominant UK product in terms of usage and impact. Thus, generalizations are presented here from the web site of Business Link.[10]

Grants:
Definition: Money given to an individual or business for a specific project or purpose. These schemes are not necessarily dependent on the nature of one's business, but the purpose for using the funding.
Amount: Covers only part of the total costs involved as the owner is expected to contribute (sometimes matching the grant amount) toward the total cost.
Source: Business development grants are available through the UK government, EU, Regional Development Agencies, local authorities and some charitable organizations.
Requirements for Government Grants: Compelling applications are recommended as strong competition exists among applicants. Grants are almost always awarded for a specific purpose or project, and usually for proposed (new) projects. Some grants only available to businesses operating within specific sectors, while others are targeted for local initiatives. In all cases applicants must demonstrate their ability to provide their share of total costs. If terms and conditions are not followed, disbursed grant amounts are subject to repayment.

Loan Guarantees:
The SFLG program underwent an independent review (the Graham Review) and its recommendations were adopted by the UK government on October 4, 2004.[11] The purpose of this review was to:

- assess how to maximize impact on UK productivity
- study impact on small firms, which face the greatest difficulty accessing finance
- encourage more consistent availability so more small firms can have access
- ensure firms access a greater level of funding to support their needs, and
- reduce administration and bureaucracy of operations and improve availability and popularity.

Key SFLG changes included:
- lending limits expanded to 250,000 pounds for eligible businesses
- annual turnover requirement raised to 5.6 million pounds or less
- minimum trading years established for business applicants (recommendation was 3 years but current program is 5 years)
- encourage more lenders to participate
- establish a public company to administer and deliver the products.

Terms and Conditions:
Under the current guaranty program, loan proceeds can be used to acquire assets including machinery, plant and buildings. Borrowers must meet normal lending requirements except for lack of sufficient collateral. The program does not cover refinancing of debt or loans to finance export orders. Sectoral and business purpose restrictions may apply. Loan maturity is up to 10 years. The guarantee covers 75% of principal outstanding plus up to 6 months of unpaid interest. The borrower must have 5 years of trading history and an annual turnover of less than

5.6 million pounds.

Results:

Cumulative data on grant activity for SMEs is not provided here. The SFLG program resulted in loans over 3.8 billion in pound sterling to 88,000 businesses over 22 years.[12] The following information shows performance from SFLG's last annual report:

Years	2007	2008
Total Gross Loan Approvals	236 million pounds	207 million pounds
Average Loan Amount	78,000 pounds	79,000 pounds
Amounts Paid on Defaults	Not stated	69.3 million pounds
Total Recoveries	Not stated	1.2 million pounds

Other measures to track performance since the Graham Report are in narrative form and shown in Appendix E.

Recent Government Action:

On January 14 the UK government announced new assistance for small businesses that are having problems accessing finance from banks. The government will increase funding for small business guarantees and encourage the banks to lend more. It will also invest in Enterprise Funds. The government's actions are summarized below and details are shown in Appendix F.

Working Capital Scheme:

- designed to help banks increase lending for existing and new clients
- eligible for companies with a turnover of up to 500 million pounds
- banks will submit a portfolio of loans to BERR, and it will guarantee 50% of the portfolio
- banks will pay a premium to BERR for these guarantees, and pricing will be agreed when a portfolio of loans is submitted. The more risk involved in the portfolio, the higher the fee
- fees charged by BERR will almost certainly be passed on to borrower
- the scheme is an extension of last year's initiative to access short term financing.

Enterprise Finance Guarantee Scheme:

- open to businesses with a turnover of up to £25 million pounds
- designed for loans between 1,000 and 1 million pounds repayable over 10 years
- the government guarantees 75% and banks assume 25% of the risk of non-payment
- most businesses in most sectors are eligible except agriculture, coal and steel sectors
- the scheme is an extension of the Small Business Finance Scheme.

Capital for Enterprise Funds:

- the government has launched a Capital for Enterprise Fund
- fifty million pounds from government and 25million from Barclays, HSBC, Lloyds and RBS
- will allow businesses to sell debt in exchange for equity, i.e. swap debt for equity

- may take many forms, including a share of future profits.
- companies with a turnover up to 50 million eligible for 250,000 and 2 million in equity.

4. Countries / Program: Europe / Programs in the European Community

Summary of Past Programs:

The EIB has financed SME programs since 1968 and has made it one of five “operational priorities”. Up until 2007, SME lending products can be summarized as follows:

- EIB extended low priced credit lines to commercial banks for medium or long term financing of physical investment by SMEs (on-lending). The banks assumed the loan risk.

- Bank guarantees provided by the European Investment Fund (EIF) on loans to SMEs or “risk sharing”.

Eligibility:

Eligibility requirements have changed. EIB assistance is now available to companies with fewer than 250 employees but subsidiaries and holding companies of industrial groups are not eligible. The programs are open to a wider array of borrowers from nearly all sectors except for certain exclusions, e.g. arms, gambling, tobacco, animal testing, activities leading to adverse environmental impact, pure property development and morally or ethically controversial activities.

Terms and Conditions:

Loan proceeds can be used for permanent working capital or to acquire assets including plant machinery and real estate. Real estate does not include land unless it’s considered “vital to the business”. Agricultural land is ineligible. Borrowers must meet lending requirements normally required by intermediary banks. Maturity ranges from 2 to 12.5 years and the borrowers should benefit from low cost lines of credit that EIB will continue to extend to participating banks. A companion product will outline other “risk sharing” arrangements EIB expects to extend to banks.

Intermediary Banks and Financing Institutions:

EIB uses banks and financial institutions as “intermediaries” for investments financed in the framework of EIB’s credit lines or EIB Global Loans. These intermediaries operate within 27 EU countries and within non-EU countries including Jordan. As of June 2008, the Housing Bank for Finance and Trade was the only Jordanian bank listed.

Results:

The EIB is in the early stages of offering new products and results are not available. Up until 2008, EIB reports that the credit line program for banks had an annual volume of almost EUR 5 billion and reached some 50,000 SMEs per year. Bank guarantees reportedly reached cumulative commitments of EUR 11.6 billion. Despite these numbers, logic suggests that the users of the program, and perhaps EIB itself, felt improvement was possible given the formal consultations with users that resulted in considerable changes in 2008.

Recent Events:
On September 13, 2008 the European Investment Bank (EIB) Group announced it is modernizing and strengthening its support for Europe's SMEs to help mitigate the effects of the current credit crisis. This action came about after "broad consultation" with SME market players in 2007 - 2008. The initial measures are:

- "EIB will earmark EUR 15 billion during 2008 – 2009 for loans to SMEs in Europe granted via commercial banks, as part of an overall package of EUR 30 billion by 2011". A new lending formula for SMEs will be deployed through commercial banks that will be simpler, more flexible and transparent.

More sophisticated risk sharing products will be offered to intermediary banks to reach market segments that "banks have difficulty penetrating, i.e. SMEs for which risk is considered too great or the security provided is judged insufficient".

C. INTERNATIONAL PROGRAMS

1. International Finance Corporation:

The International Finance Corporation (IFC) of the World Bank Group supports SMEs through investments and advisory work.[13] The tables below summarize IFC's SME investments and advisory in the SME arena.

- Jordanian Illustrations.

Task	***Result***	***Jordanian Illustration***
Access to Finance	Strengthen financial markets by Investing in financial institutions and strengthening them through advisory work, thereby enabling small firms to obtain equipment and working capital.	$50 million investment commitment (debt & equity) in Capital Bank; one goal is to expand SME financing. Technical assistance is available.
Linking SMEs to Investments	Technical assistance programs complement investment work by strengthening local suppliers and supporting community development programs.	Technical assistance for financial institutions and for financial sector work associated with enabling legislation or regulations.
Regional Facilities	11 facilities globally that support local business through technical assistance and advisory programs	Middle East and North Africa Region with an office in Amman
Improving Business Enabling Environment	Work to create a better business environment for SMEs by improving the legal and regulatory framework.	Supported MIT on passage of Leasing Law and creating framework for credit reporting, i.e. Credit Bureau.

- Non-Jordanian Illustrations – IFC and World Bank:

Country & Institution	***Project Sponsor*** ***Date*** ***Cost Location*** ***Focus***	***Anticipated Development***
Kazakhstan ***IFC***	Bank CenterCredit – 6th largest January 2009 Financing - $45 total over 5 yrs Lending to SMEs BCC has received IFC financing since 2005 to support SMEs	Promote SME lending during credit crisis; develop financial intermediation by increasing products and services; higher SME loan volume
St. Lucia ***IFC***	Bank of Saint Lucia Ltd. - largest March 2008 $20 million loan Growth, diversification – advisory services offered to strengthen long term SME strategy and capacity	Increase volume and maturity of loans (corp and retail sectors); improved SME results
India ***World Bank***	Gov of India 2004 3 parts: 1. Credit Facility - $100 mill 2. Risk Sharing Facility - $20 mill 3. Technical Assistance	Improve SME access to finance, including term finance, and business development services, thereby fostering SME growth, competitiveness, employment creation.
Turkey ***World Bank***	Halkbank (Gtee - Rep of Turkey) December 2008 Access to medium term finance for SMEs	Additional funds for existing, successful SME program to allow reflows during credit crisis

2. US Government Programs

- USAID's Development Credit Authority (DCA) in Jordan:

DCA has extended a partial guarantee to the Bank of Jordan on 50% of the bank's SME loans through DCA's bank portfolio program. This relationship dates back to 2005. In October 2007 the Advisor wrote a Preliminary Assessment of this DCA Program. Appendix H contains parts of the Assessment.

- Overseas Private Investment Corporation (OPIC):

Overall objectives and activity:

"OPIC has focused on three critical areas around which to grow economies and improve lives in the Middle East" …including "providing access to credit and capital for SMEs".[14]

OPIC's programs aim to support financial institutions that are prepared to take SME risk without extensive collateral arrangements. Part of OPIC's strategy is to "support projects that will funnel U.S. private sector capital to financial intermediaries that will extend loans to SMEs on reasonable terms”.[15] For example, OPIC expanded its agreement with Citibank that covers global lending facilities with banks - $45 million of $150 million in OPIC guarantee is reserved for local bank loans to SMEs (no data for Jordanian utilization). Another example is a $100 million OPIC financing for ZAO Europlan to support the leasing of equipment and vehicles to SMEs in Russia.

Activities in Jordan:

OPIC participated with Citibank in a $1.6 million loan to Tamweelcom in Jordan, which it described as “one of the largest market-oriented microfinance institutions in Jordan”.[16] Beyond microfinance, on February 7, 2007 OPIC announced $566 million of investments in three private equity funds for investments in Jordan and “neighboring countries” (see Appendix I). The “Jordan Fund II, EuroMena Fund and the Emerging Markets Housing Fund will focus on affordable housing, SMEs, telecommunications, IT, financial services, education and pharmaceuticals”.[17]

Before OPIC will consider a financing request, a U.S. company must have a minimum investment of 25% or a U.S. sponsor must be actively involved in the undertaking. Other requirements can be found on OPIC’s web site.

D. LOAN GUARANTEE PROGRAMS IN JORDAN

This Section will cover both loan guarantee programs in Jordan. The writer will be brief because there has been little change since his Assessment and both programs are well known to the Mission. The analysis will summarize issues related to low utilization and a recommendation appears in the Conclusions and Recommendation Section of this Report.

USAID/DCA Partial Loan Guarantee
This program began in 2005 and was described in Section C and Appendix H of this Report. Low utilization is most likely the result of a lack of awareness by the banks. Moreover, DCA has only one bank relationship, which limits the potential SMEs that could benefit from the program.

Jordan n Guarantee Corporation (JLGC)
JLGC began operations in 1994 following a capital grant from USAID. Additional donor funds were later contributed by the European Community. USAID and European funding led to programs including the SME guarantee schemes. The Advisor wrote a confidential Preliminary Assessment of JLGC’s programs in September 2007 that cited reasons why utilization for SME loans had fallen in recent years. The main problems cited were:

- resources and attention were diverted away from SME loans to other programs such as a home loan guarantees
- JLGC’s image had suffered
- key banks stated that reimbursement procedures were a concern. Other banks went further by indicating doubt over JLCG’s willingness to reimburse following default.

The Advisor has realized another problem. JLGC is a public company with shares traded on the Amman Stock Exchange. Like most publicly owned companies, JLGC must realize consistent profits to satisfy shareholders. While sustainability should be a goal and subsidy avoided, placing profit pressure on JLGC to the point of pleasing shareholders may explain why the institution operates the way it does and has moved toward “safer” guarantee schemes, e.g. home guarantees.

1. Summary of Guarantee

DCA guarantees 50% of the bank’s principal outstanding while JLGC’s schemes generally guarantee between 50% and 75%. Thus, upon default, the participating bank shares between 25% to 50% of the principal risk and varying amounts of risk on unpaid interest. As with most programs in other countries, bank risk on both principal and interest can reach 100% should it fail to comply with material conditions of the Guarantee Agreement.

FINANCING SME GROWTH IN JORDAN

A. OBSTACLES

In many respects obstacles to financing SME growth is no different in Jordan than in other emerging markets. SMEs are forced to rely largely on self financing, investments by friends and family and, to a much lesser extent, bank financing when an abundance of real estate collateral is offered. And even when collateral coverage reaches 150% to 200%, many banks won't finance all of the SMEs growth needs. Why? Because banks generally perceive SMEs as good depositors but not good borrowers. The usual forces are at play. Lenders:

- act as fiduciary for depositor funds and are risk averse lenders, especially in today's economic environment
- feel safer lending to large companies or certain known families in the business world
- doubt most SMEs will meet the bank's collateral requirements
- believe accurate financial reporting is problematic
- avoid a new or expanding enterprise as it may take excessive risks and become reckless.

The Advisor has met with several leasing companies that express similar views. This is not surprising since the larger banks have leasing subsidiaries staffed with bankers and independent leasing companies are managed by former bankers.

Therefore, stakeholders should explore ways to finance the considerable growth needs of SMEs that go beyond traditional financing sources.

B. SOLUTION[18]

1. Introduction to Fourth Door Funds

One approach to unlocking growth financing for SMEs is "Fourth Door" or "Mixed Funds" financing. The term "Fourth Door" is used to illustrate a possible source of funding where an SME seeking expansion financing is otherwise cut off from the other three, traditional doors, i.e. banks, leading companies and venture capital funds.

For example, assume a creditworthy SME manufacturer must decline new sales order because it lacks capacity. The SME has tried and failed to obtain 500,000 JD in financing to expand capacity with new plant and equipment as shown below:

Financing Source	***Door***	***Response/Reason***
Commercial Bank	ONE	No – no long term lending, too risky, no lending history, not enough collateral coverage
Leasing Company	TWO	No – only leases vehicles; won't accept liquidation risk with specialty equipment
Venture Capital Fund	THREE	No – concern over rate of return and exit strategy
Fourth	FOUR	Possible if Fund and SME agree to terms and conditions(see Appendix J)

There are other examples. SMEs are denied growth financing to take advantage of new market opportunities, access new technology, and/or benefit from improved internal capacity. The author points out that such growth or "expansion" financing is needed for SMEs to realize on important opportunities. However, conventional financing is often not available or limits financing amounts because of standard underwriting certain criteria, i.e. available collateral or no financing amounts above annual sales or net worth.

Ironically, SME expansion is the "main driver of a thriving SME sector". It has a greater economic impact than say short-term working capital or trade finance. Expansion financing made possible by long-term, cash-flow based financing generally produces more rapid and significant growth in revenues, wages paid, skilled jobs, and taxes paid. Mr. Gibson claims these gains are normally realized within the first 12 to 24 months from the beginning of the expansion.

2. Fourth Door Funds Defined

The purpose of Fourth Door funds is to finance SME expansion. They are neither a substitute for bank or equity financing nor meant to act like, or replace, venture capital funds. Rather, Fourth Door Funds aim to "close the gap between the risk adjusted return …often sought by venture funds and the actual return realistically expected from a portfolio of SME investments". These investments are a combination of equity and loans. Equity is eventually repaid to the Fund by the owner (not a third party) at a multiple of the original investment while loans are repaid at fixed periods using a grace period (one year) and at interest rates pegged to prime. The overall return to the Fund is enhanced by royalty payments. Appendix J provides a funds flow statement after an investment, a description of sample terms and conditions, illustrations of Funds in other markets and capitalization challenges.

3. Fund Virtues

The following summarizes the principal virtues, "particularly in contrast to venture capital":

- Between 75% – 95% of exposure is in debt thereby limiting equity risk to between 5% to 25%. Creditors' rights in most markets place lenders before shareholders

- Less pressure on investor exit means:

- the Fund can be more easily managed by local professionals
- no need for deep investment banking experience and high price ex-pats
- more time for direct assistance to SMEs benefiting from investments

- The Fund's current income from interest and royalties means:
  - investments are easier to monitor
  - projections are more firm

- Replacing dividends with royalties and a fixed exit price mean less chance for arguments over earnings that can undermine relationships.

4. Application to Jordan:

Jordan would appear well suited to a Fourth Door approach using either Islamic or conventional financing. SMEs may prefer a *Ljara* contract to lease fixed assets and a *Mudarabah* or *Musharakah* agreement that describes equity contributions and sharing of profits (or losses). Naturally, such products would need approval by a recognized Islamic authority. By offering both Islamic and conventional products, the Fund would broaden the universe of eligible SMEs.

Jordan is also a likely candidate for a Fund involving a "private public partnership". Fourth Door Funds that are properly supported and documented …..should be attractive to governments, particularly to ministries of industry and trade frustrated with failed efforts to grow the SME sector".[19] Financial and capital markets that are generally averse to SME risk serve to increase the urgency for government involvement. Government support can come in several forms including:

- tax breaks to investors in managed SME funds
- partial insurance against loss on eligible fund investments
- government equity participation with capped returns and restricted voting rights
- government grant or low cost loan, which the fund can leverage to attract more costly sources of capital.

The author believes "fund leverage" is the most promising and has been the strategy for programs such as the U.S. SBA Small Business Investment Company program and the Australian Innovation Investment Funds (IIFs). Even with a 10% participation in the funds' profits (SBA program) the low cost of money provides for a significant enhancement to the other equity investors' return on a successful fund.[20]

5. Fourth Door Fund Summary[21]:

These funds are intended to:

- reduce the risk of capital investment and shift focus away from exit strategy with third parties
- structure capital participation among diversified investors
- employ local talent as opposed to high cost investment bankers
- provide growth or expansion financing to creditworthy SMEs

- provide lower returns to “patient investors” and higher returns to “market investors”
- close the gap between fully risk-adjusted returns and realistic returns from expanding SMEs.

Emerging markets generally can’t rely on banks and leasing companies to finance the massive growth needs of SMEs. Arguably, not meeting these needs constrains the economic future of many emerging markets. Given the widespread economic benefit at stake, large corporations, government, development institutions and financial institutions should inject risk capital that would create a successful Fourth Door SME Fund.

CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. Role of Government

The host government normally plays a key role in supporting SME financing. A recent World Bank survey of 91 banks in 52 countries showed that banks from “developed and developing countries rated loan guarantee programs as the most important government program influencing SME financing”.[22]

2. Programs in North America and Europe

SMEs have made sizable economic contributions in Europe and North America. Consequently, countries on both continents continue to commit billions of dollars (and pound sterling/ euro equivalents) to support SME financing. These programs are well known and have generated enormous amounts of small business loans. Moreover, the “credit crisis” has resulted in the same countries, particularly in the UK and Europe, committing even more funding to support business loans.

- North America places high emphasis at the national level on loan guarantee programs. Banks share credit risk on these programs. Clearly, neither the U.S. nor Canada fund these programs with a view of returning profits to the treasury. Policy analysis is beyond the scope of this Report. However, national support for small business financing surely outweighs profitability goals.
- Programs in the UK and Europe received more funding recently because of the credit crisis. The UK continues to offer a mix of grants, loan guarantees and direct loans at the national level. Europe has broadened acceptable financing vehicles and eligibility. More importantly, both the UK and Europe commissioned a study to identify inefficient practices in their programs, improve utilization, and increase cooperation among participants. In both cases recommendations were made public and implemented. It is too early to determine how changes will affect utilization and risk taking. For all loan guarantee programs the banks continue to assume part of the credit risk.

3. International Programs

This Report reviewed international programs supporting SMEs in Jordan offered through the IFC of the World Bank Group and the U.S. Government (USAID, DCA & OPIC).

- The IFC made a significant capital contribution to Capital Bank that was intended in part to increase SME lending. The Advisor has no data showing how many SME loans were made because of this facility. That said, many experts agree that SMEs will benefit greatly from IFC’s framework activities on the Leasing Law and credit information (credit bureau).

- The USG’s support of the SME sector in Jordan has been huge. USAID funds the Business Development Center/Tatweer Project for SMEs and the Economic Development Program. DCA’s Partial Guarantee Program has been active since 2005. OPIC guarantees a Citibank global line of credit to banks and $45 million is earmarked for on-lending to SMEs. Perhaps the largest recent commitment for SME support was OPIC’s investment in 2008 in two Private Equity Funds. One fund alone will make at least “$150 million in investments in private SME firms in Jordan”.

4. Jordan Loan Guarantee Corporation (JLGC)

The JLGC is not fulfilling its own mission statement to support SMEs. Utilization of loan guarantee programs for SMEs continues its downward trend that started before the credit crisis.

One or more of the reasons below may explain why JLGC fails to generate respectable loan volume among the banks. Banks may feel:

- there is a lack of “bankable” transactions
- the current program is not attractive
- unwilling to accept their share of the credit risk
- economic conditions have been unfavorable; so-called “flight to quality”
- the overall return does not justify the administrative costs and risks.

New leadership at JLGC has shown signs of reviving the program. However, it’s unlikely that, under its current structure, the JLGC will support SME financing in a meaningful way in the near term.

5. Fourth Door Funds

Growing SMEs normally pose the biggest challenge to financing providers. Also known as “expansion SMEs”, these firms typically do not meet underwriting standards, lack sufficient collateral coverage or are unwilling to enlist venture capital funds. Unfortunately, many of these SMEs are creditworthy and the requested financing would result in broad based economic benefit. Fourth Door Funds are intended to provide equity and loans to creditworthy SMEs and has worked in other emerging markets such as South Africa. Investors can earn respectable returns while creditworthy SMEs receive the type and amount of financing needed to grow and be successful. Jordan appears well-suited for a Fourth Door Fund.

B. RECOMMENDATIONS

1. Role of Government

Seem through the lens of JLGC results, the GOJ does not appear to play a meaningful role in SME financing. If current GOJ policy were subject to review, it seems logical to address some fundamental questions.

- how much does SME business activity contribute to the country’s GDP, economic stability and growth targets?
- would SME contribution (in absolute or percentage terms) increase measurably if the government were to increase its assistance of loan support programs?
- if the GOJ commits more assistance, will funding come from a budgeted or external source?

The Advisor recognizes that data gathering may prove a challenge in answering these questions. Analysis may require taking liberty with key assumptions and using results from markets with better data.

2. Change in Loan Support Programs

Assuming the GOJ is able to increase assistance to its SME programs, time is of the essence. The credit crisis is a stark reality and many Jordanian SMEs were ineligible for bank credit before the crisis. The question becomes what is the most effective way to use the new assistance that will have the most immediate impact?

The GOJ may elect to concentrate new assistance on loan guarantees through the JLGC. If so, it must consider carefully if JLGC as currently constituted is the right implementing institution. Alternatively, GOJ should consider conditions to new JLGC assistance that would improve effectiveness and utilization (see #4 in this Section).

3. International Programs (IFC and USG)

- The IFC may be in a position to lend more support to Jordan. Another capital infusion at a second bank, similar to the Capital Bank facility, would spread IFC resources to another financial institution, thereby benefiting more SMEs. Moreover, the IFC may be in a position to increase its framework support. For example, the IFC assists emerging markets with central registries for movable property held as collateral by creditors. Jordan is in need of such a registry.
- It is hard to promote new USG assistance for SMEs given the track record of generous support. Perhaps the best way to leverage future support would be to raise pressing issues at high levels within GOJ. For example, the Mission has shown disappointment over JLGC's inability to support SMEs. A majority of JLGC's stock is controlled by the Central Bank of Jordan. Before considering more financial or technical assistance, a conversation between the Mission Director and Central Bank Governor would likely drive home the need to change business as usual at JLGC.

  Another possible role for the Mission is to obtain details on OPIC's funded Private Equity Funds for SMEs. The Advisor is available to assist with this inquiry, which would cover the
  - number of Jordanian SMEs receiving support (broken down by sector)
  - type of support (equity and/or loans)
  - average amounts committed
  - average returns to the funds
  - normal terms and conditions
  - number of defaults, and number of successful investments.

Lastly, if the GOJ elects to pursue "Fourth Door Funds" exclusively for Jordanian SMEs, the USG may play a role as a "patient investor" (see #5 in this Section).

4. JLGC

The GOJ should consider more funding for SME guaranteed loans if it is used efficiently and results in high utilization. The best place to channel such assistance is through JLGC and the

banks. However, more funding to JLGC may not produce the desired results for the reasons stated in this Report.

GOJ does have options. It could designate JLGC the implementing body on the condition that the new assistance/program operates from a separate fund and is segregated from other programs. Stakeholders would understand that the new program is experimental and fashioned after European or American programs that have proven effective. Lastly, the JLGC would report regularly on usage.

- New loan guarantee program features may include:
  - individual loan requests receive accelerated approval or denial by JLGC
  - banks reporting a portfolio of SME loans (not individual loans). Absent big red flags, the portfolio is approved subject to the terms of a master guarantee agreement
  - consider discretionary approval authority for banks with good track records with JLGC
  - less risk sharing by the banks
  - expedited review of claims for reimbursement; denial limited to material breach
  - reimburse banks for up to 50% of the costs to promote the new program
  - JLGC to reserve at higher levels given the experimental nature of the program.
- Other programs:
  Banks in emerging markets often avoid medium to long term lending because they fund their operations largely from short term deposits. The GOJ may consider a quick survey among banks on this issue. It may be wise to invest some of the new assistance in 3 – 7 year loans to banks for on-lending of longer term loans to SMEs. This program could be run through the Central Bank. Normally, the bank would assume the SME credit risk as with the EIB credit lines. Under present conditions, the GOJ may consider allowing banks to fund 3 – 7 year loans using these new credit lines and, at the same time, obtain a loan guarantee for a large percentage of the credit risk under the loan guarantee program.
- Less attractive government options:
  Other options include loans subsidies (used in Europe), grant programs (UK), tax advantages for lenders and special capital treatment for SME loans (already used in Jordan). The Advisor would recommend against subsidies, grants or tax advantages until it has been demonstrated that banks won't respond to a well managed and attractive loan guarantee program.

Simultaneously with introducing the above programs, the GOJ should consider a comprehensive and independent study of current JLGC guarantee programs similar to the studies commissioned in the UK and Europe. Best practices in public governance would point towards a transparent, as opposed to a private, process. The virtues of public governance may not resonate with JLGC shareholders and a private process is preferable to no study at all. The key is commissioning a study by independent experts that stakeholders will read and respect.

The best case scenario is a study is commissioned, completed and results in corrective actions making JLGC's guarantee programs more effective and more useful to the users.

5. Fourth Door Funds

The GOJ and other stakeholders may consider a private-public partnership to establish a "Fourth Door Fund". This fund would consider investing shareholder equity and loans in creditworthy SMEs. Seed capital is required to promote the fund to potential investors.

Before serious consideration at high levels, due diligence on existing funds is recommended. Typically, private equity funds do not disclose financial results to the public and are circumspect in providing specific information on investments. Thus, the Advisor would need to meet privately with one or more Fund Managers from the OPIC investment funds and hope to

obtain information on specific SME investments and overall experience. Another option would be for the Mission to obtain the same information from OPIC or through other channels (see # 3 above in this Section).

ACKNOWLEDGEMENT

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2. The USAID Business Growth Initiative, and
3. Peter Ballinger, Director of Business Development, Overseas Private Investment Corporation.

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APPENDIX A SBA PROGRAMS AND SERVICES

Programs and services to help you **start**, **grow** and **succeed**

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. We recognize that small business is critical to our economic recovery and strength, to building America's future, and to helping the United States compete in today's global marketplace. Although SBA has grown and evolved in the years since it was established in 1953, the bottom line mission remains the same. The SBA helps Americans start, build and grow businesses. Through an extensive network of field offices and partnerships with public and private organizations, SBA delivers its services to people throughout the United States, Puerto Rico, the U. S. Virgin Islands and Guam.

SBA provides a number of financial assistance programs for small businesses. They have been specifically designed to meet a business's key financing needs including the need for debt financing (loans), equity financing (investment/seed money), and surety bonds. (SBA does not provide grant funds to finance small businesses). SBA addresses these needs through the following three broad finance programs, but before reviewing these programs you will benefit from an introduction to several business financing concepts.

Debt Financing – SBA's Loan Programs: SBA does not make direct loans – it works with thousands of lenders and other intermediaries, which generally will make the loan with SBA guaranteeing the lender that the loan will be repaid. However, SBA guaranteed loans may not be made if the borrower has access to other financing on reasonable terms. Additional information on SBA loans, including credit and eligibility requirements, how to apply, etc., is available at the Apply for a Loan
section of the site

SBIC Financing – SBA's Small Business Investment Company Program: SBICs are privately owned and managed investment funds, licensed and regulated by the SBA. SBICs are similar to venture capital, private equity and private debt funds in terms of how they operate and their ultimate objective to generate high returns for their investors. However, unlike those funds, SBICs limit their investments to qualified small business concerns as defined by SBA regulations. Additional information is available at: www.sba.gov/inv

Surety Bonds – SBA's Bonding Programs: The Surety Bond Guarantee (SBG) Program was developed to provide small and minority contractors with contracting opportunities for which they would not otherwise bid. The U.S. Small Business Administration (SBA) can guarantee bonds for contracts up to $2 million, covering bid, performance and payment bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. SBA's guarantee gives sureties an incentive to provide bonding for eligible contractors, and thereby strengthens a contractor's ability to obtain bonding and greater access to contracting pportunities. A surety guarantee, an agreement between a surety and the SBA, provides that SBA will assume a predetermined percentage of loss in the event the contractor should breach the terms of the contract.

Appendix A (Continued)

What is Small Business

The Small Business Act states that a small business concern is "one that is independentl and operated and which is not dominant in its field of operation." The law also states that determining what constitutes a small business, the definition will vary from industry to ind reflect industry differences accurately. SBA's Small Business Size Regulations implemer Business Act's mandate to SBA. SBA has also established a table of size standards, ma North American Industry Classification System (NAICS) industries.

When the U.S. Congress first established SBA, the fundamental question was just what r definition should SBA use to define small businesses, industry by industry, to determine v businesses were eligible for SBA's programs. Over the years SBA has established and r numerical definitions for all for-profit industries, and this numerical definition is called a "si standard." It is almost always stated either as the number of employees or average annu of a business concern.

In addition to establishing eligibility for SBA programs, all federal agencies must use SBA standards for its Federal Government contracts it identifies as a small business. Agencie use SBA's size standards for their other programs and regulations, unless they are autho Federal statute to use something else.

SBA's Office of Size Standards develops and recommends small business size standards Size Policy Board and to the Administrator of SBA. These include recommendations on s business definitions that other Federal agencies propose. Under the Small Business Act, agencies must obtain the approval of the SBA Administrator before adopting a size stand different from SBA's size standard.

The Office of Government Contracting makes formal "size determinations" on whether a l qualifies as an eligible small business for SBA programs.

The Office of Hearings and Appeals (OHA) reviews appeals of formal size determinations

The Office of General Counsel interprets size standards regulations for the Agency and ir OHA size determination appeal cases if necessary.

The Offices of Size Standards, Government Contracting, and General Counsel coordinat standard issues.

The Federal Government has established a web site, REGULATIONS.GOV , where yo review, and submit comments on Federal documents that are open for comment and pub the Federal Register, the Government's legal newspaper. As a member of the public, yo submit comments about these regulations, and have the Government take your views int The web site makes it easier for you to participate in Federal rulemaking - an essential pa American democratic process.

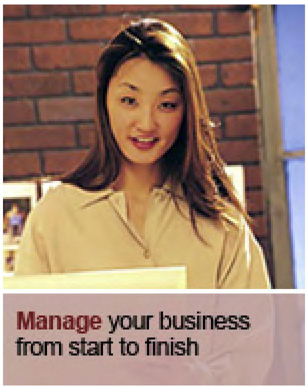
For further information, you may write or call the Office of Size Standards:

Office of Size Standards

U.S. Small Business Administration
409 3rd St., SW, Washington, DC 20416
Phone: (202) 205-6618
Fax: (202) 205-6390
E-mail: sizestandards@sba.gov

Appendix A (Continued)

Programs and services to help you **start**, **grow** and **succeed**



Community Express

Get the Facts about the Community Express Program...
Learn More

Health Savings Accounts

Learn how you can benefit from choosing an HSA for you and your employees...More

Helping Main Street USA!

Learn how SBA's loan guarantee programs can assist your business…More

Record of Reform at SBA

Responding to Small Business in America…More

Dealing with the Credit Crunch

January 15, 2009 at 1 pm (ET)
Host: Eric Zarnikow... More

Disaster Assistance

Apply for a Disaster Loan Online…More

New Resource Center

Small business tools to maximize savings from Economic Stimulus Package..More

Starting a Business

SBA's new assessment tool will help you determine if you're ready...More

Patriot Express

A new loan program for the military community...
Read More

Emerging 200 Initiative

Providing the network and resources for inner-city businesses… Learn More

APPENDIX B US, CANADA, UK AND EU PROGRAMS

COMPARISON OF SBA WITH PROGRAMS IN OTHER COUNTRIES

Program & Process	***Max Loan Amount***	***% of Guaranty***	***Use of Proceeds***	***Maturity***	***Maximum Rates***	***Guarantee Fees***	***Eligibility***
US SBA Regular 7(a) Lender submits and SBA approves	$2 million gross ($1.5 million guaranty)	Maximum guaranty of 75% up to $1.5 mil; 85% if gross loan is $150,000 or less	Expansion & renovation; new construction, purchase land or bldgs; purchase equipment, fixtures, leasehold improvements; working capital; refinance debt for compelling reasons; seasonal line of credit, inventory	Depends on ability to repay. Generally working capital & machinery & equipment (not to exceed life of equipment) is 5-10 yrs; real estate, construction, up to 25 yrs	Loan 7 yrs or less: max prime +2.25%; over 7yrs: prime +2.75%; under $50,000, rates can be higher by 2% for loans of $25,000 or less; and 1% for loans between $25,000 and $50,000. Prepayment penalty for loans with maturities of 15 yrs or more if prepaid during 1st 3 yrs	Fee charged on guaranteed portion of loan. 1 yr maturity or less 0.25% guaranty fee; over 1 yr: $150,000 (gross amount) or less = 2%; $150,001 - $700,000 = 3%; over $700,000 = 3.5%. 3.75% on guar. portion over $1 mil. Ongoing fee of 0.494%	Must be for profit and meet SBA size standards; show good character, credit, management, and ability to repay. Must be an eligible type of business
Canada CSBF Lender makes loan and reports portfolio	up to 90% of the asset acquired or improved. Maximum loan amt = $250,000		Purchase or improve equipment, real property and leasehold improvements/leased property	Conventional terms (no specifics)	The max rate on a commercial loan is prime plus 3% on floating rate, or the lender's residential mortgage rate plus 3% on fixed rate	Borrowers pay a registration fee of 2% of the loan amount (can be financed)	Most for profit SMEs in Canada with gross revenues or projected revenues of less than $5 million. . Farming businesses loans not eligible

Appendix B (Continued)

Program & Process	***Max Loan Amount***	***% of Guaranty***	***Use of Proceeds***	***Maturity***	***Maximum Rates***	***Guarantee Fees***	***Who Qualifies***
UK SFLG	Minimum 5,000 pounds to maximum of 250,000 pounds	75% of loan outstanding plus up to 6 months interest cover	Most business purposes: acquire key assets (buildings, plant and machinery) and support job creation or safeguard existing ones	2 to 10 years	Not disclosed	2% annual premium on outstanding loan balance payable by borrower	Businesses with a 5 yr trading history and annual turnover of less than 5.6 million pounds with viable business plan but lack collateral . Certain businesses not eligible if over 200 employees
UK WCG (new)	Banks will submit a portfolio of loans to BERR for Guaranty of 50% of portfolio	50%	Working capital	Short term	Not disclosed – to be determined	Banks to pay a premium and pricing to be set upon submission of portfolio – the higher risk portfolios will result in higher fees. Most expect premiums to be passed on to borrowers.	Companies with an annual turnover up to 500 million pounds
UK EFG (new and authorized until March 31, 2010)	Minimum 1,000 pounds to maximum of 1 million pounds	75%	Working capital, conversion of OD to loan, refinance existing loans, investments	3 months to 10 years			Companies with an annual turnover up to 25 million pounds. Most businesses in most sectors except agriculture, coal and steel sectors

Appendix B (Continued)

Program & Process	***Max Loan Amount***	***% of Guaranty***	***Use of Proceeds***	***Maturity***	***Maximum Rates***	***Guarantee Fees***	***Who Qualifies***
EU/EIB (October 2008)							
Loan Guaranty to Intermediary Banks	Loans to support small to large projects up to EUR 25 million	Up to 100% of loan (to be determined)	Permanent increase in working capital. Most investment or expenditure to grow a business. Includes tangible items, i.e. plant machinery or real estate. Land is excluded unless considered "vital"; agricultural land not eligible. Also includes intangible items, i.e. R&D expenditure, distribution networks, filing or buying patents	2 to 12.5 years – depending on economic life of asset acquired	Not disclosed. If coupled with low cost EIB credit lines to banks, rates should be favorable	To be determined	All autonomous firms in nearly all economic sectors with fewer than 250 employees. Subsidiaries and holding companies of industrial groups not eligible

APPENDIX C SBA ELIGIBILITY STANDARDS

Eligibility is set according to either number of employees or annual sales

Employee and Annual Sales Standards by Sector:

Construction – varies according to sales and business. Lower range is less than $6.5 million in sales for Land Subdivision and upper range is less than $31 million in sales for General Building and Heavy Construction.

Manufacturing – for 75% of the industry, the standard is less than 500 employees; less than 1,500 employees allowed for some industries.

Mining – general standard is less than 500 employees; does not apply to service industry.

Retail Trade – general standard is less than $6.5 million in sales; highest standard is $26.5 million in sales for qualified grocery stores, department stores, automotive dealers and electrical appliance stores.

Services – most common standard is less than $6.5 million in sales; qualifying ICT standard is less than $23 million in sales. R&D and Environmental standards stated in number of employees (not disclosed).

Other Standards:

SBA reserves the right to use other standards such as Tangible Net Worth and Average Net Income over a two year period.

APPENDIX D   CANADA SMALL BUSINESS FINANCING PROGRAM

Industry Canada

Canada Small Business Financing Program (CSBF)

Highlights for 2006–07

Small and medium-sized businesses took out loans worth more than $1 billion.

There were 9 621 small business loans made under the *Canada Small Business Financing Act*. The average loan size was $107 221. The funds were used to help new businesses get started and help established firms make improvements, purchase equipment Sand modernize.

$80.7 million in claims was paid to lenders.

There were 1680 claims on loans settled, with payments of $80.7 million, which averaged $48 050 per claim. These claims were associated with defaulted loans registered during the eight-year period from 1999 to 2007.

Start-ups and new businesses received the largest share of available financing

Start-ups and new businesses borrowed more than $616.7 million, or 60 percent of the total loan value.

More than 17 700 new jobs were created.

Borrowers estimated that the loans enabled them to create 17 725 new jobs across Canada, an average of 1.8 new jobs per loan.

Lending is available in every province and territory.

A total of 1 288 private sector lenders — in every province and territory — are eligible to participate in the program to extend financing to small businesses.

Appendix D (Continued)

Canada Small Business Financing Program (CSBF)

2. Performance and Financial Review

2.1 Program Objectives and Impacts

Helping Small Business Grow

Research shows that new businesses and start-ups have the greatest difficulty of any business in accessing capital.[1] Therefore, an indicator of incrementally is the number of start-ups and new businesses that receive loans. In 2006-07, start-ups and new businesses borrowed $616.7 million in loans, or 60 percent of the total value of loans under the program (see Figure 1). This is a strong indication that the program is achieving incrementally

Figure 1: Value of CSBF Loans by Age of Borrower Firm, 2006–2007

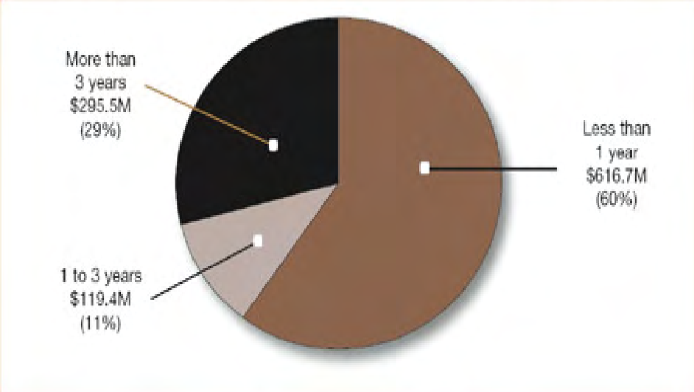


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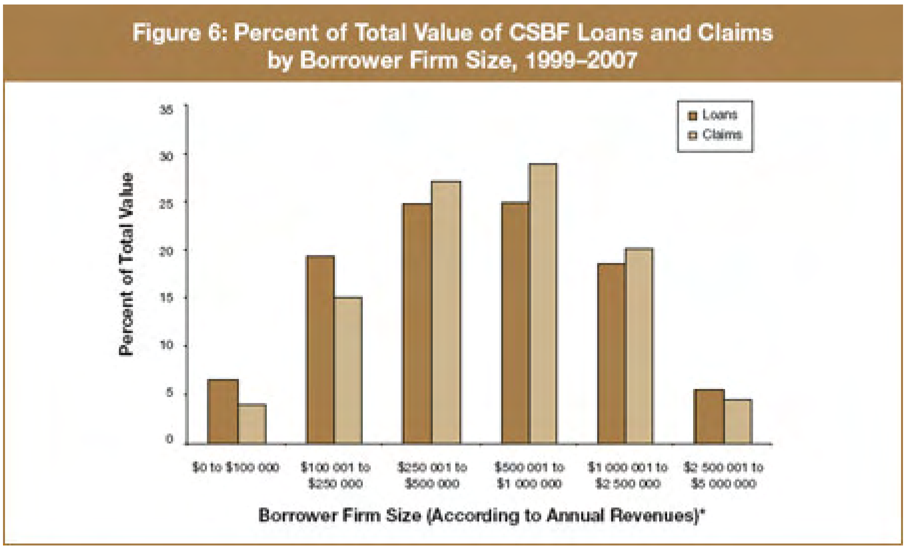
Table 1: Cumulative Revenues and Expenses, CSBF Program Presented by Five-Year Administrative Period		
	1999-2004 ($000)	**2004-09* ($000)**
Revenues		
Registration fees	106 937.75	62 900.49
Administration fees	170 346.39	49 290.77
Refunds of previous years' revenues	(940.28)	(474.11)
Appendix D (Continued)		
Total revenues	276 343.86	111 717.15
Expenditures		
Claims paid	375 468.39	53 763.59
Refunds of previous years' claims	(1 771.20)	(1.44)
Total expenditures	373 697.19	53 762.15
Total revenues less total expenditures	(97 353.33)	57 955.01

* This column contains data for the first three years (April 1, 2004, to March 31, 2007) of the current period.
Details may not add up to totals because of rounding.

Type and Size of Borrowers Remain Steady

- Non-franchise businesses accounted for 80 percent of the total value of loans, whereas franchise businesses accounted for 20 percent of loans, figures fairly consistent with the eight-year average.
- Firms with annual revenues between $100 001 and $2 500 000 accounted for 89 percent of the value of all loans made in 2006-07, consistent with the past eight years. Based on this eight-year average, loan and claim values by segment are roughly in line with each other.



* Based on borrower's revenue forecasts at time of loan registration.
For more detailed information, see Appendix B, Table VII.

Claims for Losses

During 2006-07, the Directorate accepted 95 percent (1680) and rejected 5 percent (97) of Canada Small

Appendix D (Continued)

Business Financing Program loan claims. The rejection rate is consistent with last year's. During 2006-07, the Directorate accepted 92 percent (112) and rejected 8 percent (10) of Small Business Loans program claims. These numbers are also consistent with last year's. Eighty-nine percent (16) of the Capital Lease claims were accepted.

Table 2: Canada Small Business Financing Program Directorate				
Transactions	**2006-07**		**2005-06**	
	Number	**Value ($000)**	**Number**	**Value ($000)**
CSBF Program loans registered	9 621	1 031 577.3	10 790	1 087 535.8
CSBF claims for loan losses processed				
Claims accepted	1 680	80 723.5	1 598	72 065.5
Claims rejected	97		107	
Total claims	**1 777**	**80 723.5**	**1 705**	**72 065.5**
SBL claims for loan losses processed				
Claims accepted	112	2 545.3	182	5 186.7
Claims rejected	10		17	
Total claims	**122**	**2 545.3**	**199**	**5 186.7**
CLPP capital leases registered	551	44 547.9	441	37 977.7
CLPP claims for capital lease losses processed				
Claims accepted	16	448.3	17	503.7
Claims rejected	2		0	
Total claims	**18**	**448.3**	**17**	**503.7**

[1.] Source: Industry Canada, *Small and Medium-Sized Enterprise Financing in Canada*, 2003.

[2.] Source: Equinox Management Consultants, *SBLA and CSBFA Claims and Cost Experience*, 2003.

[3.] Source: Industry Canada, *Small and Medium-Sized Enterprise Financing in Canada*, 2003.

APPENDIX E UK GUARANTY PROGRAM (SFLG)

UK – SFLG Performance Measures Based on Two Years of Activity: Post Graham Review[23]

1. Increasing appropriate use of SFLG

Use or "take up" of loans under the program declined further in 2007/2008. Total figures are down significantly from annual performance achieved before changes implemented by Graham Review. Thus, direct comparisons are inappropriate with Pre-Graham performance. First set of bank audits indicate lending is appropriate.

2. SFLG has positive effect on UK economy

Feedback from lenders and representative bodies confirms that SFLG continues to address important market gap. 2/3 of loans reach maturity with an average term of 7 years, which implies a higher survival rate for SME market as a whole.

An economic impact evaluation is underway.

3. Lenders use their SFLG allocations effectively

Allocation is not a restraint for lenders. Lowest utilization rate in 2007/2008 was 40%; 5 of the 6 leading lenders used between 66% and 86% of allocations.

Lenders have widely questioned the 5 year trading history requirement applied to business users. Internal historical comparisons indicate that activity could increase roughly 40% absent this requirement. More loan guarantees would result and bank allocations would be more fully utilized.

The mix of businesses under the program remains diverse and spread across 7 main groupings. Almost 50% of the lending is in the wholesale/retail and hotel/catering sectors.

4. Lenders stay within allocations

Only one lender requested additional allocation but actual lending at year end stayed within the original allocation.

Appendix E (Continued)

5. Number of lending institutions increased

Six new lenders joined in 2007/2008 including a bank, an invoice finance provider and four Community Development Finance lenders.

The number of participating lenders increased from 19 to 29 since the Graham Review.

6. Default Rate Decline

Post Graham lending has yet to reach maturity and volatile trading conditions prevail making it impossible to judge Graham changes relative to default rates.

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[23] SFLG Annual Report for 2008

Graham Review was concerned with “historic practice”. Recent experience indicates increasing confidence among lenders’ SFLG Central Teams.

Program is concerned with spread of default rates across six leading lenders and between sectors and business types.

7. Lenders Plan for Strategic and Innovative Use

SFLG lending typically accounts for no more than 1 – 2% of each major bank’s SME lending activity. Thus, constant dialogue to ensure focus of communication and innovation is needed.

Suggestions have been made to the successor SFLG administrator for innovative variations that were under consideration as of the Report date.

APPENDIX F RECENT UK GOVERNMENT ACTION

UK news release on BBC – January 2009

Details of the business loan schemes

The new measures announced today by the government are designed to offer help to small businesses across the UK that are having problems accessing finance from their banks.

Most of the High Street banks are participating in the schemes

Effectively, the government is providing guarantees that small business loans will be repaid in order to encourage the banks to lend more.

"UK companies are the lifeblood of the economy and it is crucial that government acts now to provide real help to support them through the downturn and see them emerge stronger on the other side," said Business Secretary Lord Mandelson.

"We know that some companies are struggling to secure the finance they need, not because of any failure in their business, but due to tougher credit conditions," he added.

The measures are designed to help businesses that are having immediate cash flow difficulties, as well as those that are looking to invest for the future.

In order to address these different needs, they are encapsulated in three main packages.

WORKING CAPITAL SCHEME

• The centrepiece of the government's initiative is the Working Capital Scheme. This will guarantee 50% of £20bn of short term loans, and so involves a commitment from the government of £10bn.

• This money is designed to help banks increase all types of lending - both existing loans and new loans.

• Companies with a turnover of up to £500m are eligible to apply for funds under this scheme.

• Under the scheme, banks will submit a portfolio of loans to the Department for Business, Enterprise & Regulatory Reform (BERR), and it will guarantee 50% of the value of the portfolio.

• Barclays, HSBC, Lloyds TSB and RBS have all shown interest in the scheme, according to BERR.

• It hopes that the first £1bn of guarantees will be operational by 1

March.
• If the scheme proves successful, the government will make further guarantees up to 31 March 2011.
• The banks will have to pay a premium to BERR for these guarantees, and pricing will be agreed when a portfolio of loans is submitted. The more risk involved in the portfolio, the higher the fee. This premium will almost certainly then be passed on to the company borrowing the money.
• The scheme is an extension of an initiative announced in last year's pre-Budget report to support a £1bn facility for smaller exporters to access short term capital.

ENTERPRISE FINANCE GUARANTEE SCHEME

• This scheme will support up to £1.3bn of new lending by banks.
• It is open to businesses with a turnover of up to £25m.
• It is designed to enable businesses to secure loans of between £1,000 and £1m, repayable over 10 years.
• The government guarantees 75% of the loan, with the banks covering the remaining 25%.
• Most businesses in most sectors are eligible for the scheme, but those in the agriculture, coal and steel sectors are not eligible.
• The guarantees will be available through Barclays, Clydesdale/Yorkshire Bank, HBOS, HSBC, Lloyds TSB, RBS/Natwest and Northern Bank. It will be available from other lenders if they apply.
• The scheme will operate until March 2010.
• This is an extension of the £1bn Small Business Finance Scheme outlined in the pre-Budget report.

CAPITAL FOR ENTERPRISE FUND

• The government has also launched a £75m Capital for Enterprise Fund.
• Fifty million pounds will be provided by the government and £25m will be provided by Barclays, HSBC, Lloyds and RBS.
• The fund will allow businesses to sell debt in exchange for equity. In other words, they will swap some for their debt for a slice of their business.
• This may take many forms, including a share of future profits. The two main providers of equity finance for private investors are venture capitalists - also known as private equity firms - and business angels.
• Companies with a turnover of up to £50m will be able to gain equity of between £250,000 and £2m.

• Enterprise Capital Funds have actually been around since 2006 for businesses that find it hard to access capital.
• Any business wishing to take advantage of the Capital for Enterprise Fund should call the registration helpline on 0845 459 9780.

OTHER OPTIONS

One other option for businesses in need of finance is the regional loan transition fund, although this only applies to companies in England.
This £25m initiative is designed to help businesses at a regional level up to the end of June 2009.
These funds are administered by Regional Development Agencies (RDAs) and provide loans to businesses that have exhausted all other possibilitities for accessing finance.
In order to find out which scheme is best suited to an individual business's needs, help is available at the BERR website.
Alternatively, businesses can call the BERR Business Link helpline on 0845 600 9 006.
For the Working Capital Scheme and the Enterprise Finance Guarantee Scheme, businesses need to contact their banks.

APPENDIX G IFC PROGRAMS AND SERVICES

IFC THE WORLD BANK Private Sector Development

print

IFC SME

This site provides an overview of how IFC supports small and medium-sized enterprises (SMEs) through investments and advisory work. Promoting the growth of SMEs in developing countries is an important part of our private sector development mission.

Access to Finance. We strengthen financial markets by investing in financial institutions and strengthening them through advisory work, enabling small firms to obtain equipment and working capital.

Linking Small and Medium Enterprises to Investments. Our technical assistance programs complement our investment work by strengthening local suppliers and supporting community development programs.

Regional Facilities. We have 11 facilities around the world that support local businesses through technical assistance and advisory programs, combining our global expertise with our knowledge of local markets.

Improving the Business Enabling Environment. We work to create a better business environment for small businesses by improving the legal and regulatory framework, and involving the private sector in the reform process.

Appendix G (Continued)

This Summary of Project Information is prepared and distributed to the public in advance of the IFC Board of Directors' consideration of the proposed transaction. Its purpose is to enhance the transparency of IFC's activities, and this document should not be construed as presuming the outcome of the Board decision. Board dates are estimates only.

Summary of Project Information (SPI)	
Project number	24750
Project name	Orix SME MENA Program
Country	MENA Region
Sector	Finance & Insurance
Department	Global Financial Markets Group
Company name	Orix Leasing Pakistan
Environmental category	FI-1
Date SPI disclosed	November 22, 2005
Projected board date	December 22, 2005
Date revised SPI disclosed	December 7, 2005
Status	Active
Previous Events	Invested: June 30, 2006 Signed: December 29, 2005 Approved: December 23, 2005

Project sponsor and major shareholders of project company

The major shareholders of the ORIX NBFI's in the MENA region are:

ORIX Corporation, Japan:
ORIX Corporation is an integrated financial services group based in Tokyo, Japan, providing innovative value-added products and services to both corporate and retail customers. It is listed on Tokyo and New York Stock Exchanges. With operations in 24 countries and regions

worldwide, ORIX's activities include corporate financial services, such as leases and loans, as well as automobile operations, rental operations, real estate-related finance, real estate, life insurance and investment banking. By pursuing new profit earning opportunities through specialized leasing capabilities and broadening operational scope, ORIX has achieved sustained growth in earnings over the years. The Group reported per-tax profit of US$ 1.4 billion for the year ended March 31, 2005 and its asset base exceeded US$ 56.5 billion on that date.

ORIX Leasing Pakistan (OLP):
OLP is the largest leasing operation in Pakistan. OLP has also been the regional hub for expansion of ORIX Corporation in MENA and Central Asia. With PRs19 billion (US$ 317 million) in total assets, OLP is the largest and most diversified leasing company in Pakistan with assets spread over broad spectrum of industries, products, sizes and a diversified portfolio of over 3000 clients. The Company has also been consistently reporting strong profitability. For the quarter ended on 9/30/05, the company posted net profit of Prs.70 million (US$ 1.2 million), 11% higher than the net profit of PRs.63 million (US$ 1.0 million) earned in the corresponding period of 2004.

ORIX Corporation, Japan holds 49.9% of OLP, whereas OLP and ORIX Corporation together have the following holdings in each of the proposed Company:

ORIX Investment Bank Pakistan Limited 45.07%
ORIX Leasing Egypt 46.00%
Oman ORIX Leasing 20.25%
Saudi ORIX Leasing Company 30.00%

APPENDIX H DCA GUARANTEE - ASSESSMENT

Summary of Assessment

Objective: Determine whether the DCA approach effectively addressed the needs of the users. Make recommendations for consideration that may increase bank participation and utilization.

Summary of DCA Activities:

- Bank of Jordan is the only bank with a DCA agreement, which covers a portfolio of SME loans up to $5 million. DCA guarantees 50% or a maximum of $2.5 million
- Cairo Amman Bank negotiated with DCA in 2006 but decided against a relationship
- it appeared DCA was not pursuing any other bank relationships/agreements in Jordan.

Results from Assessment Survey and interviews with banks:

- Most bankers were not aware or familiar with the DCA Program, not aware of DCA visits to their bank; not aware of any promotion of the program
- Cairo Amman Bank was interviewed and stated its reasons for not signing with DCA:[24]

Current and Future Demand for DCA Program:

It was difficult to forecast future demand given the general lack of awareness among the banks, Moreover, the Advisor did not know DCA's appetite going forward or promotion plans. The one user, the Bank of Jordan (BoJ), responded positively:

- the utilized facility was JD1.4 million ($1.9 million) [25]
- very interested in additional utilization
- it was "extremely satisfied" with DCA's assistance
- there were defaults or claims since the agreement was signed[26]

Conclusions and Recommendations in the Assessment:

- bank awareness is the starting point for DCA if it wants more banks to participate
- marketing is possible through scheduled bank visits or holding workshops
- new talks with Cairo Amman Bank could lead to an agreement and spread interest among banks

[24] The reasons included DCA's immunity in Jordan under the US Embassy and the choice of law provision. The Advisor received no written response to his Assessment from DCA so this version of events is based entirely on the bank conversations.

[25] This data is now stale and recent attempts to update the information failed

[26] This may have changed given the current economic conditions

APPENDIX I OPIC PROGRAMS IN JORDAN

OPIC ANNOUNCES $566 MILLION IN NEW PRIVATE EQUITY FOR JORDAN, REGION

Minimum of $230 million to be invested in Jordan AMMAN, Jordan – Robert Mosbacher, Jr., President and CEO of the Overseas
Private Investment Corporation (OPIC), today announced $566 million in new projects for Jordan and its neighboring countries. OPIC will support three investment funds, with a minimum of $230 million to be invested in Jordan. “Jordan is not only a longstanding and important ally of the United States, but a nation that has undertaken the kind of economic reforms that are today rewarded by new levels of foreign investment,” Mosbacher said during a ceremony attended by Jordanian Minister of Planning and International Cooperation Her Excellency Suhair Al Ali. “The projects we announce today will provide vital capital to growing companies in both Jordan and its neighbors in the Middle East.”

“By focusing these investments on sectors such as affordable housing, small business and regional companies, we intend to spread the developmental benefits widely, so that as many people as possible enjoy the fruit of Jordan’s commitment to economic growth,” Mosbacher said.
One of the funds announced today, the Jordan Fund II, will commit $150 million for investments in private, small and medium sized Jordanian firms. The Fund will be multi-sectoral but will place an emphasis on promising sectors in Jordan, such as telecommunications, information technology, financial services, aviation, education and medical/pharmaceuticals.

The two other funds will dedicate a percentage of their total capitalization to investments in Jordan: the $113 million EuroMENA Fund, 30 percent of which will target investments in Jordan, will invest in the regional expansion of middle market companies in the Middle East and North Africa (MENA) with a primary focus on Jordan, Egypt, Lebanon and Morocco. The $300 million Emerging Markets Housing Fund, established to invest in markets that are experiencing rapid growth in housing demand, will focus on Jordan and South Africa, with a secondary focus on other countries in Africa and the Middle East. It is expected to generate 87,000 units of affordable housing, and invest 15 percent of its total capitalization in Jordan or $45 million. All three funds were approved by OPIC’s board of directors at its January 18 meeting. Jordan Fund II OPIC financing: $50 million Target capitalization: $150 million. A private equity fund established to invest in private, small and medium sized Jordanian firms, the Jordan Fund II will provide growth capital, employment opportunities and consolidation for fragmented industries. The Fund will invest based on commercial considerations and will help transform its portfolio companies by funding expansion into new markets, improving management processes and corporate governance, optimizing capital structures, and participating in business development. The Fund will be multi-sectoral but will place an emphasis on promising sectors in Jordan, such as telecommunications, information technology,

Appendix I (Continued)

financial services, aviation, education and medical/pharmaceuticals. The Fund is a successor to the Jordan Fund I, a fund also focused on private Jordanian firms. OPIC selected the Jordan Fund Management Company, a subsidiary of Foursan Group, as the Fund's investment manager. Foursan is a private equity
investment company with a primary focus on the Middle East.

EuroMENA Fund
OPIC financing: $50 million
Target capitalization: $113 million
Total for Jordan: up to $35 million (30 percent of Fund total)
A private equity investment fund established to invest in the regional expansion of middle market companies in the MENA region with a primary focus on Jordan, Egypt, Lebanon and Morocco.The fund's strategy is to establish regional leaders in diverse sectors through
Consolidation and mergers. The fund will enhance management quality, improve research and development, implement corporate governance structures, and optimize financial reporting and transparency in its portfolio companies. The ultimate goal will be to build more efficient and more profitable regional businesses. Potential target sectors include banking and insurance, construction materials and services, pharmaceuticals, chemicals, cosmetics, food and beverage production, consumer products, and specific industrial products. OPIC selected as fund manager Capital Trust Group, as 20-year-old private equity, real estate and corporate finance advisory firm operating in the United States, Europe and the Middle East. The EuroMENA Fund is the seventh fund raised and managed by the Capital Trust.

Emerging Markets Housing Fund
OPIC financing: $100 million
Target capitalization: $300 million

OPIC's political risk insurance and financing help U.S. businesses of all sizes invest in more than 150 emerging markets and developing nations worldwide. Over the agency's 35-year history, OPIC has supported $164 billion worth of investments that have helped developing countries to generate more than 732,000 host-country jobs and $13 billion in host-overnment revenues. OPIC projects have also generated $69 billion in U.S. exports and supported more than 264,000 American jobs.OPIC supports U.S. investment in emerging markets worldwide, fostering development & the growth of free markets.

APPENDIX J FOURTH DOOR FUNDS

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AN ILLUSTRATION

A SME manufacturer needs 500,000 JD to expand plant, buy equipment and take advantage of growing sales orders.

Example of a Shareholder Loan & Investment

Assumptions, Structure & Terms	***Amounts in JD and Conditions***
SME expansion request Owners pre-investment equity	500,000 200,000
Fund's Equity Contribution Fund's Shareholder Loan	100,000 (33% of share ownership) 400,000
Terms of Loan: Base interest rate Royalty as % of gross sales Amortization and tenor	 Prime minus 100 – 200 basis points ½% to 5% of gross sales 5 years, 1 yr grace, 4 annual payments of 100,000
Terms of Equity Investment: Dividends Collateral Requirement Exit price	 None Pledge of all available assets and all shares(can be cross collateralized with loan). No requirement of 100% or more collateral coverage A pre-established multiple of original investment (3 X) or fraction of gross sales in the year prior to exit

Shareholder Loan & Investment Flows (in 000 of JD)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Assume Sales of:	500	750	900	1090	1300	1550
Interest payments	(16)	(14	(10)	(6)	(2)	-
Principal payments	0 (grace period)	(100)	(100)	(100)	(100)	
Royalty payments	(15)	(23)	(27)	(32)	(39)	
Payments to Fund	31	137	137	138	141	
Equity exit proceeds						300 (3 X initial investment)
Minimum IRR to Fund - 15%						

Appendix J (Continued)

1. **merging Market Illustrations and Capitalization:**

Confidentiality is an issue when researching details and returns of various funds. Nonetheless, Mr. Gibson believes usage is spreading. GroFin is a $160 million SME financing institution sponsored by the Shell Foundation and a small number of development institutions. It has invested in several African countries during the past four years almost exclusively through royalty-based financing, shareholder loans and equity participations. Another example is Business Partners Ltd of South Africa, which is “one of the most successful SME financing institutions worldwide and has pioneered a version of the shareholder loan investment model during the past 10 years”. Other examples are found in India (mixed results)[27], Viet Nam, Bangladesh and Israel.

When starting a fund, the threshold issue is identifying seed capital. This money is necessary to hire a local professional for marketing, make solid projections and approach other potential investors. A mix of investors is recommended that have differing financial expectations and objectives, which may include:

a. international (development) financial institutions (IFIs) such as the IFC or OPIC

b. private sector financial institutions such as banks or insurance companies

c. non-IFI development agencies such as USAID or DFID

multinational corporations or private foundations.

[27] Some experts believe the Fund in India (ICICI) erred in its implementation and process

USAID Jordan Economic Development Program
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Salem Center, Sequleyah Street, Al-Rabiyeh
Amman, 11194 Jordan
Phone: + 962-6 550-3050
Web address: http://www.SABEQ-Jordan.org