Achievement of Market-Friendly Initiatives and Results Program
(AMIR 2.0 Program)

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JOHUD Business Plan Development

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1.0) EXECUTIVE SUMMARY

1.1) In accordance with the Scope Of Work, the consultant spent 23 days assisting the management team of JOHUD, and the staff of the AMIR program, in examining the alternatives regarding the provision of financial services to rural microentrepreneurs.

1.2) During the course of the assignment, four interconnected conclusions and decision points have been arrived at. They are as follows:

(i) The need for JOHUD to decide whether the provision of a rural microfinance program matches with its strategic objectives. If the answer is yes, whether it wishes to be a wholesaler, or retailer, of microfinancial services.

(a) The consultancy has identified several alternative strategic models that JOHUD could adopt in this regard. These include entering into a partnership/ subcontracting agreement with a Non Governmental Organization (NGO), or a commercial bank; continue with JOHUD's existing program; withdraw entirely from the activity and focus solely on providing business development services; establish Self Help Groups itself, or in partnership with the Village Cluster Project; or set up an autonomous microfinance subsidiary.

(b). Each of these alternatives has strengths and weaknesses, which are detailed in the body of the report. If JOHUD decides to support rural microfinancial services, but not as a retailer a funds, a partnership with a commercial bank or NGO would be the most rapid, and in terms of management time, the easiest approach. If, however, JOHUD wishes to be a retailer of microfinance, and to retain management control of the program, the establishment of an autonomous microfinance institution (MFI) is the recommended option.

(ii) The second conclusion relates to demand.

(a) Both the recently commissioned Updated Credit Demand Survey, and the projections undertaken with field staff of JOHUD, indicate that there is insufficient demand from micro and small entrepreneurs (MSEs) in the selected five Governorates to support such a program. Initial projections indicate that operational sustainability would reach only 61% by the end of year 5, and probably plateau thereafter. Such a program would be in constant need of donor support, and be in breach of microfinance best practices. Consequently, this model is not recommended.

(b) During field visits, and in subsequent discussions with JOHUD and AMIR officers, a potentially large, unmet demand for education loans was identified. These loans would be used by poorer families to pay the fees for the tertiary education of their children. Moreover, the provision of these loans could well match with JOHUD's strategy for social development. Based on this possible approach, projections were run, whereby both enterprise and education loans were provided within the five rural Governorates. Assuming a realistic caseload, and with loan officers managing both loan products, the operational sustainability of this model would reach 88% in year 5, and probably plateau thereafter. This result indicates that a major problem in providing financial services to rural areas is the underlying lack of demand. A purely rural microfinance program, therefore, would need continuing donor support well beyond the usual start-up period.

(iii) If, however, JOHUD is prepared to broaden the scope of the MFI, so as to provide the educational loan product within the Greater Amman area, considerable economies of scale could be achieved. Based on recruiting 12 additional loan officers to work in the Greater Amman area, and with 47% of the JD amount on loans disbursed over the five year being disbursed by them, the program could achieve an operational sustainability ratio of 105% by year 5, which would probably plateau at around the 110%-120% level thereafter. This strategy, however, will result in a major non-rural emphasis, as well as disbursing more consumer loans (13,250) than enterprise loans (3,185). The grant funding requirement for this approach would be approximately 1.75 million JD.

(a) This strategy, while having a reasonable chance of success, is not without risks. The sensitivity analysis undertaken indicates that many of the assumptions need only be in error by less than 10% for the program to miss achieving 100% operational sustainability in year 5. In the writer's opinion, the ability to further increase the level of operational sustainability beyond 100%-120% will necessitate a sharp increase in the level of fixed costs, which may not pay for themselves over the medium term. This suggests that the program will remain a mid-sized player in an already crowded field. Moreover, the autonomous MFI strategy carries a considerable level of reputation risk to JOHUD should it fail. Also, it could necessitate a restructuring of many of JOHUD's operating procedures, which could cause internal friction.

(iv) Regardless of the decisions taken about its geographic focus, and whether or not it should provide education loans, the program will need grant funding in order to achieve the above-mentioned goals. Finally, the strategy that is adopted should be introduced on a pilot basis, thereby helping minimize losses should the program fail.

2.0) ACRONYMS USED IN THIS DOCUMENT

ACC	Agricultural Credit Corporation
AGFUND	Arabian Gulf Fund for Development
AMC	Ahli Microfinancing Company
AMIR	Access to Microfinance and Improved Implementation of Policy Reform.
CBJ	Central Bank of Jordan
CDC	Community Development Centers
CHF	Cooperative Housing Foundation
ED	Executive Director
EU	The European Union
FTE	Full Time Employee
FY	Financial Year
GOJ	Government of Jordan
GUVES	General Union of Voluntary Services
JD	Jordanian Dinar
JOHUD	Jordanian Hashemite Fund for Human Development
JMCC	Jordan Micro Credit Company
LLC	Limited Liability Company
MEI	Microenterprise Initiative
MIS	Management Information System
MFI	Microfinance Institution
MFW	Microfund for Women
MSE	Medium and Small Enterprises
NGO	Non Governmental Organization
p.a.	Per Annum.
SBDC	Small Business Development Centre
SHG	Self Help Groups
SOW	Scope of Work
SWOT	Strengths, Weaknesses, Opportunities, Threats.
WFF	Wholesale Funding Facility
USAID	U.S. Agency for International Development
US$	United States Dollars

3.0) INTRODUCTION AND SCOPE OF WORK

3.1) In accordance with the contract with Chemonics International Inc., dated January 3, 2003; the consultant spent 23 workdays during the period January 8-February 2, 2003 undertaking this assignment. The Scope of Work (SOW) regarding the provision of Technical Assistance to The Jordanian Hashemite Fund for Human Development (JOHUD) is as follows:

- Undertake a management review to review, analyze, and make recommendations, regarding the implementation of operational procedures for the introduction of a microfinance program.
- Develop a Strategic Business Plan aimed at achieving operational sustainability using the Microfin Financial Projection Model.
- Develop a detailed Action Plan for the implementation of the proposed microfinance program.

(3.2) This report consists of an Executive Summary, a detailed report, projections and a implementation schedule for the Action Plan. The Report has been based on a review of the Updated Credit Demand Survey[1]; as well as the undertaking of a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. Based on these reviews, and analyses, recommendations have been made as to the necessary product introductions and marketing strategies, and the external technical and financial assistance needed to achieve sustainability over the medium term.

[1] Updated Credit Demand Survey, J. Daly, October 2002.

4.0) SOCIO/ECONOMIC OVERVIEW OF JORDAN

4.1) For the last 18-24 months Jordan's economy has been adversely affected by the ongoing global recession, and the political uncertainties in the region. During calendar year 2002, the Gross Domestic Product is estimated to have risen by 3.6%, and inflation to have been a respectable 2% p.a. for the full year. The Central Bank of Jordan (CBJ) has continued its tight monetary policy, and is maintaining its policy of pegging the Jordanian Dinar (JD) to the US$ at a fixed rate of 1 JD=US$1.42. Given the US$'s slide against other currencies over the past 12 months, though, this has had the effect of a devaluation of the JD against the Euro, Yen and Pound Sterling. This has favorably impacted exports, which are projected to have risen by about 16% for the year. This factor, together with the ongoing foreign aid and assistance programs, have helped keep the current account in a small surplus, and the budget deficit manageable.

4.2) With the political outlook within the region uncertain at this stage, the immediate economic outlook is unclear. The Economist Intelligence Unit projects that GDP growth could reach 3.1% p.a.. The majority of the growth likely occurring in the second half of the year, if regional tensions subside by then. The rate of economic growth, however, is expected to pick up in 2004, rising to 5.5% p.a.. On the other hand, tourism is expected to continue to struggle. This growth, however, is likely to be accompanied by a spurt in the inflation rate, partially triggered by a rise in global commodity prices. Inflation is projected to rise to 3.5% in 2003 and 4% in 2004. This increase in inflation could compel the CBJ to raise interest rates, both to help slow inflation, and to maintain the level of foreign exchange reserves within the Kingdom.

4.3) This outlook indicates that the per capita income is likely to stagnate in the short term, especially in the rural areas where poverty is widespread. Furthermore, the existing levels of unemployment and underemployment are unlikely to be meaningfully reduced in the immediate future, despite the Government of Jordan's (GOJ) extra-budgetary spending program.

4.4) Against this background, and with the continued political uncertainty in the region, this is a difficult time to be starting a microfinance program. Any program should be started on a pilot basis, with regular reviews of its actual performance against forecasts. This is not only to test the markets itself, but also to guard against developments that would negatively impact the program. These developments could include an increase in the interest rates, additional businesses failures caused by a faltering economy, or social unrest caused by external events.

5.0) BACKGROUND AND HISTORY OF JOHUD'S INVOLVEMENT IN MICROFINANCE

5.1) JOHUD was founded in 1977 as a Non Governmental Organization (NGO); with the aim of

> "Playing a leading role in advancing comprehensive and sustainable human development through the enhanced participation of Jordanians. JOHUD strives to impact the best development practices nationally, drawing on its experience and local presence while creating opportunities for Jordanians to play a central role in shaping the Country's future."

5.2) In order to achieve this goal, and to ensure that the focus is on those sectors of the population that are most in need, JOHUD has established a network of more than 50 Community Development Centers (CDCs) throughout the Kingdom. The CDCs are at the heart of JOHUDs mission, and focus on a model of integrated development activities within their communities. The activities undertaken include child development, family health and nutrition, education, leadership skills for women and income-generation and enterprise development[2]. As part of those activities, JOHUD commenced a rural lending program in 1992.

5.3) As part of the income-generation and enterprise program, and in response to a growing need, the Small Business Development Centre (SBDC) was created in 1996, to provide a range of services to small businesses. These include business planning and consulting, training, and the extension of a limited amount of loans through several programs. These loan programs include the direct lending program in Eastern Amman, the loan program for women who are establishing new enterprises, and the balance of the loans outstanding from the now closed revolving loan facility. As of 1/26/2003, SBDC's loan portfolio was JD 883,000 JD, totaling 607 borrowers. In addition, there is the indirect lending program operated from the CDCs.

5.4) While the loan program and the SBDC initiative have been successful, the demand for financial services within the Governorates, where JOHUD operates, exceeds the delivery capacity of the current structure. Consequently, this Business Plan has been commissioned to examine the various alternatives facing JOHUD regarding the expansion of its rural lending activities. Additionally, it is to identify a strategy that will best enable JOHUD to help provide financial services in the rural areas on an operationally sustainable basis.

[2] The Jordanian Hashemite Fund for Human Development, p.6.

THE SUPPLY AND DEMAND FOR MICROFINANCE IN JORDAN

6.0) THE PROJECTED MARKET DEMAND

6.1) This section of the Business Plan discusses the potential of the two markets to which JOHUD could provide microfinancial services. These are the Micro and Small Entrepreneur Market (MSE), and providing loans to lower income households for the payment of university fees.

The MSE Market:

6.2) In October 2002, AMIR commissioned a study to update the estimates of the potential demand for microfinancial services in Jordan[3]. This survey was based on more than 4,000 interviews of registered and non-registered businesses, which were operating in both urban and rural areas.

6.3) The survey concluded that the nationwide potential market for microfinance was about JD 220 million, consisting of 137,000 MSEs. The effective demand, reflecting those who are willing to borrow, however, is estimated at approximately JD 86 million from 74,000 MSEs. Of this demand, approximately JD 74 million is represented by urban based MSEs, and JD 12 million from rural entities.

6.4) With a strategy of focusing on rural areas rather than on urban and peri-urban centers, JOHUD's potential market of microentrepreneurs, therefore, is as follows:

Governorate	Effective No. of MSEs	Effective Demand in JDs millions
Irbid	9,130	10.1
Mafrak	1,931	1.1
Ajloun and Jerash	916	0.5
Balqa	1,945	2.1
Madaba	2,527	2.1
Karak	1,163	1.4
Tafilah	747	0.8
Maan	1,031	0.3
Aqaba	4,004	4.3
Total	23,394	22.7

6.5) Within this potential marketplace, JOHUD management feels that it should concentrate its efforts on Mafrak, Ajloun and Jerash, Tafilah and Karak. Furthermore, within these geographic areas, it will focus on the small to midsized microentrepreneurs with credit requirements within the range of JD 650-1,000. Within these identified guidelines, the potential gross target market for microfinance services is as follows:

[3] Updated Credit Demand Survey, J. Daly, AMIR, October 2002.

Governorate	Effective No. of MSEs	Effective Demand in JDs thousands
Mafrak	1,042	833
Ajloun and Jerash	64	51
Karak	209	167
Tafilah	90	72
Total	1,405	1,123

6.6) Based on the above estimates, JOHUD, therefore, has a potential market of approximately 1,400 clients with credit needs totaling JD 1.1 million before providing for clients who would be deemed to be uncreditworthy, and for the impact of other microfinance providers within those regions. If approximately 25% of applicants are uncreditworthy, 75% of potential clients would wish to borrow at any one time, and JOHUD can achieve an average market share of 38%, the projected portfolio of microentrepreneurs, therefore would be about 250, 000 JD consisting of approximately 300 borrowers. After allowing for an annual growth in demand for credit driven the GDP growth of, say, 5% p.a.; the potential portfolio could be expected to increase to about 320,000 JD, comprising 360 borrowers, by end 2007. After allowing for those households who can service a loan for JD 650-1,000 without exceeding the debt service to total household income ceiling of 30%, this number will be further reduced[4].

6.7) In order to validate this estimate, an alternative approach was undertaken to assessing demand. The potential demand per Governorate was estimated, based on the experience of the Directors of the CDCs in each Governorate. This included providing for the respective median household incomes to identify those that had monthly household incomes greater than JD 250. It is felt that to extend loans to households with very small incomes would just further indebt them, without any advantage to any party concerned. The percentages of households with income greater than this benchmark was estimated to range from 20% in Ajloun and Tafileh to 40% in the other Governorates[5].

6.8) These estimates were based on the overall number of households per Governorate, and discounted by 50% to allow for those unwilling to pay interest. These households willing to borrow were further discounted to allow for those willing to borrow at any one time (60%), who would be creditworthy (60%), and would want to borrow between 500 JD- 1,000 JD. JOHUD's market share then was estimated to be between 30%-40%. The resultant realistic number of loans per Governorate was calculated as follows:

[4] If the loan size is increased from JD 1,000 to JD 1,500 and the increased demand is discounted on the same basis as above, the number of potential clients would increase by 136.
[5] The low levels of household income in these Governorates is one of the main constraining factors to supporting a credit program in these rural areas.

Governorate	Potential # of Borrowers	Potential Portfolio[6]
Ajloun	50	37,500
Mafrak	550	412,500
Jerash	130	97,500
Karak	150	112,500
Tafilah	100	75,000
Total	980	735,000

6.9) Under this methodology there would be a maximum demand for about 735,000 JD. After allowing for an annual growth rate of 5% p.a., the market could increase to about 950,000 JD and 1,250 clients by 2007. The only Governorate with an existing large potential demand base is Mafrak, which also is the largest Governorate in terms of Km2, and has the most widely dispersed population.

Conclusion:

6.10) Under either approach, there appears to be insufficient demand for MSE loans at the present time to justify the establishment of a sustainable microfinance program in these Governorates. Over the five year period, though, demand may grow that could justify recruiting a reasonable number of loan officers, provided that there is some mobility by them amongst the branches that are in close proximity to each other. Even after allowing for this, it will be difficult to reach operational sustainability based on the provision of enterprise loans alone. The most feasible approach to providing loans to these rural areas on a sustainable basis, therefore, is to provide a cross subsidy from another loan program, or product, to help cover the costs of servicing these Governorates.

The Demand for University Education Loans:

6.11) During discussions with current and potential clients of JOHUD, a need for loans to help poorer families pay for their children's' university fees was identified. Within the Jordanian culture, considerable emphasis is placed on tertiary education, and families go to considerable lengths to ensure that their children attain it.

6.12) As part of an unofficial survey, attendees at the meetings held with current and potential clients of JOHUD were asked about their interest in borrowing to finance the payment of University fees for their children. When the question was phrased regarding their willingness to borrow to pay for children's university, and/or would they borrow if loans were available, the result was a nearly unanimous "yes". This suggests that there is considerable pent-up demand for such a loan product.

6.13) The main constraint, however, is the high level of poverty, with a median monthly household income in some Governorates of only JD 100 (Jerash). Consequently, the

[6] This assumes an average loan disbursed of 750 JD.

number of households that can service such a loan is limited[7]. This severely constrains the ability to grow a loan portfolio of sufficient size to cover the operating costs of the program in these areas. In order to make these loans available to rural dwellers, therefore, the necessary economies of scale required to reach operational sustainability will have to be achieved by servicing certain clients outside of the rural areas.

6.14) Based on discussions with management, and other parties interested in microfinance, it is felt that there would be a considerable amount of demand for tertiary education loans in the Greater Amman area. Moreover, with a higher median income than in the rural areas, the percentage of households applying for loans who could afford to service them would be higher than in the rural areas. With the number of households in the Greater Amman area projected at 1.6 million households[8], JOHUD would have to reach only a limited number of households[9] in order to reach the necessary economies of scale.

6.15) Currently no other microfinance provider is providing a special educational loan product to lower income families. Moreover, the improvement in the educational levels of households remains an important objective of the GOJ. As such, JOHUD would be filling a key social development need within Jordan. Such a loan product, therefore, would fit well with JOHUD's goals of social development.

[7] This conclusion is based on the Jordanian guidelines that the debt service to total income ratio should not exceed 30%. This ratio matches prudent North American lending guidelines, with a debt service ratio ceiling of 33%.
[8] GOJ, Department of Statistics Website.
[9] The Microfin model projects less than 10,000 households over a five year period.

7.0) A REVIEW OF OTHER MICROFINANCE LENDERS

7.1) Basically, there are two categories of microfinance providers in Jordan, the microfinance institutions supported by USAID/ AMIR (the MFIs) and other lenders. The major differentiation between the two categories is that the MFIs are committed to following microfinance best practices, and to extend credit at non-subsidized rates, whilst the other lenders are less committed to microfinance best practices. This often manifests itself in the subsidization of the rate of interest charged on loans, and a less than rigorous loan repayment policy. A large proportion of these other lenders are quasi public sector institutions.

The MFIs:

7.2) The MFI institutions are Microfund for Women (MFW), the Cooperative Housing Foundation (CHF), Al Ahli Microfinancing Company (AMC) and the Jordan Microcredit Company (JMCC).

7.3) These MFIs are not authorized to mobilize savings from the public and, therefore, are not subject to regulatory oversight from the CBJ. Their standard lending terms and conditions can be summarized as follows:

MFI	LOAN AMOUNT	PURPOSE	MATURITY	REPAYMENT SCHEDULE	EFFECTIVE INT. RATE*	LOAN TYPE
JMCC	700-6,000JD	Working Capital, MV Registration, Start-Ups	10-20 Months	Monthly	31%	Individual
CHF	150-25,000 JD	Working Capital, Investment, Start-Ups	6-36 Months	Monthly	18% (avge)	Individual
MFW	500-2000 JD	Working Capital, Investment, Seasonal	2-24 Months	Group: fortnightly Individual: monthly	32%	Group Individual
AMC	1,000-10,000JD	Working Capital, Investment	6-24 Months	Monthly	22%	Individual

*Includes fees and commissions charged.

7.4) The basic strategies and geographic focuses of the MFIs are as follows:

7.5) *JMCC's* strategy is to focus in the Amman, Zarqa and Jerash regions of the country, using existing institutions such as Community Based Organizations (CBOs) and local Chambers of Commerce to achieve outreach. Access to JMCC's product lines is available to both genders.

7.6) *MFW's* ongoing strategy continues to position itself as a niche lender for women. Its geographic target areas are greater Amman, Balqa, Russeifa, Irbid, Ramtha and Madaba. Small offices/branches are located in these regions. Recently, a new loan product has been introduced alongside the group loan. With its low initial loan amount, MFW targets a less wealthy clientele than either AMC or JMCC.

7.7) *AMC's* strategy is to focus on the Amman Region (particularly East Amman), with possible future outreach into Zarqa further expanding beyond its recently opened office in Irbid. AMC's focus is on established businesses, with a major emphasis on registered, as opposed to unregistered, firms.

7.8) *CHF's* strategy is to provide individual loans in the Amman region, Sahab, in the southern zone around Aqaba and northern zone around Irbid. In 2001 they closed their group loan product, and replaced it with individual loans commencing at 150 JD.

7.9) Of the MFI's, the greatest competition for JOHUD is likely to come from JMCC (in Jerash) and possibly MFW or CHF. AMC primarily is marketing to formal businesses and does not pose any significant competitive pressure.

Other Lenders to Microbusinesses:

7.10) JOHUD has identified seven other existing lenders to the microfinance sector, and the details of their activities are detailed in Appendix III. The major lender in terms of the number of loans is the Development and Employment Fund (DEF), with a loan portfolio outstanding of JD 29 million while the Orphans Fund has the largest number of clients (15,000).

7.11) Most of these institutions, however, will not be direct competitors for JOHUD. The target market for DEF is mostly on larger clients than those envisaged by JOHUD. UNRWA's area of operations is on the refugee camps, which will make it a competitor for JOHUD in certain areas, while the Industrial Development Bank (IDB) finances larger loans with a bias towards companies. The Orphans Fund focuses more on consumer type loans (Motor Vehicles) and normally requires some form of collateral.

7.12) The major competition from these other lenders is likely to come from GUVS and the Agricultural Credit Corporation (ACC).

7.13) GUVS has a wide basis network of community based organizations, which it uses to extend its outreach for loans across the country. The terms and conditions of its loans are very competitive, with an interest rate of 9% flat, and with maturities of up to 24 months. JOHUD will counter these advantages by (i) ensuring that the loans are more widely distributed amongst local communities than is the case with GUVS, (ii) more rapid disbursement and (iii) more professional staff compared to GUVS' use of volunteers.

7.14) Under its current structure, ACC is hampered by a bureaucratic approach to lending, the requirement that borrowers post collateral, and a slow service delivery mechanism. These factors tend to offset the advantages offered by its subsidized interest rates (6.5% to 12% declining balance), and a less rigorous approach to loan repayment. The GOJ, however, is proposing to restructure ACC and convert it into a rural bank, which could make ACC a much more formidable competitor. JOHUD's comparative advantage, therefore, will need to be based on (i). Faster loan approval, (ii). The Loan Officer servicing the client at the latter's place of business, and (iii). The need for ACC's policies, procedures and practices to comply with the CBJ's rules and regulations. Finally, with the restructuring not expected to be completed within 24-36 months, JOHUD will have the "first mover" advantage in this marketplace.

7.15) A potentially formidable competitor could be AGFUND's proposed Bank of the Poor. The bank will be well capitalized, and with a specific focus on the lower income strata of society. While it will take time for it to complete its start-up phase, and then move into the agricultural Governorates, when it establishes itself it will provide rural clients with an alternative source of funds. If JOHUD decides that it does not wish to be a retail microfinance lender, discussions with the bank about a joint venture may well be fruitful.

8.0) ALTERNATIVE APPROACHES FOR JOHUD REGARDING THE ESTABLISHMENT OF A RURAL MICROFINANCE PROGRAM

8.1) There are several alternative structures that JOHUD could utilize for the establishment, and sustenance, of a rural microfinance program. These include entering into a partnership with, or subcontracting out to, another MFI; the establishment of Self Help Groups (SHGs), contracting with a commercial bank, or undertaking the microfinance activity itself. Additional options would be for JOHUD to continue its current policies regarding the provision of microfinancial services. Or, to withdraw from microfinance entirely and just provide business development and training services under the aegis of the Village Cluster Program. These alternative approaches are discussed below:

Partnership/Sub-Contract With an Existing MFI

8.2) Under this proposal, JOHUD would enter into an agreement with an existing MFI for the latter to extend its operations into the Governorates; where JOHUD wants microfinance services to be provided. The MFI either would open an office in these Governorates, and/or have loan officers travel throughout the Governorate on a regular basis. The MFI would record loans made in its own name, and would be responsible for booking, disbursing, administering, and collecting them. JOHUD, however, would probably have to fund some of the costs of the rural operations, make available some loan capital to the MFI, and may be required to share a portion of any credit losses incurred.

8.3) The advantages of this approach are as follows:

1) JOHUD would be relieved of the daily responsibility of managing a microfinance program.
2) The confusion in potential clients, and in other parties', minds regarding JOHUD's social goals, and the commercial aims of a sustainable microfinance program, will be limited.
3) Any damage resulting from the failure of the program, especially to JOHUD's reputation, will be limited.
4) The MFI will field staff who have extensive experience in microfinance and lending.
5) The MFI already will have developed all of the necessary MIS reporting procedures. Additionally, they will have operational policies, procedures and practices in place that can be implemented immediately.

8.4) The disadvantages of this approach are:

1) JOHUD would have little control over the operations of the program.
2) The MFI could insist on onerous terms and conditions, especially in regards to capitalization of the program, cost sharing, and the geographic areas of operations.

3) Unless the partnership was carefully structured, JOHUD could lose all of its investments if the venture is unsuccessful.
4) JOHUD would be a wholesaler, rather than a retailer, of microfinance.

The Establishment of Self Help Groups:

8.5) Under this approach, potential clients would be formed into groups, and trained in the methodology of managing a "pooled" collection of funds. Training would include group dynamics, savings mobilization, credit analysis, team management, and basic bookkeeping. After the SHG is formed and trained, a coordinator from JOHUD would act as a mentor to the SHG, providing them with training and technical assistance on an as needed basis. The basic methodology entails that the members contribute savings to a common "pool" on either a weekly or monthly basis[10]. When these funds reach a reasonable amount, they are then lent out to a member of the group, who pays a pre-determined interest rate. Upon repayment, the accumulated "pool" is then lent to another group member.

8.6) The advantages of this approach are:

1) It is a grass roots project, with members having responsibility for its management.
2) There is a higher incentive for the members to repay, since their own savings are at risk.
3) The members themselves will provide closer supervision over the individual borrowers activities than what an outside party could achieve.
4) With SHG members undertaking most of the operational tasks, the operational costs to the sponsor of running the program will be less, once the program is fully operational.

8.7) The disadvantages of this approach are:

1) The start-up and growth of the program is slow, even with matching funds, since loan portfolio expansion is tied to the members' savings "pool".
2) While ongoing operational costs will be lower, the initial training and establishment costs will be quite high.
3) The amount of revenue stream that JOHUD could receive from the SHG approach would be limited, therefore making the achievement of operational sustainability extremely difficult[11].
4) JOHUD would have limited control over the loan approval, and disbursement, process.
5) The difficulty in forming groups.

[10] With some SHGs the sponsor provides matching funds to the savings "pool" so that capital accumulation is more rapid than otherwise would be the case. This, however, adds to the level of risk to the sponsor, since its own capital is at risk without a counterbalancing level of control.
[11] Internationally, it has proven difficult to collect service fees from SHGs.

6) The need to find group members who are willing and able, to undertake the necessary training to manage the SHG.
7) Legal issues may arise under the Cooperative Law, which currently is under review.

Contract A Commercial Bank to Expand Into Rural Areas:

8.8) Under this approach, JOHUD would contract an existing commercial bank to provide financial services in the selected rural areas. The bank would establish a microfinance "window" within its local branch, which would service microentrepreneurs. Eventually, these microfinancial services would become mainstream products for the commercial bank.

8.9) This approach would have the same advantages and disadvantages as the alternative of contracting/ partnering with an MFI. It would, however, include the following additional advantages and disadvantages.

8.10) Additional advantages:

1. The microfinancial services would be viewed by borrowers as a commercial operation, and not as a social development activity.
2. The basic logistical and support facilities already would be established in the chosen areas of operation.
3. Staff with a banking/ commercial background would be in place.

8.11) The additional disadvantages are:

1. The traditional banking attitude to extending loans, which likely will include the demand for collateral.
2. Slow response time to loan applications.
3. The likely insistence that the bank does not accept any responsibility regarding loan losses.
4. Possible constraints resulting from the legal and regulatory oversights from the CBJ.

JOHUD Establishes a Formal Microfinance Program:

8.12) Under this approach, JOHUD would establish a formal unit for the provision of microfinancial services. This unit, while operating under the umbrella of JOHUD, would be an autonomous entity, and would include in its strategic vision the goal of achieving operational sustainability. This goal, however, would be achieved while operating within JOHUD's overall vision of social development.

8.13) The advantages of this approach are:

1) JOHUD would retain overall control over the program.
2) JOHUD would be directly managing an operationally sustainable MFI, while retaining a development vision.
3) Donors are likely to be more interested in providing support to the program, given JOHUD's good reputation.
4) JOHUD can expand into Governorates, and provide microfinance products of its own choosing, especially into the rural areas.
5) JOHUD can build on its knowledge of the marketplace, and its connections with the local communities through the CDCs.
6) The accompanying projections indicate that JOHUD has a reasonable chance of achieving operational sustainability in five years.

8.14) The disadvantages of this approach are:

1) Microfinance is a specialist activity, and while JOHUD has some experience in the field, it cannot be considered to be a core competency of the institution.
2) There are a large number of institutions within Jordan who are providing microfinance services. This has resulted in an oversupply of credit to microentrepreneurs in certain Governorates.
3) Considerable management time and resources will be expended in establishing, and running, the program.
4) The current management structure, and operational procedures within JOHUD, would need to be adapted, which could create friction within the institution.
5) The failure of the venture could damage JOHUD's reputation, both within Jordan itself, and amongst the donor community.
6) There is a higher degree of risk involved in lending to rural areas than there is in lending in urban and peri-urban areas.
7) The preparation and start-up stage will be slower than the alternatives.

Continue With the Current Strategy:

8.15) The alternative to establishing a formal microfinance program is to continue with JOHUD's existing approach to microfinance.

8.16) The advantages of continuing with the current approach are:

1. The required management structures and operating systems already exist within JOHUD.
2. The actual costs of the program are already known.
3. The risk to JOHUD's reputation is limited.
4. Donor funding is available.
5. JOHUD retains complete management control

8.17) The disadvantages are:

1) Continued limited outreach.
2) Ongoing emphasis by loan officers on the social development role of JOHUD.
3) The difficulty of the existing program of achieving fully costed operational sustainability.
4) Possible donor restrictions on activities.

JOHUD Ceases Credit Activities Entirely and Focuses on Training and Technical Assistance.

8.18) Under this scenario, JOHUD would wind down its current credit activities (or turn them over to another lender); and focus on technical assistance, training, and business development services.

8.19) The advantages of this approach are:

1) JOHUD would then concentrate on its core competencies of training, technical assistance, and social development.
2) Friction within JOHUD over the roles and responsibilities regarding a credit program would be eliminated/avoided.
3) The reputation risk resulting from failure of the venture would be avoided.
4) JOHUD's costs of supporting a credit program would be eliminated.

8.20) The disadvantages of this approach are:

1) The only source of credit to many people in these Governorates would be closed.
2) Providing technical services, training and advice to potential entrepreneurs, without their having access to credit, means that many of their enterprises will be stillborn. In the long term, therefore, the impact of these services will be annulled.
3) The overall pace of development within these Governorates will be slowed.

JOHUD Partners With the Village Cluster Project to Create Self Help Groups:

8.21) An alternative approach would be to expand JOHUD's current role under the Government supported Village Cluster Project to include the establishment of financial SHGs. Under this approach, JOHUD would be responsible for establishing such a program and then undertaking the formation and training of the individual SHGs. Once they are established, JOHUD would continue to provide ongoing technical assistance and support. If matching funding was to be provided to the SHGs, so as to accelerate the growth of their loan portfolios, this could be channeled through JOHUD[12].

[12] JOHUD would have to ensure that it did not have any credit responsibility for these matching funds.

8.22) The advantages of this approach would be:

1) Credit facilities would be made available to these rural areas.
2) JOHUD would be reimbursed for the costs of supervising the program
3) SHG members would retain considerable ownership of the project.
4) JOHUD continues to operate within its core competencies.
5) The risk to JOHUD's reputation is minimized.

8.23) The disadvantages would be:

1) The start-up and program growth still would be slow, even with the use of matching funds.
2) JOHUD would have only limited control over the loan approval and disbursement process, but could be held accountable for any problems that may arise.
3) The difficulty in forming groups.
4) The need to find group members who are willing and able, to undertake the necessary training to manage the SHG.
5) Operational difficulties of working in tandem with a Government Ministry.
6) Potential issues with the Cooperative Law.

Conclusions Regarding the Alternative Approaches for JOHUD Regarding the Establishment of a Microfinance Program:

8.24) The most appropriate approach to adopt is dependent on the underlying strategy JOHUD pursues towards supporting a microfinance program that will provide services in rural areas.

8.25) In terms of minimizing management time, and setting a ceiling for the total costs of the project, entering into a partnership with an existing NGO, or commercial bank, holds considerable attractions. This is especially the case if such a partnership could be achieved with organizations that have similar goals to JOHUD, such as AGFUND's proposed Bank for the Poor, or ACC's proposed Rural Banks. The problems with this approach, however, are that JOHUD would have little control over the operations, and it would be only a wholesaler, rather than a retailer, of microfinance in a program that may not be following best practices.

8.26) If the underlying strategy is retain operational control over the program, and to have a MFI that is following best practices, the establishment of an autonomous unit presents itself as the best alternative. This will permit JOHUD to establish its own strategy, operate in the Governorates of its own choosing, and develop specialized products. Moreover, as noted earlier, there appears to be a reasonable chance of achieving operational sustainability within five years. The downsides to this approach, though, are the need to invest considerable management time in starting up and operating the program, accessing the necessary funding, and the risk to JOHUD's reputation should the venture not be successful.

8.27) If JOHUD considers that a rural credit program is essential, and it does not wish to undertake that role itself. Or, reasonable terms and conditions cannot be negotiated with another financial services provider to provide credit on JOHUD's behalf, the SHG/ Village Cluster option should be further explored.

8.28) Finally, if a rural credit program in any form is considered beyond the capabilities and mission of JOHUD, withdrawal from this field of activity is warranted.

8.29) For a final decision to be made, however, detailed costings will have to be undertaken for all alternatives, which is beyond the scope of this assignment.

9.0) PROJECTED FINANCIAL SCENARIOS FOR A STAND ALONE MICROFINANCE PROGRAM

9.1) Based on the conclusions of the market surveys, several scenarios were projected using the Microfin model. These scenarios are based on the assumption that JOHUD will establish an autonomous MFI to manage the program. The initial focus of the program will be the Governorates of Mafrak, Jerash, Ajloun, Karak and Tafileh. The underlying assumptions regarding costs, staffing etc. are the same as those outlined in the Section "Basic Assumptions for the Income Projections".

(1) This scenario envisioned that the program will offer only enterprise loans in the five Governorates. The underlying demand is based on the Updated Credit Demand Survey, modified somewhat to allow for some possible undercounts. The basic results of this scenario were as follows:

Accumulated losses for the five year period	JD 509,000
Loan Portfolio outstanding at end of Year 5	JD 425,000
Required amount of Grant Funding for the period	JD 934,000
Operational sustainability for Year 5	61%

With an operational sustainability ratio of only 61% in year 5, and with limited opportunity for further portfolio growth, the chances of achieving profitability within a further 3-4 years are slight. With such a prognosis, it is unlikely that a donor will be prepared to fund a program with such a limited outreach. This indicates that a rural microfinance program will not be viable without the introduction on non enterprise loans.

(2) This scenario envisions that the overall demand for enterprise loans will be in line with the revised estimates prepared by management and the consultant. Additionally, the education loan will be made available, but only in the five Governorates. The outcome of this scenario was:

Accumulated losses for the five year period	JD 420,000
Loan Portfolio outstanding at end of Year 5	JD 689,000
Required amount of Grant Funding for the period	JD1,100,000
Operational sustainability for Year 5	88%

This scenario indicates that the introduction of education loans makes a substantial impact on the sustainability of the program. Nonetheless, there is a high probability that the program still will not achieve operational sustainability. Consequently, this scenario will need ongoing donor support, if it is to provide financial services to the rural Governorates over the medium to long term. This scenario highlights the fundamental weakness of focusing solely on a rural project, where demand is limited by the low population levels, and the high levels of poverty.

(3) This scenario assumes that both enterprise and educational loans will be extended in the rural Governorates at the same level as outlined in Scenario (2). In addition, however, the education loans will be progressively introduced in the Greater Amman area. The results of this projection are:

Accumulated losses for the five year period	JD 421,000
Loan Portfolio outstanding at the end of Year 5	JD1,362,000
Required amount of Grant Funding for the period	JD1,750,000
Operational sustainability for Year 5	105%
Financial Self Sufficiency for Year 5	78%

This scenario indicates that to provide a sustainable microfinance project in the selected rural Governorates, there will have to be a high degree of cross-subsidization from credit activities in the urban and per-urban areas of the Kingdom. Even with this cross subsidization, the operational sustainability level will likely plateau at the 110%-120% range going forward from Year 6.

Recommendation:

9.2) Based on:

(i) The insufficient level of demand by MSE's in the selected Governorates to support an operationally sustainable microfinance program.

(ii) Considerable demand for an education loan product in the rural, urban, and peri-urban areas

(iii) The potential for an educational loan product operating in the urban and peri-urban areas to cross-subsidize a rural program

(iv) The possibility that a loan program to lower income families, to enable their children to obtain a tertiary education, will match with JOHUD's goal of encouraging social development.

and

(v) The likelihood that donors will find this strategy attractive.

9.3) It is recommended that the provision of an educational loan product to the selected rural Governorates, and the Greater Amman area, be included in this Business Plan. Consequently, Scenario 3 will be used as the basic model for the preparation of this Business Plan.

THE PROPOSED STRATEGY TO ACHIEVE OPERATIONAL SUSTAINABILITY

10.0) RECOMMENDED LOAN PRODUCTS

10.1) Based on the proposed underlying strategy for the microfinance program of JOHUD, it is recommended that two loan products be introduced. The Enterprise Loan will be extended to MSEs for productive purposes, and the Education Loan to families for the payment of university and tertiary education fees.

The Enterprise Loan:

10.2) The Enterprise Loan will be extended to micro and small entrepreneurs, who will use the loan proceeds for the development of their income earning activities.

The Enterprise Loan Product Parameters:

(i) Loan Amount: The Enterprise Loan will be available in the following tranches:

First Loan Cycle	750JD
Second Loan Cycle	800JD
Third Loan Cycle	850JD
Fourth Loan Cycle	900JD
Fifth Loan Cycle	950JD
Sixth Loan Cycle	1,000JD

(ii) Loan Maturity:	Twelve Months
(iii) Interest Rate:	18% flat
(iv) Commission:	2 JD non-Refundable Application Fee
(v) Repayment Schedule:	Equal monthly installments of principal and interest.
(vi) Grace Period:	Nil.

10.3) The Enterprise Loan will be available in the rural Governorates only, and will be extended solely for productive purposes. The maturity, and the amount, of the loan will be established on a case by case basis, and will be tied to the cash flow of the income generating activity, as well as the overall household gross cash flow. Loans will be disbursed on an individual loan basis. The borrower must be recommended by the Director of the local CDC, although such a recommendation will not automatically qualify the applicant for a loan.

The Education Loan:

10.4) The purpose of this loan will be to enable clients to pay the University, or other Tertiary Educational Institutions, semester fees for the children.

The Education Loan Product Parameters:

10.5) The parameters of the Loan Product will be as follows:

(i) Loan Amount:	Up to 500 JD, based on need and capacity to repay. The maximum loan size will increase by 10 JD p.a..
(ii) Loan Maturity:	Five Months
(iii) Interest Rate:	20% flat.
(iv) Commission:	2JD Non-Refundable Application Fee.
(v) Repayment Schedule:	Equal monthly installments of principal and interest.

(vi) Credit Guidelines:

(a) Loans will be available only for students who have passed the first year of their tertiary study program.
(b) The loan amount will not exceed 80% of the fees due and payable.
(c) The applicants must produce, at the time of the loan application, proof of admittance to the Institution, and verification of the amount of the fees that are due and payable.
(d) There must be a salaried employee in the household, from whose income the loan repayment amount can be deducted.
(e) The monthly total debt service costs to household income must not exceed 30%.
(f) At the time of the first loan application, there cannot be more than one education loan per household. After two successful cycles, a household may borrow for two students simultaneously.
(g) There cannot be more than one loan per student outstanding at any one time.
(h) The loans can only be used for the payment of the school fees. The loans cannot be extended for the purchase of books, living expenses, etc.

10.6) The demand for the Education Loan Product will be tied to the University academic year. Hence the loan applications will be compressed into a twice yearly, two month period. Initially, they have been identified as June-August and January-February. In order to process the loan applications in time to meet the registration deadlines, and to meet the necessary caseload per loan officer requirements, a Credit Scoring Loan Approval System will be required. This should enable the loan officers to process 3 loan requests daily.

11.0) THE PROPOSED IMPLEMENTATION AND MARKETING STRATEGY

11.1) Based on the recommendation that JOHUD establish a stand alone MFI to operate in both rural Governorates and the Greater Amman areas, providing both enterprise and education loans, the following implementation and marketing strategy is proposed.

i) In order to reach operational sustainability within a five year time frame, JOHUD will have to rely on donor funding. Obtaining donor support and funding for the business plan is a critical early step in the implementation strategy.

ii) The MFI is to be registered as a Not For Profit Limited Liability Company (LLC) under a non-JOHUD name. This will give the MFI its own legal entity, memorandum and articles of association and Board of Directors. JOHUD could be the main shareholder of the new entity. Furthermore, the use of a non-JOHUD name will help avoid confusion in the minds of the clients as to whether the MFI is a social development program, or an operationally sustainable financial services entity.

iii) The MFI will establish its own offices, rather than utilize a room in the local CDCs. This step will reinforce the idea that the loans are not disbursed as part of a social development program. Despite this stand-alone structure, the MFI will liaise closely with the CDC, utilizing the latter's knowledge of the local market, and close ties with the community. Furthermore, while a recommendation from the CDC will not automatically result in a loan being disbursed to a client, it would be an integral part of the loan approval process.

iv) The initial office will be opened in Mafrak, the Governorate with the largest target market. Based on its success, offices will be opened in Jerash and Ajloun in year 2. Provided that these offices are successful, additional branches will be opened in Karak and Tafileh in year 3. These offices will offer a combination of enterprise loans and education loans.

v) The education loan product initially will be offered in Mafrak on a trial basis during the first year. If successful, the product will be introduced into the Greater Amman area at the beginning of year 2. Initially, the loan officers (6) will operate out of JOHUD's Head Office. Again, if the first loan cycle for Education Loans is successful; one, or possibly, two branch offices will be opened in the Greater Amman area. These offices will be staffed by an additional 6 loan officers.

(vi) In the rural Governorates, the loan officers will manage a portfolio of both enterprise and education loans. In the Greater Amman area, the loan officers will be responsible for education loans only. Two supervisors will be hired to provide oversight and support for the offices in the five Governorates. The Operations

Manager, and an additional supervisor, will provide similar oversight and support for the offices in the Greater Amman area.

(vii) The advertising and marketing campaign in the Governorates for both loan products will build on the CDC's close connections with the local communities, word of mouth, and by the loan officers being out in the field. For the education loans, the MFI will contact the Admissions Offices of the respective universities to notify them about the loan product. Arrangements then can be made to leave pamphlets and brochures for the prospective students to read. In the Greater Amman area, there may need to be a more formal advertising campaign in addition to the pamphlets and brochures. Additionally, greater emphasis will be placed on working with the Admissions Offices of the various universities, so as to bring the program to the attention of the students.

12.0) THE BASIC ASSUMPTIONS FOR THE FIVE YEAR PROJECTION

12.1) The basic assumptions for the five year projections are as follows:

The Annual Inflation Rate:

12.2) This is projected to be 3.0% p.a. The operational costs have been indexed linked to this rate.

The JD/US$ Foreign Exchange Rate:

12.3) This is projected to remain constant at US$1.42=JD 1.000 over the five year period.

Funding For the Program:

12.4) All funding will be on a grant basis.

The Loan Loss Reserve:

12.5) Given the higher level of risk involved in rural lending, the loan loss reserve has been established at 5% of the loan portfolio outstanding.

Loan Officers:

12.6) There will be a total of 10 loan officers hired for the rural Governorates, based on the on the following schedule

Year 1:	2
Year 2:	4
Year 3:	4

12.7) Additionally, 12 loan officers will be hired in the Greater Amman area for the education loan product. Six will be hired mid-year of the second year of operations and the remainder at the beginning of the third year[13].

12.8) The loan caseload for the loan officers will be:

	Rural Governorates		Greater Amman
	Enterprise Loans	Education Loans	Education Loans
Year 1:	50	30	60
Year 2:	80	50	100
Years 3-5:	100	70	140

[13] Given the seasonal nature of the education loans, the hiring of part time loan officers was actively considered. It was finally decided, however, to list them as full time employees, given the potential difficulties in finding staff, who would work part time, and to be conservative in costing the program.

12.9) A credit scoring methodology will be designed and implemented to facilitate the processing of the education loan applications. In the rural Governorates, the loan officers will be responsible for a portfolio of both enterprise and education loans. In the Greater Amman area, the loan officers will handle only education loans.

12.10) The monthly remuneration package for loan officers will be:

	JD.
Direct Salary	125
Social Security	13
Insurance	36
Bonus	100
Travel Allowance	25
Cellular Phone	10
Total	309

12.11) This direct salary component of the package will increase progressively for the first three years for individual loan officers by JD 300 p.a. as their case load progressively increases.

Area Supervisors:

12.12) It is projected that there will be two area supervisors for the rural Governorates, each supervising 5 loan officers. The first supervisor will be hired in year 1, and the second will be recruited in year 2.

12.13) The twelve loan officers in the Greater Amman area will be based in the HO of JOHUD and at least one satellite office. An area supervisor will be hired, who together with the Operations Manager, will supervise these loan officers.

12.14) The monthly remuneration package for supervisors will be as follows:

	JD.
Salary and Bonus	337
Social Security	37
Insurance	36
Travel Allowance	50
Cellular Phone	10
Total	470

Loan Drawdowns:

12.15) The enterprise loans will be available in cycles, starting with an initial loan of JD 750, and increasing JD 50 per loan cycle. The loan drop-out rate is projected at 35% at the end of the first loan cycle, and 20% per cycle thereafter, until the sixth cycle when it is projected to increase to 30%. The loan amount is not index linked.

12.16) The education loan amount projection commences at JD 425 the first year and is projected to increase by JD 10 p.a., to reflect likely increases in the fee scales.

Branch Offices:

12.17) The program will open five offices in the rural Governorates, with the openings staggered as follows:

Year 1	1
Year 2	2
Year 3	2

12.18) Additionally, there will be at least one satellite office opened in the Greater Amman area. All of these offices will be "stand-alone" branches, and their annual costs will be as follows:

		JD
Rent JD 116 per month		1,400
Utilities JD 60 per month		720
Miscellaneous JD 20 per month		240
Capital Expenditures (amortized over 5 years)		
Telephone lines	JD 160	32
Printer/Fax	JD 350	70
Furniture etc	JD 1,000	200
Copiers	JD 2,000	400
Computer	JD 800[14]	160
Total		3,222

The Head Office Staff:

12.19) The Head Office staff and their "fully loaded" employment packages will be as follows:

	JD
Program Director	20,400
Operations Manager	10,800
Accountant	8,400
MIS Manager	6,600

[14] Each computer will service two loan officers.

Secretary	3,600
Driver/Office Assistant	2,500

12.20) All of these staff will be hired at the commencement of the program.

The Head Office Expenses

12.21) In order to minimize the level of fixed costs, the Project will rent space from JOHUD at a cost of JD 1,000 per month, or JD 12,000 p.a.. This rent includes utilities.

12.22) The project will rent capacity on JOHUD's Server at a monthly rental of JD 200, or JD 2,400 p.a.

12.23) The capital expenditure purchases will be

Office equipment (computers, copiers, printers etc.)	10,000
MIS software program/package	22,000
Motor Vehicle	10,000
Start-Up Costs, Including Training, and Preparation of Operating Manuals	18,000.

These assets will be amortized over five years.

12.24) Ongoing annual operating costs will be

MIS service contract	2,000
Office Equipment Service Contract	700
Staff Training	7,000 (9,000 in years 3-5)
Transportation	3,000
Legal Fees	3,000
Audit Fees	1,500
Miscellaneous	6,000
Total	23,200

13.0) FINANCIAL AND SENSITIVITY ANALYSIS OF THE PROJECTED RESULTS

Financial Analysis:

13.1) The attached projections (Appendix I) indicate that the program will achieve an operational sustainability ratio of 105% for the FY 2007. Thereafter, it is likely that the said ratio will plateau in the range of 110%-120%.

Profitability and Sustainability

13.2) On an annual basis, the profitability of the program steadily improves as the educational loan product comes on stream, and the 12 loan officers operating in the Greater Amman build up towards their target case loads of 140 clients per cycle. Given that the loan size for these loans remains relatively small (rising to an average loan amount of JD 525 per borrower), the productivity of the loan officers is crucial to the success of the program.

13.3) The enterprise loans will progressively decline as a percentage of the total portfolio, falling to a 33% level by the end of FY 2007. Consequently, as time passes the program will progressively become more of an educational credit program, rather than a rural enterprise program.

13.4) The loan loss provision for the program is expected to be quite high (5% of the loan portfolio), reflecting both the exposure to the rural areas, as well as a large volume of uncollateralized loans for non-business purposes. Should the loan portfolio perform better than anticipated, this will have a marked impact on the net results.

13.5) The operational costs have been kept to a minimum, with a small HO staff operating out of space rented from JOHUD's Head Office. The branch offices will be independent of the CDC offices, so to as to create in the minds of the client a clear separation between JOHUD and the program. By using this approach, the revenue per JD invested in fixed assets will rise from 138% in year 3 to 263% in year 5. The operating cost ratio also improves steadily, from 45% in year 3 to 21% in year 5. This reflects the fixed nature of the majority of the program's costs. The ratio of administrative staff to total staff has deliberately been kept low, at 29%, to reduce the operational cost per loan made. This cost falls from 55JD in year 3 to 39 JD in year 5.

Productivity:

13.6) The targets regarding productivity, whilst high, should be achievable with the use of the credit scoring methodology. The portfolio per loan officer increases steadily from JD 38,000 in year 3 to JD 62,000 in year 5, with the breakeven per loan officer originally projected at approximately JD 60,000. The projected case load of 100 enterprise loans per loan officer in the rural Governorates can possibly be increased somewhat (dependant on demand). But the case- load of 140 loans per cycle for the educational loan product, however, is probably the realistic maximum level that can be achieved. Hence, any further growth for the educational loan portfolio is likely to be dependant on increases in the average loan size, and through the hiring of new loan officers. Additional hirings, however, will trigger a sharp jump in the fixed overhead costs.

Liquidity and Capital Funding:

13.7) The total amount of projected funding requirements of JD 1,742,000, over the five year period, will need to be grant funds in order for the program to achieve operational sustainability. These funds will be drawn down in tranches, with the heaviest drawings forecast for year 3 (JD 540,000) and year 4 (JD 463,000). The funding will be used as follows:

	JD 000's
Loan Portfolio	1,308
Fixed Assets	98
Working Capital	15
Operating and Administrative Expenses	321

13.8) Given the seasonal nature of the educational loans, there will be a material amount of surplus cash building up in the months prior to the start of the University semesters. These funds will be invested in short term Treasury Bills, and time deposits, (at a projected yield of 3.8% p.a.) to help maximize revenue. In fact the incremental income earnt from these investments represents approximately 85% of the net surplus projected in year 5.

Outreach:

13.9) The outreach of the program will be quite broad, with 3,185 enterprise loans and 13,250 educational loans being disbursed. Of these, approximately JD 4.483 million will be disbursed in rural areas and JD 4.130 million in the Greater Amman area. The average loan size disbursed will be JD460 for the education loan and JD 794 for the enterprise loan. Management will try to ensure that a large proportion of loans are extended to women, and to women headed households.

Sensitivity Analysis;

13.10) The following sensitivity analysis is undertaken:

The Growth in the Loan Portfolio is 10% Less Than Projected.

13.11) The success of the program is based on the premise that the demand for the loan products exists, and that the loan officers can carry the projected case- loads. Should either of these assumptions fall short by 10% in any given year, with a concurrent decline in gross earned income, the effects would be as follows:

Year	**Current Net Income**	**Current Operat. Sustainability**	**Adjusted Net Income**	**Adjusted Operat. Sustain.**
FY 2003	(131,208)	4.4%	(131,801)	3.9%
FY 2004	(160,543)	22.8%	(207,849)	20.5%
FY 2005	(109,853)	55.1%	(122,848)	49.8%
FY 2006	(32,884)	87.2%	(54,259)	78.8%
FY 2007	13,167	105.4%	(11,349)	95.3%

13.12) This analysis highlights the need for the loan officers to achieve their productivity targets.

The Demand for Enterprise Loans is 10% Less Than Projected.

13.13) One of the primary reasons for the development of the MFI program is to make credit available to rural entrepreneurs. If the demand for these loans, however, is 10% less than the projected levels, the effects are as follows:

Year	**Current Net Income**	**Current Operat. Sustainability**	**Adjusted Net Income**	**Adjusted Operat. Sustain.**
FY 2003	(131,208)	4.4%	(131,589)	4.1%
FY 2004	(160,543)	22.8%	(163,815)	21.2%
FY 2005	(109,853)	55.1%	(117,567)	52.0%
FY 2006	(32,884)	87.2%	(45,526)	82.3%
FY 2007	13,167	105.4%	(1,338)	99.2%

13.14) A major risk for this program is correctly assessing the demand in the rural Governorates for enterprise loans. This analysis hi-lights that the margin for error in achieving operational sustainability is small.

Operational Expenses are 10% Higher than Projected.

13.15) As part of the drive to achieve operational sustainability, operating costs have been kept to a minimum. If, however, these costs are understated by 10% in any of the projected years, the effects will be as follows:

Year	Current Net Income	Current Operat. Sustainability	Adjusted Net Income	Adjusted Operat. Sustain.
FY 2003	(131,2 08)	4.4%	(144,504)	3.9%
FY 2004	(160,543)	22.8%	(179,875)	20.8%
FY 2005	(109,853)	55.1%	(131,181)	50.7%
FY 2006	(32,884)	87.2%	(54,586)	80.3%
FY 2007	13,167	105.4%	(9,325)	96.5%

13.16). This analysis indicates that should the operating costs be overstated by more than 6% in FY 2007, the program will fail to achieve full operational sustainability in that year.

Loan Losses Increase to 10% of the Loan Portfolio Outstanding.

13.17). This scenario assumes that the loan losses related to rural lending and to university students, is twice the amount currently anticipated. The effect of these additional write-offs would be as follows:

Year	Current Net Income	Current Operat. Sustainability	Adjusted Net Income	Adjusted Operat. Sustain.
FY 2003	(131,2 08)	4.4%	(135,390)	4.2%
FY 2004	(160,543)	22.8%	(176,018)	18.7%
FY 2005	(109,853)	55.1%	(141,374)	48.8%
FY 2006	(32,884)	87.2%	(69,530)	76.1%
FY 2007	13,167	105.4%	(5,197)	98.1%

13.18) This analysis emphasizes the importance of maintaining a high quality loan portfolio, with an increase in the level of loan losses of more than 7% of the projected loan portfolio putting operational sustainability at risk. Good loan portfolio quality will be achieved only by strong credit analysis, and by utilizing JOHUD's knowledge about its clients.

The MFI Must Borrow Funds at an Annualized Interest Rate of 5%.

13.19) The Business Plan is predicated on the assumption that the program will be financed from grant funding. Should, however, the program be forced to borrow all of its funding at 5% p.a., the impact would be as follows:

Year	Current Net Income	Current Operat. Sustainability	Adjusted Net Income	Adjusted Operat. Sustain.
FY 2003	(131,2 08)	4.4%	(138,097)	4.1%
FY 2004	(160,543)	22.8%	(185,541)	21.8%
FY 2005	(109,853)	55.1%	(159,377)	51.3%
FY 2006	(32,884)	87.2%	(107,483)	76.0%
FY 2007	13,167	105.4%	(73,458)	82.3%

13.20) This analysis underlines the reliance the program has on grant funding in order to achieve operational sustainability.

13.21) These sensitivity analyses highlight the fact that the margin of error in regards to reaching operational sustainability is relatively small. This emphasizes the need for management to pursue the approach of gradual expansion on a pilot basis, and reviewing the performance to date on an annual basis. If the program is having difficulty in reaching its progressive targets, alternatives then will have to be considered, including closing the program.

14.0) THE SWOT ANALYSIS OF THE PROJECT

14.1) Working in conjunction with the management team, the following strengths, weaknesses, and opportunities of, together with the threats to, the proposed project have been identified.

Strengths:

14.2) The potential strengths of the program are:

(i) *Name Recognition*: JOHUD enjoys a good reputation in the communities where it operates. While it is proposed that the MFI uses a non-JOHUD name, so as to clearly differentiate its activities, the fact that it is recommended by the local CDCs will be useful.

(ii) *The Outreach That Previously Has Been Established by the CDCs*: The MFI will be able to use the CDCs local knowledge to quickly establish offices, be introduced to the local government officials, and hire staff. The CDC's also will be helpful in bringing operational the necessary procedures to achieve a rapid start-up of activities.

(iii*) The CDC's Knowledge of the Local Marketplace.* The MFI will be able to use the CDC's existing network within the Governorates to identify where, and who, are the best potential clients.

(iv) *The First Mover Advantage Regarding the Education Loan Product:* JOHUD will be the first microfinance provider to introduce a specialized education loan product in Jordan. While there will be an eventual "commodization" of the product as other lenders imitate the product, the MFI will have the advantage of piloting the product, selecting good locations, and building brand name recognition.
.
(v) Ability to Attract Funding from Donors. JOHUD enjoys a good reputation with donors and funders. It will be able to capitalize on this trust when requesting grant funding for the MFI. Furthermore, with its emphasis on rural areas, the program should be attractive to many donors.

(vi) *JOHUD's Long Term Approach to Development*. JOHUD's strategy is to take a long-term view to program building, and recognizes that a good project can take time to reach maturity. Furthermore, JOHUD is reasonably flexible in its approach, and is open to new ideas. This strategic view will be especially important regarding the establishment of a rural microfinance program, which traditionally have a long gestation period.

(vii) *JOHUD's Strong Links With All Levels of Jordanian Society*. With its strong connections, JOHUD will be able to facilitate the start-up and growth of the microfinance program, by helping with discussions at the government level. Furthermore, JOHUD will help rally public support to the MFI and its mission.

Weaknesses:

14.3) These were identified as follows:

(i) *Limited Experience in Microfinance, and the Difficulties in Recruiting and Training Staff:* Undertaking a medium scale microfinance program currently is not a core competence of JOHUD. Gaining this competence through the hiring, and retention, of high caliber staff will be one of the main challenges for JOHUD. Concurrently, success in overcoming this weakness will be critical to the success of the microfinance initiative. This weakness can be overcome by the adoption of a “learning by doing” approach, through piloting the initial program in the Mafrak Governorate, and then slowly expanding thereafter. High caliber staff will be recruited, and retained, by the use of extensive training and an attractive remuneration strategy and package that will focus on local residents.

(ii) *JOHUD’s Traditional Emphasis on Social Development:* The development of a microfinance program without a strong social bias represents a change in focus for both the institution and its clients. To be successful, therefore, the MFI must be viewed as working in partnership with JOHUD, rather than functioning as an arm of JOHUD. This can be achieved by the establishment of the MFI as a standalone legal entity, with its own independent public profile, operating out of its own premises. The benefits of its partnership with JOHUD’s historic mission, can be retained, however, by using the CDCs’ knowledge of the local population as a source of recommended clients. Considerable benefit also can be obtained by utilizing the CDCs’ knowledge about the local economic and social environment.

(iii) *The Focus on Rural Areas:* Internationally, providing financial services to the rural sector has been considered fraught with considerably more risk than operating in the urban and peri-urban areas. This is due to the combination of the high level of credit risk associated with agricultural activities, and the higher cost base of servicing a more scattered population. JOHUD will overcome these weaknesses by using the connections it has in the rural communities through its CDC’s, which will steer higher quality clients to the MFI. Furthermore, the development of the education loan product in the Greater Amman area will help to cross-subsidize the more costly operations in the Governorates.

(iv) *The Last Mover Disadvantage in Entering Into a Microfinance Market at a Late Stage:* Quite often the later entrants into markets are unsuccessful. This is due to a combination of the inability to position themselves strongly in the marketplace, and marketing to clients who have been rejected by the earlier, more experienced suppliers. This is particularly the case in the financial services industry, where late entrants tend to buy market share through cheap interest rates, and lending to credit impaired borrowers. The MFI should be able to overcome this weakness through its focus on rural areas where there is less competition, and by capitalizing on the CDCs' knowledge of the local market. The introduction of a unique loan product also will help offset this weakness.

(v) The Limited Opportunities to Achieve Economies of Scale: As noted in the section on market demand, the potential market for enterprise loans within the five targeted Governorates is insufficient to support a viable microfinance program. Moreover, further expansion into other rural Governorates is unlikely to improve the overall level of cost recovery due to the lack of demand. This weakness is being addressed by the development of the education loan product, which will be used to cross-subsidize the delivery of enterprise loans to the rural areas.

(vi) The Lack of Developed Operating and MIS Systems to Support a Microfinance Program. Currently, JOHUD lacks the necessary operating manuals, and a comprehensive loan tracking/ MIS system, to effectively operate a five branch microfinance program. To attempt to start-up such a program without developing these systems would increase considerably the chances of failure. Management clearly understands the need to establish these systems in advance of developing, and expanding, the lending activities. It will be helped in this regard, however, by the work already done by the other microfinance providers, the Institute of Banking Studies and certain donors. A MIS system, tailored to Jordanian requirements, has been developed, and should be fully operational in time to meet JOHUD's requirements.

Opportunities:

14.4) The opportunities presented by this initiative are as follows:

(i) *The Chance to Provide Microfinancial Services in the Rural Areas.* There is a clear need for the residents of the more remote rural areas to have access to financial services, thereby furthering their development. JOHUD has the ability to build on its current outreach, by establishing a partnership between a MFI affiliate and its network of CDCs. Furthermore, by introducing the education loan product in the urban and per-urban areas, the rural finance component can be undertaken on a sustainable basis.

(ii) *Build on the CDCs' Knowledge of Their Local Marketplaces.* The MFI will be able to capitalize on the CDCs' knowledge of the local marketplace within their own communities. This should help speed up the client identification process, as well as helping to minimize loan losses.

(iii) *Capitalize on JOHUD's Name Recognition.* JOHUD enjoys a good reputation amongst both the local communities where it operates, as well as with all levels of the government sector. While being careful to differentiate itself from JOHUD's social development image, the MFI should be able to capitalize on its connections with the local CDCs.

(iv) *The Potentially Strong Demand for the Education Loan Product.* While the potential demand for this product is difficult to quantify at this stage, it should be substantial, given the importance attached to tertiary education by Jordanian society at large. This demand will be encouraged by an active marketing campaign; using the CDCs, the loan officers, and the widespread disbursement of brochures.

(v) Limited Competition. Currently, JOHUD would face limited competition in both the rural areas, and in regards to the education loan. Over time, though, GUVS, the Bank of the Poor, and ACC's rural banks will provide competition in the Governorates. The other lenders, too, will introduce education loan products of their own. Initially, though, the MFI will have the first mover advantage through which to develop good loan products, establish a strong marketing network, and build up their brand name.

Threats:

14.5) The following threats to the success of the program have been identified.

(i) Competition from the Bank of the Poor, ACC, and other Subsidized Lenders. If a major goal of the program is the achievement of operational sustainability, clearly it cannot compete against these potential competitors based on price. The strategy to match these competitors, therefore, will be based on the first mover advantage, high quality service delivery, and less emphasis on the need for collateral.

(ii) The Rapid Commodization of the Education Loan Product. It is realistic to expect that, if the education loan product is successful, other lenders will roll out similar products of their own. The MFI's advantage in this regard will be that it will have the advantage of name recognition, together with using the loan product in Mafrak as a pilot test. Furthermore, it is anticipated that it will take several years before sufficient education loan programs are available to fully meet the potential demand for this product.

(iii) A New Activity for JOHUD. The development of a sustainable microfinance project will be a new activity for JOHUD. While senior management is expected to provide strong support for the initiative, entrenched operating procedures, and possible reluctance at middle management levels, could hinder the start-up and development. For these problems to be overcome, strong support from senior management and external parties will be critical. In this regard identifying a senior individual who will "champion" the project is recommended.

(iv) The Threat of Large Loan Losses. With its considerable emphasis on rural Governorates, the risk of the program incurring larger the normal loan losses is real. To mitigate this threat, the program will capitalize on the local CDC's knowledge of its community, plus the use of an effective credit screening mechanism. Additionally, the Loan Loss Reserve will be established at a level higher than normally seen in microfinance programs.

(v) The Difficulty of Recruiting and Retaining High Caliber Staff. This is one of the major challenges facing all microfinance programs. JOHUD's strategy for meeting this threat is to recruit from local communities and, in all probability, not exclusively from university graduates. An attractive remuneration package will be offered, together with a good working environment, ongoing training and the possibility of career development. While this approach will not be foolproof, it should help retain key staff within the program.

(vi) The Risk of Donor's Imposing Onerous Conditions on Their Funding. The ability of management to operate independently of the requirements of outside parties is critical to the success of this program. This will include avoiding having to undertake certain activities as a condition as receiving donor support. The program should be in a stronger position than most other microfinance programs in this regard, due to its potential attractiveness to many donors. These attractions include its rural focus, the emphasis on encouraging tertiary education, JOHUD's good reputation amongst donors, and that donors' desire to diversify their funding. These attributes should place the program in a strong negotiating position when meeting with donors, so that it can reject funding that comes with too many strings attached.

Conclusions Regarding the SWOT Analysis:

14.6) While the proposed program has certain weaknesses, and faces some substantial threats, it is considered that these are outweighed by the program's strengths, and the opportunities that present themselves. In particular, the major pluses of its attractiveness to donors, the advantages of having CDCs operating in the targeted Governorates, and the potential economies of scale from the education loan outweigh the difficulties of working in rural areas, the potential challenge of adapting JOHUD's culture, and the need to separate the program from JOHUD's social development image. While the introduction of the program carries considerable risk, this analysis indicates that it has a fair chance of succeeding.

15.0) RISKS

15.1) The following risks to the success of the program have been identified:

Political/Economic Risk:

15.2) Any financial services industry activity is highly vulnerable to political and economic developments. At this point in time these risks in Jordan are considerable. This risk will be managed by the program starting with a pilot for the first twelve months, during which time the amount of capital at risk will be limited. If the outlook at that point of time is still bleak, the program can be closed with only limited losses. The possibility that large losses will result from the education loan product will be mitigated by the importance attached by Jordanian society to education. This will manifest itself in households giving the servicing of these loans a high priority.

Competition:

15.3) As previous studies have shown, the microfinance market is oversupplied. The program will manage this risk by its focus on rural areas, where competition is limited. Furthermore, the education loan product is a new product, and gives the program the first mover advantage in establishing itself, and in targeting the more promising niches of the market. Long term, however, it is likely that the education loan will become a commodity. By that time the program should have established itself as a niche player; targeting a relatively small, but lucrative, sector.

Lack of Demand:

15.4) While it is felt that the demand for education loans will be substantial, the demand in the rural areas for both loan products could be limited, given the low level of household incomes. Specifically, locating households with monthly incomes in excess of JD 250 could be challenging in certain areas. As the sensitivity analysis shows, the margin for error regarding a shortfall in demand is quite small. This risk will be mitigated by the pilot approach to expansion. Both loan products initially will be tested in Mafrak for the first year. If they are successful, and demand exists for both products, operations will commence in Ajloun and Jerash, and out of JOHUD's Head Office in Amman. If these also prove to be successful, the program will further expand in the Greater Amman area, as well as opening in Karak and Tafileh. This gradual expansion approach will help limit and manage this risk

Failure of the Operating and MIS Systems:

15.5) A major risk facing all lending institutions is that the operational policies and procedures, especially the MIS system, are inadequate. This risk will be managed by emphasis being placed on having all of the operational and procedural manuals in place prior to the commencement of activities. Moreover, the program is encouraged to give serious consideration to using the MIS system that has been specifically developed for MFIs in Jordan.

The Recruiting of Credit Agents, and Their Responsibility for Multiple Products.

15.6) Universally, recruiting and retaining qualified staff is a major challenge for MFIs, and Jordan is no exception to this. The program will try and mitigate this risk by offering a competitive salary, benefits, training, and career advancement package. Furthermore, loan officers will not be required to have university degrees. This will distinguish the program from the other MFIs, who require university degrees for its loan officer positions, and will discourage poaching by competitors. This should be a competitive advantage, especially within the Greater Amman area, where competition for qualified staff will be greatest.

16.0) IDENTIFIED ASSISTANCE REQUIREMENTS TO ACHIEVE THE PROJECTED GOALS

16.1) If it is decided that JOHUD will establish a microfinance program, the following areas have been identified where technical and other assistance will be needed.

(i) US$ 1.75 million in grant funding

(ii) The design and structuring of the proposed loan products.

(iii) The design, installation and training with the credit scoring analysis system for the Educational Loan product.

(iv) The preparation of, and training in, the following manuals and reports:

Credit Policies, Procedures and Practices
Operations
MIS
Reporting Formats
Financial forecasting.

(v) The installation and "working in" of the MIS system.

(vi) Staff Training in

Credit
Marketing

(vii) Workshop for the Board of Directors in Good Governance

(viii) Technical assistance in the streamlining of the internal operational procedures.

(ix) Technical advice regarding the closing and/or winding down of the existing loan programs.

(x) Advice regarding the appropriate strategies for negotiating acceptable terms and conditions for funding from donors to microfinance programs.

(xi) Technical advice to both Board and Management regarding the factors to consider when deciding whether the proposed program should be continued, or terminated, at the end of years 1 and 2.

17.0) THE IMPLEMENTATION SCHEDULE FOR THE BUSINESS PLAN

17.1) Detailed below is a proposed schedule for implementing the Business Plan. The various steps discussed below are set out in a time sequence in Appendix II.

Period 1:

17.2) This is the initial decision stage, whereby JOHUD decides whether or not to develop an autonomous MFI, and/or to wind down/merge the existing loan programs. The steps to be taken at this stage are for JOHUD's board to approve the new strategy, and a board is identified and recruited for the MFI. The legal vehicle for the MFI will be identified, and decisions also made concerning the future of the existing loan programs.

Period 2:

17.3) Potential donors are identified, and discussions held regarding the provision of funding.

Period 3:

17.4) During this stage, the autonomous MFI is established with the governance structure installed, key staff identified and recruited, and the legal documents of incorporation completed.

Period 4:

17.5) At this stage, the head office of the MFI is established, and an appropriate MIS system is identified.

Period 5:

17.6) At this point the implementation strategy is finalized, and the business plan revised in light of the revised strategy.

Period 6:

17.7) The Board approves the revised business plan.

Period 7:

17.8) At this stage, the expected funding from donors needs to be confirmed, and the development of the proposed loan products undertaken.

Period 8:

17.9) The recruitment of loan officers, and supervisors, is commenced at this stage.

Period 9:

17.10) During this period all of the operating policies, procedures, and practices are to be designed and perfected. These will include the preparation of a credit procedures manual, operations manual, and the MIS manuals. The credit scoring system for the Education Loan Product also will be designed, and finalized, at this stage. The training of loan officers and supervisors will commence at this stage.

Periods 10 and 11:

17.11) During these periods the loan documentation and other legal issues will be finalized, the office in Mafrak will be established, and the reporting formats developed. The training of the loan officers, and supervisors, will be completed and the marketing strategy designed.

Period 12:

17.12) During this stage the review of the manuals will be completed, co-ordination with the local CDC will be established, and the marketing strategy implemented.

Period 13:

17.13) Operations will commence in Mafrak, and the enterprise and education loan products rolled out.

Period 14:

17.14) After the Mafrak branch has been operational for, say, 12 months; the Management and the Board should review the progress to date, and decide whether to continue, or terminate, the program.

Period 15:

17.15) If the decision is made to continue with the program, the recruitment of staff for Ajloun, Jerash, and the Greater Amman area should commence at this stage.

Period 16:

17.16) During this stage the newly recruited staff receive training, and the offices in Amman, Jerash and Ajloun are established and equipped.

Period 17:

17.17) Operations commence in Ajloun, Jerash and Amman.

Period 18:

17.18) After the new offices have been open for, say, 12 months, the performance to date should be reviewed by both the Board and senior management, and a decision made as to whether to continue or terminate the program.

Period 19:

17.19) If the decision is to continue with the program, the program is expanded in Amman, and extended to Karak and Tafileh.

18.0) SUMMARY AND CONCLUSION

18.1) As the Update of Credit Demand survey indicates, the demand for microfinancial services in Jordan is limited, particularly in the rural areas. Conversely, while the urban and peri-urban areas are well-served, the rural areas of Jordan remain underserved, primarily due to the well- known difficulties in providing microfinance in these areas.

18.2) In light of this situation, various alternative strategies have been identified that JOHUD could adopt after the decision is made as to whether, and in what manner, it decides to become a rural microfinance provider. If it elects to become a wholesaler of microfinance, rather than a retailer, the partnership/ sub-contracting approach presents itself as the preferred option. On the other hand, if JOHUD prefers to be a retailer of microfinance, and to retain operational control of the program, the establishment of an autonomous MFI would appear to be the best alternative. This approach, to be successful though, will need to operate in both rural and urban areas. Other strategic alternatives exist, such as withdrawing from microfinance altogether, establishing SHGs, or working with the Village Cluster Project.

18.3) The autonomous MFI approach, if adopted, carries a certain amount of risk. Moreover, while it is projected that it will achieve 105% operational sustainability in year 5, it will have difficulty in increasing this ratio much beyond the 100%-120% range going forward. These factors will have to be carefully weighed in the making of the final decision.

18.4) Finally, the projected results of all of the options discussed in this paper are reliant on grant funding. If the MFI has to borrow funds to finance its expansion, the operational sustainability will be considerably reduced.

APPENDIX I – FINANCIAL PROJECTIONS

Printed: 1/29/2003 at 8:20 AMXAC, Co. Ltd - **September 2000 Version Financial Projections** Sheet 1
Projections developed with Microfin Ratios File name: SBDC19janmicrofin

Financial Statements – Income Statement	Year 1 FY03	Year 2 FY04	Year 3 FY05	Year 4 FY06	Year 5 FY07	5 YEAR TOTAL
Financial Income						
Interest on loans	5,441	44,144	122,834	204,876	233,505	610,800
Commissions and fees incl. penalties	494	2,738	7,116	10,874	11,654	32,876
Indexing income on loans	0	0	0	0	0	0
Other Earned Income	0	0	0	0	0	0
Income on Investments	0	472	5,004	7,440	11,321	24,238
Total Financial Income	**5,935**	**47,354**	**134,955**	**223,191**	**256,480**	**667,914**
Financial Costs						
Interest and fees on borrowed funds	1	2	5	7	4	19
Interest paid on savings deposits	0	0	0	0	0	0
Indexing expense of deposits	0	0	0	0	0	0
Total Financial Costs	**1**	**2**	**5**	**7**	**4**	**19**
Gross Financial Margin	5,934	47,352	134,950	223,184	256,475	667,895
Provision for loan losses	4,182	15,475	31,521	36,846	18,384	106,407
Net Financial Margin	1,752	31,877	103,429	186,338	238,092	561,488
Operating Costs						
Program (Branch-level)	13,754	54,312	76,459	78,452	80,504	303,481
Salaries and benefits	10,000	37,348	49,255	50,733	52,256	199,592
Other operational expenses	2,760	11,960	19,680	20,195	20,725	75,320
Depreciation	994	5,004	7,524	7,524	7,524	28,570
Administration (Head Office)	119,206	138,108	136,822	140,570	144,420	679,126
Salaries and benefits	57,336	62,445	66,811	68,816	70,880	326,288
Other operational expenses	49,870	63,663	58,011	59,754	61,540	292,839
Depreciation and amortization	12,000	12,000	12,000	12,000	12,000	60,000
Total Operating Costs	132,960	192,420	213,282	219,022	224,925	982,608
Net Income from Operations (before	(131,206)	(160,543)	(108,853)	(32,684)	13,167	(421,120)
Amount of taxes paid	0	0	0	0	0	0
Net income from operations (after ta	(131,206)	(160,543)	(108,853)	(32,684)	**13,167**	(421,120)
Income from grants for Loan Fund Ca	0	0	0	0	0	0
Income from grants for Fixed Assets	0	0	0	0	0	0
Income from grants for Operations	0	0	0	0	0	0
Income from unrestricted grants	275,560	444,833	540,058	463,075	17,953	1,741,480
Excess of Income over Expenses	**144,352**	**284,291**	**430,205**	**430,391**	**31,121**	**1,320,360**

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Projections developed with Microfin

XAC, Co. Ltd - September 2000 Version Financial Projections
Ratios

Sheet 1
File name: XBDC Microfin

Financial Statements
Balance Sheet

	Year 1 FY03	Year 2 FY04	Year 3 FY05	Year 4 FY06	Year 5 FY07
Initial Balance verification					
ASSETS *					
Current Assets					
Cash in Bank and Near Cash	15,000	15,000	15,000	15,000	15,000
Gross Portfolio Outstanding	73,335	301,308	835,349	1,308,665	1,362,422
(Less: Loan Loss Reserve)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net Portfolio Outstanding	69,594	285,178	795,876	1,245,838	1,296,312
Short-term Investments	0	69,437	0	0	0
Savings reserves	0	0	0	0	0
Other Current Assets	0	0	0	0	0
Sub-total, Current Assets	84,594	369,613	810,876	1,260,838	1,311,312
Fixed Assets					
Land	0	0	0	0	0
Buildings (gross)	0	0	0	0	0
Furniture and Equipment (gross)	72,780	89,100	97,620	97,620	97,620
(Accumulated Depreciation)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net Fixed Assets	59,786	59,102	48,098	28,574	9,050
Other Long-Term Assets					
Long-term Investments	0	0	0	0	0
Other long-term assets (net)	0	0	0	0	0
Sub-total, Long-term Assets	59,786	59,102	48,098	28,574	9,050
TOTAL ASSETS	144,380	428,715	858,974	1,289,412	1,320,362
LIABILITIES *					
Current Liabilities					
Accrued expenses	0	0	0	0	0
Savings deposits	0	0	0	0	0
Short-term Concessional Loans	28	72	126	172	1
Short-term Commercial Loans	0	0	0	0	0
Other Current Liabilities	0	0	0	0	0
Sub-total, Current Liabilities	28	72	126	172	1
Long-term Liabilities					
Long-term Concessional Loans	0	0	0	0	0
Long-term Commercial Loans	0	0	0	0	0
Other long-term Liabilities	0	0	0	0	0
Sub-total, Long-term liabilities	0	0	0	0	0
TOTAL LIABILITIES	28	72	126	172	1
EQUITY *					
Accum. Donated equity, prev. period	0	275,560	720,393	1,260,452	1,723,527
Donated equity, current period	275,560	444,833	540,058	463,075	17,953
Shareholder equity	0	0	0	0	0
Dividend payments	0	0	0	0	0
Accum. Net Surplus (Deficit), previous	0	[illegible]	[illegible]	[illegible]	[illegible]
Net Surplus (Deficit), current period	[illegible]	[illegible]	[illegible]	[illegible]	13,157
TOTAL EQUITY	144,352	428,643	858,848	1,289,240	1,320,361
TOTAL LIABILITIES AND EQUITY	144,380	428,715	858,974	1,289,412	1,320,362

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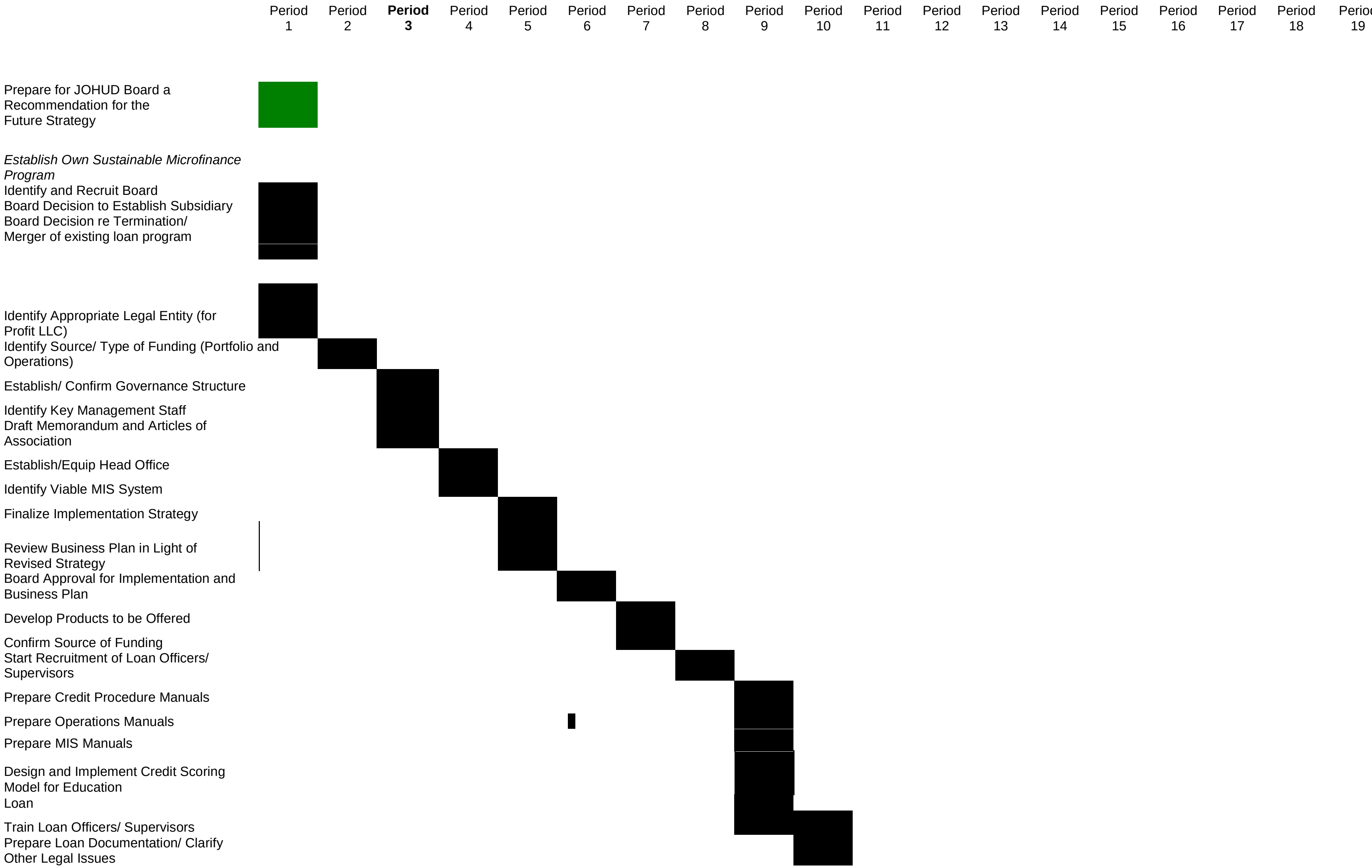
Projections developed with Microfin Ratios File name: S9DC1Sjanmicrofin

Financial Statements Ratio Analysis	Year 1 FY03	Year 2 FY04	Year 3 FY05	Year 4 FY06	Year 5 FY07
Portfolio Quality					
Portfolio at Risk > 0 days	7.0%	7.0%	7.0%	7.0%	7.0%
Loan Loss Reserve Ratio	5.1%	5.4%	4.7%	4.8%	4.9%
Loan Write-off Ratio	1.7%	1.5%	1.7%	1.6%	1.5%
Profitability					
Adj. After-tax Return on Performing As	-342.7%	-75.4%	-21.3%	-6.2%	-1.5%
Solvency					
Equity Multiplier *	1.00	1.00	1.00	1.00	1.00
Efficiency & Productivi					
Yield on Portfolio (annualized) *	20.7%	22.2%	26.1%	23.2%	21.9%
Operating Cost Ratio *	504.9%	96.7%	46.3%	24.8%	21.1%
Borrowers per Loan Officer *	31	52	104	154	176
Portfolio per Loan Officer	12,223	16,739	37,970	58,485	61,928
Growth and Outreach					
Lending					
Total Loan Portfolio *	73,335	301,308	835,349	1,308,885	1,362,422
Overall growth in portfolio	0.0%	310.9%	177.2%	56.7%	4.1%
Number of active loans *	187	939	2,294	3,601	3,868
Overall growth in loans	0.0%	402.1%	144.3%	57.0%	7.4%
Client dropout rate	100%	93%	86%	87%	88%
Voluntary Savings					
Total Voluntary Savings Deposits *	0	0	0	0	0
Percent change in savings deposits	0.0%	0.0%	0.0%	0.0%	0.0%
Number of voluntary depositors *	0	0	0	0	0
Percent change in depositors	0.0%	0.0%	0.0%	0.0%	0.0%

APPENDIX II

IMPLEMENTATION OF THE ACTION PLAN



Develop Reporting Formats

Select/ Equip Offices/ Rooms in Mafrak

Plan Marketing Strategy

Complete Review of Various Manuals/ Systems

Plan Coordination with Local CDC

Plan/ Implement Marketing Strategy

Commence Operations in Mafrak

Introduce Enterprise Loans

Introduce Education Loans

End of Year One, Decision Regarding Continue or Close

Recruit Staff for Ajloun and Jerash

Recruit Staff for Greater Amman Area

Train New Staff

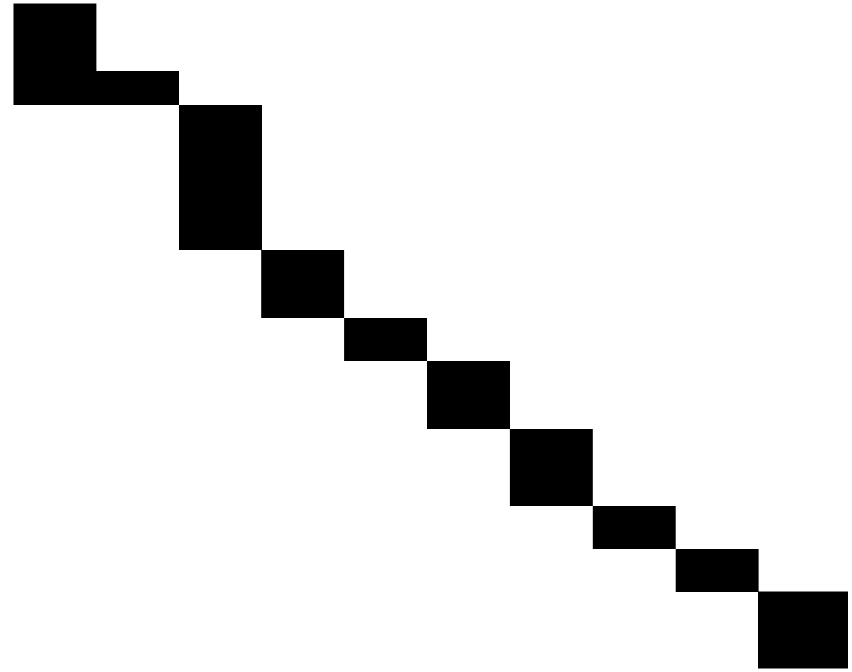
Establish Offices in A;loun, Jerash and HO, Amman

Commence Operations in Ajloun, Jerash, Amman

Review Progress to Date and Decide to Continue or Close

Establish Operations in Karak and Tafileh

Expand Operations in Amman



APPENDIX III – MICROFINANCE COMPETITION

Review of Other Microfinance Lenders

Marketing Competition

Organization	Area of Operation	# of Borrowers (Active)	Outstanding Portfolio (JD)	Loan Size (JD)	Methodology Group or Individual	Loan maturities	Interest Rate	Terms of Repayment (Weekly, Monthly…etc)	Security Collateral Required (Guarantee)
UNRWA	All Jordan	1196	2645000	700-10000	Individual + Groups	1-3 years	12% DB	Monthly	LA+ST(2)+UNRWA or Gov.
Development and Employment Fund (DEF)	All Jordan	6893	29000000.6	1500-15000	Individual + Groups	3-6 years	9%	Monthly	LA+PUR or BC or B or Land
Industrial Development Bank (IDB)	All Jordan	111	732000	1000-15000	Individual + Groups	7 years	6.5% Flat	Monthly	LA+ST(2) or B or Land
The Jordanian Hashemite Fund for Human Development (JOHUD)/ Small Business Development Center (SBDC)	All Jordan	607	883512	300-6000	Individual	6 months- 6 years	12% - 18% Flat	Monthly and once per two weeks	LA +ST(2) +BC +PN
		33	432098	2000-20000	CDCs	6 years	2% flat	twice a year	LA
Noor Al Hussein Foundation (NHF)	All Jordan EX. Jerash and Ajloun	939	645000	300-1000	Individual + Groups	6 months - 30 months	8% Flat	Monthly	ST or BC or PN
General Union of Voluntary Societies (GUVES)	All Jordan	1811	834000	200-1000	Individual + Groups	2 years	9% Flat for Individual and 6% Flat for Groups	Monthly	BC + PN + ST
Orphans Fund	Nationwide	15000	21000000	1000-1MM	Individual	1-7 years	14% DB	Monthly	B, ST(1)
Total		**26590**	**56171610.6**						

Notes

UNRWA numbers are as of December 30,2002 (Mr. Hasan Bahjat)

DEF numbers are as of December 31,2001

IDB numbers are as of December 30,2002 (Mr. Akef)

JOHUD number are as of December 30,2002

NHF numbers are as of December 30,2002 (Mr. Khalid Kabaja)

GUVES numbers are as of December 30,2002

Orphans Fund

LA: Loan Agreement

BC: Bank Cheque

B: Building

PUR: Payment Upon Request from the Employer of the Employee

PN: Promissory Note

GP: Grace Period

ST(2): Salary Transfer of two Government Employee

APPENDIX IV

INDIVIDUALS MET DURING THE COURSE OF THE ASSIGNMENT:

Ms. F. Daghastani	*Executive Director, JOHUD*
Ms. R. Nejdawi Fariz	*Director, SBDC, JOHUD*
Mr. S. Ghawi	*Board Member, JOHUD*
Mr. J. Barnhart	*Director, Economic Opportunities Office (EO), USAID*
Ms. A. Abu Hamdeiah	*Project Management Specialist EO, USAID*
Mr. S. Wade	*Director, AMIR Program*
Ms. T. Kristalsky	*Team Leader, AMIR*
Mr. J. El-Wheidi	*MFI Projects Manager AMIR Program*
Mr. B. Khanfar	*Director, Microfund for Women*
Mr. M. Abar	*Director, CDC Mafrak*
Ms. A. Qubah	*Seamstress, Client of Mafrak CDC.*
Ms. M. Rashid	*Beauty Salon, Client of Mafrak*
Mr. A. Razal	*Chairman CBO in Mafrak*
CBO- Ajloun	*10 Members*
Ms. Manan	*Director, CDC Jerash*
11 Clients	*Jerash, CDC*
Ms. Iman	*Director CDC Ajloun*
12 Clients	*Ajloun CDC*
Loan Officer	*Mafrak CDC*
Loan Officer	*Ajloun CDC*

APPENDIX V – DOCUMENTS READ FOR THE ASSIGNMENT

Poverty Environment for Financial Services to Micro and Small Enterprises in Jordan. R. Moyers, July, 1998.

Restructuring of the MFI Supply Side. G. D. Perrett, May 2002.

Microfinance Facility Concept Paper- JOHUD

The Nature, Role and Place of Enterprise Development in JOHUD. Dr. P. Richardson.

The Way Forward. Journeys of Jordanian Women Entrepreneurs. JOHUD/SBDC

The Jordan Hashemite Fund for Human Development- Mission and Role.

Central Bank of Jordan, Monthly Statistical Bulletin.

The Economist Intelligence Unit, Country Overview.

Al Ahli Microfinance Company. Business Plan, July 2002.

Microfund for Women Business Plan 2002

Microfinance/Microenterprise Strategic Assessment. G.D. Perrett, April 2001

CGAP Occasional Paper, Cost Allocation for Multi-Service MFIs

Update of Credit Demand Survey. J. Daly, October 2002.