Access to Microfinance & Improved Implementation of Policy Reform
(AMIR Program)

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The Detailed Strategic Plan to Achieve Operational Sustainability of the Al Ahli Microfinancing Company

Final Report

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

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1.0). EXECUTIVE SUMMARY:

1.1). As required by the Scope of Work (SOW), the consultant spent approximately four work weeks in Jordan assisting AMC in the preparation of a detailed Business Plan for the implementation of its strategy. The detailed report of this Business Plan, together with the Projections, is attached. There is summarized below, however, the main findings and recommendations of the detailed report.

1.2). The Business Plan outlines a strategy for achieving operational sustainability on a monthly basis during October, 2000. At this time the loan portfolio outstanding is projected to be 739,000 JD and there will be 354 active borrowers. Excluding the impact of investment income forecast to be earnt from the investment of the surplus cash balances originating primarily from the subscribed capital, operational sustainability will be achieved in March 2001. At this date, the loan portfolio outstanding will be 1,162,000 JD, comprising 558 active borrowers. At the close of FY 2004, the loan portfolio outstanding will be 7,106,000 JD comprising 3,660 active borrowers, and the operational sustainability ratio will be 146%. By this time AMC will have disbursed 38,600,000 JD in 11,960 loans to 6,125 borrowers. However, due to the demographics of AMC's target market, and the strong competition from MFW, AMC will have difficulty in achieving the aim of having 50% of the loan portfolio extended to women.

1.3). The above projection is based on the following strategy:

(i). The target market will move up a tier to loans between the 1,000 JD-7,000 JD range, with a specific focus on loan amounts in the 3,000 JD-5,000 JD range.

(ii). A re-design of the Loan Products, so as to cater to the expressed need of clients for loans with maturities in excess over 6 months.

(iii). An increase in the pricing of loans to better match market conditions, and a tiering of the prices to better match the risk being assumed.

(iv). The loan portfolio growth will be driven by the increased loan sizes and the build-up in Loan Officers, rather than by an increase in the case- load. This will allow for a thorough vetting of all loan applications before disbursement, and close monitoring of the loan portfolio outstanding.

(v). The focus on the Greater Amman area, together with a progressive expansion into the larger northern cities, will continue.

1.4). A key factor in the rapid achievement of operational sustainability is the impact of the capital subscriptions and the grant funding, in terms of amount, cost and timing. JNB made a full payment of its subscribed capital prior to the commencement of operations. Additionally, it is projected that AMC will receive 1,270,900 JD in grant funding from AMIR over the next 13 months. These combined funds not only lower the overall weighted average cost of capital to AMC, but also generates 73,000 JD in investment income in FY 2000 and FY 2001. On the other hand, the analysis indicates that, if the grant funding is treated as commercial debt, and equity is costed of 7.5% p.a., adjusted financial sustainability is achieved in FY2002, which is in the third full year of operations.

1.5). AMC has both strengths and challenges as a microfinance provider. Its recognized strengths are that it has access to a large pool of cheap capital, strong support from a leading Jordanian Bank, a banking culture, a discrete though possibly limited target market, and a flexible management approach to their business. The challenges that will need to be overcome are a lack of experience in microfinance, the need to install and operate an effective MIS system, and the need to prepare and implement a comprehensive marketing strategy and plan.

1.6). The above strategy is not without risks. Chief amongst these are the failure to install a new loan portfolio MIS system before AMC enters its rapid growth stage, and the possibly limited size of the microfinance market in Jordan. These, and other risks, have been addressed in the Business Plan and actions plans recommended. In general, though, the senior staff should be able to manage them. AMC will also face the usual risks common to all financial institutions in Jordan, mainly a poor short- term economic outlook, weak lending practices, and the ongoing risk of loan defaults. The sensitivity analysis though, indicates that the occurrence of these factors should not materially impact the overall financial operations, as long as the scope of their impact is limited.

1.7). Together with the other MFIs operating under the MIP Program, AMC will benefit considerably from the preparation of a marketing survey of microfinance in Jordan, the establishment of the proposed Credit Bureau, and an ongoing training program for both mid-level and senior staff. A section on training needs has been included in the detailed Business Plan. AMIR already has commenced work on many of these needs.

1.8). In conclusion, the attached Business Plan is achievable, it builds on AMC's recognized strengths, and is within the ability of both staff and management to implement. However, it needs to be reviewed on a regular basis, and when actual results begin to diverge materially from those that had been forecasted, it should be revised.

1.9). The main changes to the Business Plan are summarized below:

Item	*Former Business Plan*	*Current Business Plan*
Target for Operational Sustainability	FY 2001	October, 2000
Average loan size O/S, 12/31/2001	1,690	2,025
Loan Portfolio 12/31/2001	4,274,800	2,507,200
No. of Clients 12/31/2001	2,530	1,238
Average loan Maturity 12/31/2001	8.4 months	12.4 months

2.0). ACRONYMS USED IN THIS DOCUMENT:

AMC	Al Ahli Microfinancing Company
AMIR	Access to Microfinance and Improved Implementation of Policy Reform
CBJ	Central Bank of Jordan
CHF	Cooperative Housing Foundation
ED	Executive Director
EU	The European Union.
FTE	Full Time Employee
FY	Financial Year
GDP	Gross Domestic Product
GUVES	General Union of Voluntary Services
HO	Head Office
IDB	Industrial Development Bank
JD	Jordanian Dinar
JMCC	Jordanian Micro Credit Company
JNB	Jordan National Bank
LLC	Limited Liability Company
MFI	Microfinance Institution
MIP	Microfinance Implementation Program
MFW	Microfund for Women
NAHF	Noor Al Hussein Foundation
NGO	Non Governmental Organization
p.a.	Per Annum
SC	Save the Children Foundation
SMI	Sustainable Microfinance Initiative

SOW	Scope of Work
WLF	Wholesale Lending Facility
WTO	World Trade Organization
USAID	U.S. Agency for International Development
US$	United States Dollars

3.0). INTRODUCTION AND SCOPE OF WORK

3.1). Under the contract with Chemonics International Inc, dated May 5, 2000; the Consultant spent 22 workdays during the period May 14, 2000-July 5, 2000 completing this assignment. The SOW, as revised by a subsequent amendment, is as follows:

- Using the Microfin projection model, develop a strategic business plan for the achievement of operational sustainability[1] by the closure of the project on January 11, 2002.

- Assess the strengths and weaknesses of the current loan methodologies and loan terms in light of the goal for operational sustainability.

- Review the marketing plan and expansion plan for AMC, including the appropriateness of introducing new loan products, expanding into new geographic regions, and review the pricing of the existing loan products.

- Make recommendations regarding the provision of further technical assistance to AMC to help them achieve the goals of the business plan.

3.2). This report consists of an executive summary, a detailed report, and projections. It briefly describes the history and performance to date of AMC, and identifies its strengths and weaknesses. An overview of the national market for microfinance in Jordan is provided, and recommendations are made for improving AMC's market penetration. Additionally, suggestions are made for the provision of future technical assistance to AMC. Finally, a strategic business plan is presented, together with the risks that AMC faces going forward.

[1] Operational sustainability as defined by CGAP/SEEP Financial Ratio Analysis.

4.0). SOCIO-ECONOMIC VIEW OF JORDAN:

4.1). Jordan is classified as a middle-income developing country. In the early 1990's the country enjoyed a positive five- year economic cycle, during which the Gross Domestic Product (GDP) expanded at an annual growth rate of 5.5%, outpacing the historical increase in the population of 3.3% per annum. Since 1996 though, the economy has been in a growth recession, with the economy expanding at an average 1.3% per annum, resulting in a decline in per capita income. Unfortunately, however, the impact has not been equally distributed across all levels of society, with the middle and lower income levels being disproportionately affected. As a result, the percentage of the population living below the World Bank's poverty level index has risen from about 12% of the population in 1997 to possibly as high as 20% currently.

4.2). One of the causes of this recession has been the tight monetary and fiscal policies that have been implemented under the IMF program, introduced as a response to an increase in the budget deficit equal to 10% of GDP. The effects of these policies have been exacerbated by the commitment to maintaining a fixed exchange rate against the US$ at 1.41US$: 1.00 JD; and the retention of a high level of foreign exchange reserves. The combination of these policies has resulted in high real interest rates and little productive capital investment in the economy. Consequently, there has been little incremental job creation, so that the official rate of unemployment has remained at about 15% of the workforce, and rising to about 25% when underemployment is included. Amongst the female workforce, this latter statistic is about 40%.

4.3). With these policies expected to continue, and with benefits from the accession to the World Trade Organization (WTO), and other measures to open up the economy, not becoming apparent for several years, no improvement in the economy is expected for several years. The outlook, therefore, for the next few years is for high real interest rates, low employment growth, a strong Jordanian Dinar (JD), and little economic growth. On the plus, side, however, inflation is expected to be remain low, at 2%-3% per annum. Over the medium term, though, with the success of the above policies, the advantages of WTO membership, and the opening-up of the economy, and some improvement in the region's political situation, Jordan should be able to resume real per capita income growth.

4.4). The short-term impact of this potential outlook on microfinance is mixed. On the one hand there is likely to be greater interest amongst the population in commencing or growing microbusinesses, which will trigger an interest in the demand for loans. On the other hand, the demand for services from microbusinesses may contract, making it more difficult for these microbusinesses to be profitable. This behooves the MFIs to be selective in their extension of credit, thereby ensuring that they are funding financially viable microbusinesses. Also, it will necessitate that the MFIs identify all sources of household income for the borrowers and verify that those households have a secure source of income other than from possibly marginal microfinance activities. As a consequence, the discount factor used to calculate the number of creditworthy borrowers as a percentage of potential borrowers could be much larger than normally would be the case when the economy is performing well.

4.5). Over the long term, though, the outlook for the microfinance sector should improve, as the economy recovers as a consequence to the above-mentioned policies.

5.0). THE STRATEGIC GOALS OF THE AL AHLI MICROFINANCING COMPANY:

5.1). The goals of AMC as stated in the Memorandum and Articles of Association are as follows:

- Provide access to funding for microbusinesses and microentrepreneurs.
- Assist the development of the microbusiness sector in Jordan through the provision of funding.
- Provide technical assistance to the microenterprise sector[2].

5.2). These goals also were outlined in a letter to the Central Bank of Jordan[3] (CBJ) in which it was stated that microfinance activities would be conducted in the Amman, Zarqa, Irbid, Mafraq, and Jerash areas.

5.3). The Business Plan further enunciates these goals as follows:

5.4). “Microfinance refers to non-collateral lending, typically of small amounts over short maturity periods, and the provision of other financial services to formal and informal entrepreneurs…. Sustainable microfinance refers to the provision of these financial services in a manner which generates revenue sufficient to cover the operating and financial costs of the lending organization”.

5.5). “The purpose of the Microfinance Implementation Program (MIP) is to support innovative approaches leading to a significant increase in the access by a large number of micro and small-scale entrepreneurs to financial services under programs which are operationally and financially sustainable over a period exceeding the life of any grant extended under the MIP”[4].

5.6). Furthermore, Article 9 of the Grant Agreement states that the objective of the grant is “to support the implementation of sustainable microfinance activities which are consistent with “best practice” as acceptable to the AMIR program…”. For this purpose the definition of operational sustainability used is the one enumerated by CGAP/SEEP.

5.7). The above statements and agreements clearly indicate that the sponsors of AMC are committed to establishing a sustainable financial institution, providing financial services to microbusinesses in Jordan.

[2] AMC’s Memorandum and Articles of Association.
[3] Letter dated February 14, 1999.
[4] AMC’s Business Plan, page 2.

6.0). BACKGROUND AND HISTORY OF AMC:

6.1). The creation of AMC has its origins in the initial meetings held between AMIR and the Jordan National Bank (JNB), with the aim of mobilizing involvement by the commercial banking sector in a viable microfinance industry.

6.2). The outcome of these discussions was the decision by JNB to enter this market, and on July 21, 1999 AMC was registered as a for profit Limited Liability Company (LLC). Originally, the company was to be registered with an issued and paid-up capital of 1,500,000 JD, of which 50% was to be subscribed by JNB, and 50% by other shareholders, including foreigners. However, after the CBJ expressed opposition to this proposal, the capital was set at 750,000 JD, all of which was subscribed by JNB.

6.3). Originally, AMC planned to offer what fundamentally are three loan products as follows:-

	Unit	Product A	Product B	Product C	Weighted Average
Loan Size	JD	< 2,000	2,000-4,500	4,500-7,000	3,000
Maturity	Month	6	12	18	8
Int. Rate %		10.0	10.5	11	10.2
Fee %	1.0	1.0	1.0	1.0	1.0
% of Portfolio		70	20	10	

6.4). AMC made its first loan on November 29, 1999; and was formally opened on December 5, 1999. Since that time AMC has expanded cautiously, and as of May 31, 2000 the performance to date was as follows:

Outstanding Loans	JD	344,236
Outstanding Loans	#	166
Cumulative Loans Disbursed	JD	507,509
Cumulative Loans Disbursed	#	177
Average Loan Size	JD	2,643
Operational Sustainability for May	%	38

6.5). Since inception, however, AMC has changed its loan product parameters to better reflect market demand. The minimum loan size for product A has been reduced to 700 JD. Of the 166 loans outstanding as of May 31, 35% are loan product A, 56% are loan product B, and 9% loan product C.

6.6). Currently AMC has 13 employees, consisting of 7 Loan Officers, 2 administrative support staff, a General Manager, a Finance Manager, a Credit Manager and a MIS Manager.

6.7). As originally conceived, AMC was to receive approximately 50% of its funding from JNB, with the balance coming from external investors, and AMIR. AMIR's original grant was set at 1,418,000 JD, of which 553,819 JD was for operational expenses, and 864,181 JD was to be used to fund the loan portfolio. Subsequently, however, it has been agreed that the entire grant will be used for loan portfolio funding, with this new allocation to be applied retroactively.

6.8). In addition to financing, AMC also receives from AMIR technical assistance for the development of their MIS system, Operations system, Policy Manual preparation, Governance and the Internal Audit function. Furthermore, financial support is provided to send selected staff on study tours and courses, both locally and overseas.

7.0). PROJECTED DEMAND FOR MICROFINANCE IN JORDAN FOR THE PERIOD 2000-2004:

7.1). During the preceding two years, three market surveys have been carried out to estimate the demand for microfinance in Jordan. These surveys are:

(i). The CDG Survey, "The Demand for Microfinancial Services in the Micro and Small Scaled Enterprise Sector in Jordan. July, 1998 (the initial survey).

(ii). The WIDTECH survey "Research Findings on Women's' Participation in Microenterprise, Agriculture and the Formal Financial Sector". February, 1999 (the WIDTECH survey).

(iii). The CDG Survey "Market Specifics Survey #1 East Amman (stages I and II) (the East Amman Survey).

7.2). While none of the surveys quantify a nationwide demand for Microfinance, collectively they do provide sufficient information from which an approximation of national demand can be estimated.

7.3). The original survey by CDG ((i) above) projected the national demand for microfinance loans at 328,000,000 JD[5].

7.4). The WIDTECH survey ((ii) above) estimates that there were 63,000 enterprises in Jordan headed by women[6].

7.5). The East Amman survey undertaken by CDG ((iii) above) quantified the number of registered microenterprises in East Amman at 21,400. The report further projects that the unregistered businesses would be at a ratio of 50% of the registered businesses in the food, garment, general services, handicraft, retail trade and hairdressing sectors, totaling 8,100 informal micro enterprises. Based on international experience, this discount factor for informal to formal businesses is too high, and it is more likely to be a positive rather than a negative discount. A more realistic, but still very conservative, factor would be to set the ratio at 100% of all sectors, thereby estimating the number of informal microenterprises at approximately 21,000. Moreover, the survey indicates that approximately 71% of the registered entities are willing to access debt capital, and 91% of informal enterprises would be so willing, summing to a total of about 34,000 microenterprises who would be interested in borrowing.

7.6). With East Amman representing about 20% of the total population, and extrapolating from this base, the potential number of microenterprises interested in borrowing funds could be approximately 170,000 businesses nationwide.

7.7). As noted above, the WIDTECH survey estimated the number of enterprises in Jordan headed by women at 63,000. The East Amman study estimated that 3% of registered businesses were headed by women, while for informal businesses the percentage rose to 63%. Using these proportions and applying them to calculate a weighted average percentage of female-headed

[5] Page 56 of their report.
[6] Page 84 of their report.

businesses in East Amman (29%) and then extrapolating out from the WIDTECH total, the national total of microenterprises is estimated at 217,000. Using the same ratio indicated in the East Amman survey to assess the percentage willing to borrow (71%) the national total of microenterprises willing to borrow is estimated to be about 154,000.

7.8). Based on the above calculations it seems reasonable to assume that there are approximately 150,000-160,000 microbusinesses in Jordan who are interested in using debt capital to fund their business activities. However, the exact location and density of these potential clients is unknown with any certainty outside of the East Amman area.

7.9). The East Amman survey quantified the mean loan size requested at 4,500 JD, while the median size was 3,000 JD. Since the loans in East Amman will be larger than the average size for the entire country, this amount should be discounted by 25% to calculate a national median loan of 2,250 JD. This then calculates out to a projected national microfinance loan demand of about 346,000,000 JD[7], roughly approximating the original loan demand estimated in the original CDG survey.

7.10). Looking forward, it is reasonable to assume that the economic prospects of the microbusiness sector will improve in tandem with those of the economy at large. Hence, as the economy recovers, there should be a gradual increase in the number of creditworthy microentrepreneurs operating within the current and future target markets of the microfinance providers.

[7] 2,250 JD*154,000= 346,500,000 JD.

8.0). REVIEW OF THE OTHER MICROFINANCE LENDERS

8.1). The providers of microfinance in Jordan can be broadly divided into two categories:

The Microfinance Institutions (MFIs)

Other Lenders

8.2). The key differentiation between the two categories is that the MFIs participate in the Microfinance Implementation Program (MIP), and extend loans at non-subsidized rates. On the other hand, the Other Lenders do not participate in the MIP program and, in general, subsidize the loans made available to their clients.

The MFIs:

8.3). In addition to AMC, the other MFIs are Microfund for Women (MFW), Jordan Micro Credit Company (JMCC), and the Cooperative Housing Foundation (CHF).

A brief review of the loan terms and conditions of the other MFIs is as follows:

Lender	Amount	Purpose	Maturity	# of Repayts	Int. Rate %	Loan Type
JMCC*	340 JD to 1,000 JD	Work. Capital	20 weeks	Every 2 weeks	9.0 flat	Ind.
CHF*	GG 100-500 JD Ind. < 14,000 JD	Work. Capital And Cap. Invest.	<9 months 6-36 months	Monthly Monthly	3.8 flat per month 16.0 decl. Balance	Group And Ind.
MFW*	GG150-550 JD Ind. Work Cap: 700-2,500 JD Cap. Invest 1,500-2,500 JD Seasonal < 250 JD	Work. Capital Work. Capital Cap. Invest Work. Capital	26 Weeks 6-10 mos. <12 mos. 8 weeks	Every 2 weeks Monthly Monthly Monthly	8-12 flat 12-17.5 flat 18.0-22.5 flat 3.0 month flat	Group Ind. Ind. Group

* All lenders charge commissions, ranging from 1% to 2.5%.

8.5). In terms of geographic focus, the MFIs' strategies are as follows:

8.6). AMC's strategy is to initially focus on Greater Amman (in particular East Amman), and then progressively expand in the Northern Regions of Jordan.

8.7). JMCC's initial focus is on the Greater Amman area and East Amman in particular. After reaching the saturation point in this area, they will expand into the northern regions of the country.

MFW's exclusive target market is women, and it operates in the Greater Amman area, Mafraq, and Zarqa.

8.8). Initially, CHF's primary target area was the southern region of the country, however, it now intends to expand nationwide. This will bring it into the greater Amman region, and possibly the Northern Districts as well.

8.9). In terms of loan size and loan product, AMC is focusing on established businesses, and is offering loans from 700 JD to 7,000 JD, with maturities of up to 18 months, through its existing B and C loan products. MFW's key focus is on women and with smaller loan amounts (currently <2,500 JD), on which collateral may or may not be required. Their loan maturities are up to 12 months. CHF's focus is on both men and women, with loans ranging from 150 JD-14,000 JD and maturities of up to 36 months. All of the MFIs include loans in the range of 500-1,000 JD, with only CHF and AMC lending amounts larger than 2,500 JD.

8.10). Based on the above, AMC is focused on the same geographic region as MFW and JMCC, while CHF eventually will have some presence there as well. In terms of loan size, AMC is focused on a different niche than JMCC (above 1,000 JD) while its smaller loans will face competition from MFW for the female market. The maturity of AMC's loan product (6-24 months) will place it in strong competition with MFW, and possibly from CHF after they become established. Finally, AMC's pricing structure indicates that its loan products will be broadly competitive with JMCC and CHF, and somewhat cheaper than MFW.

8.11). The basic marketing strategies of the three other MFIs indicate that the most challenging competition that AMC will meet head-on will be from MFW. Consequently, it may be difficult for AMC to reach its objective of extending 50% of its loan portfolio to women. On the other hand, however, AMC's competition for the male market will be less rigorous, with only CHF competing for the male market in the l,000-7,000 JD loan range. This means that in competing with its peer MFIs, AMC will find it easier to expand amongst the male entrepreneurs than with the women entrepreneurs, and should enjoy more success if it targets those loan sizes above JMCC's target market. CHF is not considered to be a major competitor in AMC's geographic regions until early to mid 2001, since it just beginning to establish itself in the Amman and Northern Regions.

Other Lenders to Microbusinesses:

8.12). The survey of lenders to microbusinesses has identified eight existing non-MFI lenders, making twelve funders overall. Details of these potential challengers are included in Appendix I "NGO-Microfinance Competition". The majority of these lenders are small in terms of active borrowers, with the Development Employment Fund (DEF) being the largest in terms of the outstanding portfolio (17,000,000 JD), while the General Union of Voluntary Societies (GUVES) has the largest number of active clients (11,128).

8.13). Not all of these institutions, however, will be direct competitors of AMC, due to their focus on different target markets. The Near East foundation is focused in the southern regions, where AMC does not operate. UNWRAP works exclusively with refugees. Both DEF and the Industrial Development Bank (IDB) require collateral for their loans. GUVES and IDB use intermediaries such as community-based organizations to reach their ultimate client base. Moreover, GUVES is focused on the 100 JD-1,000 JD loan size. The remaining three organizations are comparatively small in terms of outreach.

8.14). In addition to the above, the European Union (EU) and an Italian NGO, Instituto per la Cooperazione Universiteria (the Italian NGO) are planning to enter the microfinance market with subsidized loans. Initially, the Italian NGO will be making available a total of 200,000 JD to borrowers at less than market interest rates in the Refugee camps in Talibiyeh and Madaba. Eventually the program could expand up to 1,000,000 JD. Their loans will be for a 39-month maturity with a 6-month grace period. These loans will be provided at a subsidized interest rate[8].

8.15). The most important factor regarding the Other Lenders as competitors, though, is that many of these institutions lend at below market rates of interest. While this may mean that they are financially unsustainable in the long term, they do present a special challenge to all of the MFIs, since they distort the market concerning clients' expectations, and drain away potentially bankable clients. For how long this situation will continue is questionable, since the Government is in the process of reviewing its policy of supporting institutions that extend credit to borrowers at subsidized rates of interest. Nonetheless, collectively they present a challenge to the MFIs during the remaining life of the SMI Program, both in terms of competing for creditworthy clients, and in terms of downward pressure on product pricing.

8.16). Reviewing the overall market place for microfinance, the toughest competition for AMC will come from MFW for women borrowers, DEF, and some of the smaller other lenders. Competition may evolve from CHF over the longer term, if they can develop their management team to oversee a nationwide program. Finally, should AMC decide to concentrate on the 7,000-10,000 JD loan sector, they could face competition from the commercial banks.

8.17). To counter these potential threats, AMC will be concentrating on the following strategies:

- Targeting loans in the 1,000 JD- 5,000 JD range, specifically between 3,000 JD-5,000 JD, thereby positioning itself in a tier above MFW, JMCC and most of the other microfinance lenders, but in a tier below the commercial banks.

- The strategy of moving into the northern cities of Jerash, Zarqa, Irbid and Mafraq; with the establishment of branch offices there commencing later this year. This will position them in those areas in advance of the other MFIs regarding the male market.

- Providing larger loans with longer maturities than most of their potential competitors, with a possible majority of loans being extended for maturities between 6-15 months.

[8] Jordan Times, May 28, 2000.

9.0). THE DEMAND FOR CREDIT IN AMC'S TARGET MARKET:

9.1). As noted earlier, AMC's geographic target markets are, initially the Amman Region (particularly East Amman), then steadily expanding into Irbid, Ramtha, Zarqa, Mafraq, and Jerash.

9.2). The CDG study identified approximately 24,000 registered businesses in the East Amman region, with 71% of those businesses interested in debt capital. Additionally, it is estimated that there are an equivalent number of unregistered businesses[9], of which 91% would be interested in borrowing. Consequently, the total "pool" of potential borrowers could be approximately 39,000 borrowers. Of all of the potential borrowers, however, it is estimated that probably 60%, or 23,000 microbusinesses, will be creditworthy and interested in borrowing at any one time. Using this last-mentioned figure as a base, together with the demand by loan size estimated by the CDG survey, the projected demand in East Amman for loans, by loan size, would be as follows:

Loan Size: JD	*% of Total Demand*	*Formal Sector*	*Informal Sector*	*Total*
<200-1,000	21.1%	2,157	}	
1,000-1,500	4.7%	480	} 7,860	12,031
1,501-2,000	15.0%	1,534	}	
2,001-3,000	15.8%	1,615	}	
3,001-4,500	6.3%	644	}	
4,501-7,000	24.5%	2,504	} 5,244[10]	11,294
7,001-10,000	7.8%	797	}	
> 10,000	4.8%	490	}	
Total		10,221	13,104	23,325

9.3). No reliable data appears to exist for the areas of Greater Amman that are not included in the CDG Survey. However, due to lower population density, the microfinance activity level is estimated at 65% of the East Amman region. This assumption suggests that the total pool of microbusinesses in Greater Amman is about 38,500.

9.4). AMC also plans to expand into the cities of Zarqa, Irbid, Mafraq, Ramtha and Jerash, starting in August 2000. Thereafter, branches will be opened progressively in the other Northern Cities every six months. The previous business plan estimates their combined population at 1.74 million. This equates to 109% of the population of Amman, or 34% of the total population, compared to 20% of the total population resident in East Amman. Assuming a lower density of microbusinesses in these smaller cities than what is found in Greater Amman (of say 67% of the

[9] The CDG study concluded that there are considerably fewer informal businesses in East Amman than formal businesses. Nearly all microfinance practitioners, however, disagree with this conclusion; and the general consensus is that the informal market is at least as large as the formal market. Hence, this is the estimate used in these projections of demand for microfinance loans.

[10] Page 24 of the CDG Study suggested that in the informal sector, 24% of the microbusinesses would request loans of less than 2,000JD, while 76% would request loans greater than 2,000 JD. This is considered somewhat unrealistic, and based on discussions, the ratio has been changed to 60% of demand will be for loans of less than 2,000 JD and 40% for loans above this amount.

level found in East Amman), this forecasts the level of potential registered and unregistered businesses in the above-mentioned cities that are willing to borrow at about 44,400 businesses[11]. If 60% of these are creditworthy and need to borrow at any one time, the available "pool" will be approximately 26,600 microbusinesses. Furthermore, with the lower income levels found in these regions as compared to Amman, it is reasonable to assume that the proportion of loan requests of less than JD 2,0000 will increase from 60% to 65% (or 17,300 potential clients). Inversely, the demand will be for loans in the range of 2,000 JD-10,000 JD will decline from 40% to about 35%, or 9,300 potential clients.

9.5). Based on the above projections, the potential pool of clients that AMC has in its proposed target market areas is as follows:

Loan Size JD	*East Amman*	*Rest of Amman*	*Northern Cities*	*Total*
< 200-2000	12,031	7,820	17,290	37,141
2001-10,000+	11,294	7,341	9,310	27,945
Total	23,325	15,161	26,600	65,086

9.6). In terms of gender, women comprise 48% of microentrepreneurs wishing to borrow between 200 JD-2,000 JD, and only 16% of those wishing to borrow more than JD 2,000[12]. With MFW focusing on loans of up to 2,500 JD, and having the comparative advantage of being "the Women's Bank", they must be expected to be an extremely strong competitor in this loan size bracket.

9.7). Regarding loan maturities, the CDG Survey suggests that most borrowers of all loan sizes want loans with maturities of longer than nine months[13]. But most lenders are providing credit with maturities of less than seven months. While it is not suggested that lenders should automatically extend the maturity of their loan products to cater to this demand, the results of the CDG survey do indicate that a lender would have an advantage over the competition if they extended credit over a longer maturity early on in the relationship with their clients.

9.8). As noted earlier, all four MFIs, plus most of the other microfinance lenders, are competing in < 200-2,000 JD loan bracket with short- term loans. For example, JMCC is lending up to 1,000 JD with a maturity of 20 weeks, while MFW will lend up to 2,500 JD for 12 months, but only after the borrower has successfully completed several loan cycles. Moreover, this will represent a relatively small proportion of MFW's portfolio. CHF, a late entry into the Amman and Northern Regions, will extend individual loans up to 14,000 JD, but plans to offer only a limited number of these loans.

9.9). The above survey indicates that AMC will face the least competition and have available to it a large pool of potential clients in its geographic region if it focuses on borrowers requiring loans in the range of 2,000 JD-7,000 JD. Moreover, AMC can further segment the market, by offering loans of a longer maturity than those being offered by its competitors, both from within the MFI sector as well as from the other microfinance lenders.

[11] 39,000/0.2*0.34*0.67=44,400.
[12] CDG Survey, p.i of Executive Summary.
[13] CDG Survey, p.i of Executive Summary.

10.0). REVIEW OF AMC'S PROPOSED LOAN PRODUCTS AND LOAN PROCEDURES:

The Loan Products:

10.1). Under this Business Plan the following three loan products[14] will be introduced as of August, 2000. These loan products are primarily based on the maturities of the loans being extended (and therefore indirectly, the purpose of the loan) rather than being based on the loan amount. Nonetheless, the size of the anticipated loan amounts disbursed increases slightly with the more extended loan maturities.

- Loan Product A, with a maturity of up to 12 months at a 12.0% flat interest rate, plus a 1% commission. The average size of each loan disbursed is projected at from 3,000 JD in 2000 to 3,100 JD in 2004. This loan product will comprise about 60%-70% of the projected loan portfolio for the period 2001-2004.

- Loan Product B has a maturity of up to 18 months and charges a 12.0% flat interest rate, plus a 2% commission. The average disbursed loan size is forecast to range from 3,200 JD in 200 to 3,650 JD in 2004. Loan Product B is projected to comprise between 20%-25% of the total loan portfolio outstanding for years 2001-2004.

- Loan Product C, with a maturity of up to 24 months at a 12.0% flat interest rate, plus a 3% commission. The average loan amount disbursed is planned to slowly increase from 3,500 JD in 2000 to 3,600 JD in 2004. Loan Product C's proportion of the total portfolio will vary between 6%-12% during the period 2000-2004.

10.2). All loans have a 3 JD loan application fee.

10.3). The differentiation in loan product cost to the borrower is effected by the increase in commission, which escalates by 1% per product. The effective annual interest rate for each loan product, assuming set average maturities is as follows:

Loan Product	*Maturity*	*Eff. Ann. Int. Rate*
A	10 months	23.6%
B	15 months	24.8%
C	20 months	25.4%

10.4). These interest rates represent a substantial increase in the current loan pricing structure for each product, which previously had effective annual interest rates of 20.5%, 20.8%, and 21.3% respectively.

10.5). These loan products position AMC in a different market niche than its MFI competitors, due to the larger loan amount and the longer maturity being offered. As compared to JMCC, all loan products are of longer maturity and of larger loan amounts. Regarding MFW, AMC will have stiff competition for any loans to women up to 2,500 JD with a maturity ceiling of 12 months. As noted earlier, CHF is not expected to be a major competitor for the next 12-15

[14] Originally it was planned to introduce two separate loan products with maturities of less than 12 months. For pricing reasons, however, it was decided to combine these two products into one.

months. Moreover, of all four MFIs, AMC is the best positioned to penetrate the large and potentially lucrative market of loans in the 4,500-7,000 JD range, which the CDG survey estimated as being 24.5% of the total formal microfinance market in East Amman. This could be accomplished by a progressive increase in the expected loan disbursement sizes, but not the maturities, of loan products B and C.

The Loan Approval and Monitoring Process:

10.6). The loan approval and monitoring process is as follows:

(i). Upon being contacted by the borrower about requesting a loan, the Loan Officer visits the client to examine the business site, and gather some basic data about the client and the proposed guarantor.

(ii). The Loan Officer then checks as to whether the client or guarantor are on the loan blacklist[15].

(iii). If both lists clear the client, the Loan Officer returns to the client and helps them complete the loan application form. This form is quite detailed, collecting information about both the client and the guarantor. The credit analysis focuses on the cash flow of the business, and the character and business experience of the borrower.

(iv). After the Loan Officer has completed the loan analysis, he/she recommends whether or not the loan should be approved.

(v). The loan application is then reviewed by the Loan Officer's supervisor, who may also visit the client and/or request additional analysis be undertaken, or adjust the amount requested.

(vi). After the loan supervisor recommends the loan, it is sent to the Credit Manager for comment and approval.

(vii). The application is then sent to the Credit Committee for approval. The Committee meets weekly, and consists of the Credit Manager and General Manager, together with the Chairman of AMC.

(viii). After the loan has been approved, the Loan Officer notifies the client of the approval, and of any terms and conditions. The client and the guarantor then are requested to come to the office to complete the loan documentation, and collect the check. The loan documentation consists of the loan contract, promissory note, and post-dated checks for each installment, together with a post-dated check from the guarantor. The guarantor co-signs the promissory note and the loan contract. The client then takes the check to the bank for depositing into his account, or cashing.

(ix). One week after the loan disbursement, the Loan Officer visits the client to ensure that the funds have been used for the specified purpose.

(x). Loan repayment is undertaken either by AMC presenting the post-dated check for payment on the due date, or by the client depositing the repayment installment into a designated account.

[15] Actually AMC uses two blacklists of clients, one prepared and maintained by JNB, and the second by the Jordanian Bankers Association.

For the latter approach, the borrower uses pre-printed deposit slips that have been provided in advance.

(xi). During the tenor of the loan the Loan Officer visits the client at least monthly to monitor the performance of the client's business, and to look for any potential problems that might occur with the loan repayment.

Conclusion:

10.7). As of May 31, 2000 AMC has disbursed 177 loans over six months and to date have not had any loans become past due outstanding. An important causal factor for this is the prompt intervention by senior management when a borrower indicates that they are having trouble making the loan repayments. Based on the performance to date, it is too early to conclude that the system needs to be changed. However, the procedures need to be kept under review, and as weaknesses or inefficiencies develop, they should be adjusted appropriately.

11.0). A REVIEW OF AMC'S MARKETING STRATEGY:

The Original Strategy:

11.1). The marketing plan, as outlined in the Business Plan dated February 13, 1999, called for AMC to provide three loan products (see Section 6, Background and History of AMC) to microbusinesses in the heavily populated regions of Amman, and in the cities of Zarqa, Irbid, Jerash, Mafraq, and Ramtha. The initial thrust was to be in the East Amman region, particularly the Saqf El-Sail, Al-Wihdat, Quaismeh, Khraibt El-Souk and Sahab sectors. Branch offices would be opened in the Northern Cities.

11.2). With its three loan products, AMC was aiming at a large proportion of the mid to upper range of overall target market available in the microbusiness sector of the economy (700 JD-7,000 JD loan size). Moreover, it was prepared to make available loans for capital investment purposes (up to 18 months maturity) for the larger loan amounts. The focus away from the market for the very small loans of less than 500 JD matches well with the decision to use the individual group methodology, which is inappropriate for very small loans.

11.3). Ten Loan Officers were to be hired, and each would be given a specific zone in which they would concentrate. These Loan Officers would report to a Loan Supervisor, who would be responsible for up to five Loan Officers. A fully trained and experienced Loan Officer was expected to handle a portfolio of 150 borrowers. In addition to marketing loans, the Loan Officers will encourage their clients to open Savings Accounts with JNB. The impact of these savings is not reflected in the Business Plan of AMC.

11.4). The marketing and promotion strategy was to be based on personal site visits in each Loan Officers' zone, brochures, open house presentations, town hall meetings and mass mailings to specific target markets.

The Proposed Marketing Strategy:

11.5). To date, the expansion in the Amman region has been slower than originally forecast, due to a variety of factors. These include the need to train a group of inexperienced Loan Officers, and the exercise of caution regarding extending the initial batch of loans to clients in what was a new market for JNB/AMC.

11.6). Nonetheless, based on the results to date and subsequent lessons learnt, the above marketing strategy has been fine-tuned as follows:-

- AMC will concentrate on the Greater Amman area as a whole at the early stages of expansion, rather than commencing solely in the Eastern Amman region and expending out from it thereafter.
- A focus on disbursing loans in an amount in the range of 3,00-5,000 JD. This is larger than the originally estimated weighted average amount disbursed of 3,000 JD. This also provides a clearer focus on clients who wish to borrow more than 1,000 JD, which appears to be the minimum loan amount on which AMC achieves break-even, assuming a zero cost of capital.

- A major shift in the projected loan maturities offered, with Loan Product A being available for up to 12 months, thereby differentiating AMC's loan products from those of the other MFIs. This better matches the perceived need of the clients who primarily expressed interest in loans with a maturity of more than 9 months. On the other hand, AMC does not want to over-expose itself to longer term loans so it is projecting that loans of less than 12 months maturity will normally comprise 65%-70% of the total loan portfolio outstanding.

- As the Loan Officer positions are staffed up, the individual officers themselves will be assigned more compact zones of operations. This will reduce their travel time between clients, thereby improving productivity.

- The original plan called for each experienced Loan Officer to manage a portfolio of 150 clients. This productivity level has been reduced to a probably more realistic level of 105 clients, to allow more time for the loan analysis and credit monitoring required by the projected increase in loan sizes and longer maturities.

- An increase in the pricing structure. Despite this increase, AMC's pricing remains highly competitive with the other MFIs offering similar products.

- The strategy of having an intensive marketing campaign in the area when a new branch is being opened will be retained.

11.7). Management has stressed the fact that the above strategy is flexible and will be reviewed and adapted as circumstances dictate. This will require frequent updates of the Business Plan going forward.

11.8). This marketing plan is based on the fact that a lot of the growth will be driven by the increased staffing up of the branch offices as they are progressively opened over the next two years. Consequently, much of the growth will occur in years 2 and 3 of the Business Plan, as the number of loans outstanding increases from 1,238 at the year of FY 2001 to 2,350 and 3,000 at the close of FY 2002 and FY2003. During this period though the actual loan sizes will grow relatively slowly, with the average loan size disbursed increasing as follows:

Loan Product	*FY 2000*	*FY 2001*	*FY2002*	*FY 2003*	*FY2004*
A	2,961	3,102	3,104	3,112	3,120
B	3,209	3,600	3,622	3,637	3,648
C	3,500	3,513	3,546	3,576	3,590

11.9). This approach displays a risk averse approach to the growth of the portfolio by concentrating on finding new creditworthy clients, rather than re-lending to existing clients beyond their capacity to repay, a depressingly common mistake committed by many microfinance lenders.

12.0). POTENTIAL CONSTRAINTS TO GROWTH:

12.1). The following potential constraints to growth have been identified.

The Limited Demand for Microfinance in Jordan:

12.2). In absolute numbers the demand for microfinance is Jordan is limited. This shortcoming is exacerbated by the lack of a comprehensive market survey of microfinance, and in particular, exactly where the demand for microfinance is physically located. Based on the current projection of a 70% retention rate, AMC will need to have serviced approximately 7,000 clients by the end of FY 2004 in order to achieve its goals. With a basic pool of about 28,000 potential clients in its target market, it needs to achieve about a 25% market share over the next five years. If clients in this target market are not repeat borrowers, the market share required to meet this goal rises to a very demanding 43%. Overall though, the goal appears to be challenging, but achievable, even though AMC will have difficulty in achieving is gender goal of women receiving 50% of the loans extended. On the other hand, should they concentrate on smaller clients, their required market share, in terms of number of loans booked, will increase.

A Shortfall in Funding:

12.3). The agreement between the CBJ and JNB, regarding the establishment of AMC, restricted JNB's funding of AMC to 750,000 JD in equity and 750,000 JD in debt. Thereafter, AMC will have to fund its future growth from either retained earnings or by external borrowing, with the proposed Wholesale Lending Facility (WLF) being the most likely source of funding. The Business Plan projects that AMC will borrow up to 3,290,000 JD from the WLF by the end of FY 2004, with draw-downs commencing during the first quarter of FY 2002. Should the establishment and funding of the WLF be less than planned, or the Manager of the WLF considers AMC uncreditworthy, this would severely limit AMC's expansion plan.

Senior Management Constraints:

12.4). The strategy for the next five years is based on a lean management structure, with operational staff limited to 15 over this period. Looking forward to FY 2004, AMC will be approving 4,000 loans annually or 333 loans per month. To handle this workload, the loan approval process will need to be adjusted. Management has in mind one of two approaches. Either to move to a credit scoring system, or to establish two tracks for credit approval, with smaller loan amounts being approved by more junior staff, and larger loans still being approved by the full Credit Committee of the Chairman, the General Manager and the Credit Manager. Despite this devolution of responsibility, the General Manager and the Credit Manager still will have an extremely heavy loan approval burden, that could result either in rushed credit decisions, or the development of a loan approval backlog. Either development would cause major repercussions to the growth of a high quality portfolio for AMC. To minimize the possibility of this occurring, provision has been made for the hiring of an Assistant Credit Manager.

The Availability of Well-Trained Staff:

12.5). A well-trained force of Loan Officers is vital to AMC's success. By the close of FY 2004 it is expected that AMC will have 35 fulltime Loan Officers, plus 7 loan supervisors. With their multiplicity of duties, covering marketing, credit analysis and loan recovery management, it is critical that they be both well trained and motivated. To ensure that this happens AMC, and

AMIR, will need to focus closely on providing them with a comprehensive training course, both before they are assigned their regular duties, and on a continuing professional education basis.

THE BUSINESS PLAN FORECAST

13.0). REVIEW OF THE BUSINESS PLAN AND STRATEGIC GOALS FOR THE PERIOD FY 2000-2004

Background:

13.1). The Business Plan dated February 13, 1999 projected that AMC would achieve operational sustainability by the end of FY 2001. This was to be achieved by a portfolio at the end of FY 2001 of 2,530 loans and net loan portfolio outstanding of 4,275,000 JD. The target market was to be the East Amman region, with gradual expansion to the rest of the Greater Amman region and Irbid, Ramtha, Zarqa, Mafraq, and Jerash thereafter. Thirty five percent of the loan portfolio will be to borrowers outside of the Amman region, and the aim was be for women to represent 50% of the total loan portfolio outstanding. This strategy was to be implemented through the marketing of three loan products, each of which was focused on slightly different segments of the market. Loan Product A, was projected to amount to 70% of the loan portfolio; Loan Product B, 20% of the portfolio; and Loan Product C, 10% of the portfolio.

The Proposed Goals and Strategy:

13.2). The key strategic goals remain the same: to establish a viable MFI for the long term, and to achieve operational sustainability by January 11, 2002. However, these goals will be achieved by the disbursement of fewer loans to more targeted niches than was originally projected.

13.3). The strategy now consists of

- A restructuring of the various loan products, with the loan maturities being extended to better match client needs. Consequently, 65%-70% of the loan portfolio will be for maturities of less than 12 months, as compared to the previous strategy of 70% of the loan portfolio having a loan maturity of less than 6 months.

- An increase in the product pricing across the board. Furthermore, there will be a greater differentiation in loan product pricing to better match the risks inherent in extending loans over longer maturities. This will increase the overall net revenue from funds.

- A move to a higher market tier in terms of loan sizes, with few loans being extended for less than 1,000 JD, while the average loan size will steadily increase to 3,450 JD over time. But loans extended for more than 5,000 JD initially and for maturities of longer than 18 months will be done on a selective basis, and will amount to a small fraction of the total loan portfolio.

- The caseload per fully trained Loan Officer will be lowered from 150 active loans to 105 active loans per Loan Officer. This will permit more in-depth credit analysis of the loan application, and closer loan administration and monitoring of existing loans, particularly for new borrowers.

- The emphasis on growing the loan portfolio in the Northern Cities will be retained, together with an increased weight being placed on marketing in the West Amman area.

The first branch office will be opened in Irbid later this year, with offices to follow in Jarash, Zarqa, Ramtha and Mafraq in the following years.

- When the volume of activities merits it, a more streamlined approach to credit analysis and approval (for example, credit scoring) will be introduced.

14.0). THE BASIC ASSUMPTIONS FOR THE FIVE YEAR BUSINESS PLAN:

14.1). The basic assumptions for the five-year forecast are as follows:-

Macro Assumptions:

14.2). Inflation: Inflation will average 3% per annum over the life of the business plan.

14.3). Interest Rates on Short Term Investments: The interest rates payable on short-term investments was the actual rate earnt until May 2000, and then 7.5% p.a. thereafter.

14.4). Interest Payable on the Cash at Bank: The interest rate payable on current accounts at JNB was the actual rate earnt until May 2000, and 7.5% p.a. thereafter.

Portfolio Growth Assumptions:

14.5). The Projected Portfolio of Loans: The volume of loans disbursed (in JD) by product is projected as follows:

Product	*Year 1*	*Year 2*	*Year 3*	*Year 4*	Year 5
A	725,459	2,596,300	6,617,306	8,163,598	9,917,959
B	718,809	972,000	1,575,500	1,971,300	2,378,300
C	129,500	347,800	732,412	782,336	930,173
Total	1,573,768	3,916,100	8,925,218	10,917,234	13,226,433

Loan Product:

14.6). The projected number of loans outstanding during the period FY 2000-2004 is as follows:

Product	Dec 1999	Year 1	Year 2	Year 3	Year 4	Year 5
A	14	176	766	1,645	2,100	2,562
B	37	222	347	470	600	732
C	6	43	125	235	300	366
Total	57	441	1,238	2,350	3,000	3,660

The Loan Dropout Rate:

14.7). This is projected to be 30% for all products. Hence, of all new borrowers only 70% will request second loans, and 49% of the original borrowers will request third loans.

The Loan Loss Reserve:

14.8). The Loan Loss Reserve is currently set at approximately 2.4 % of the gross loan portfolio outstanding over the life of the projection period. The loan write-off rate is set at about 1.3% of the gross loan portfolio outstanding.

Financing Assumptions:

14.9). Existing Funding: Initially, AMC will be funded by the capital subscribed by JNB, in the amount of 750,000 JD, plus the ongoing MIP grant. The initial grant amount, which has been reallocated 100% for funding of the loan portfolio, is 1,418,000 JD. The current remaining balance available is 1,270,900 JD. Funds will be provided on a net basis, i.e. the financing gap between projected drawdowns and the projected repayments of existing loans.

14.10). Future Funding: It is assumed that future funding requirements will be provided by a 750,000 JD line of credit from JNB, on which the annual interest rate will be 13% calculated on a declining balance basis. After this line is exhausted, AMC will access funding from the WLF, on which interest of 14% per annum, calculated on a declining balance basis, will be paid.

Fixed Assets:

14.11). The purchase of the following fixed assets has been provided for in the budget. Where there is insufficient internal financing available, they will be funded by borrowings from the WLF. All fixed assets are amortized over 5 years, except for furniture (amortized over 10 years) office machinery, and motor vehicles (both amortized over 7 years). .

Staffing Assumptions:

14.12). The Number of Field Agents: The number of field agents employed will build-up progressively to 35 full time employed (FTE) field agents in FY 2004. This FTE level will vary between the current level of 7 FTE to 35 FTE over the term of the business plan. This allows for resignations, and the hiring of replacement agents in groups of five, rather than undertaking hiring and training on an individual basis.

14.13). The Number of Loan Supervisors: Seven Loan Supervisors are projected to be working for AMC by the end of FY 2004. Each loan supervisor will supervise 5 Loan Officers.

14.14). Administrative Staff: These are estimated to be 20 by the close of FY 2004. They will include Finance Managers, Operations Managers, assistants to both of these positions, and 5 branch managers.

14.15). Assumptions Regarding Bonuses: The Loan Officers and Loan Supervisors receive a bonus package that can result in a substantial increase in the income. It is based on a combination of loans disbursed, plus the loan repayment rate, calculated on a cash basis. Given the complexity involved in projecting the results of this formula over a five-year period, it has been assumed that bonuses earnt will amount to 30% of the total income package of the Loan Officers.

Operational Expenses Assumptions:

14.16). Operational Expenses Linked to Inflation: All operational expenses are index linked to inflation. Hence, all of them will increase by at least 3% per annum. The major operational expenses for the five-year period are projected to be as follows:-

	JD
Marketing Expenses	49,000
Utilities (incl. Communications)	50,000
Training[16]	39,000
Office Supplies	55,000

[16] This amount is additional to any training provided under the AMIR Program.

15.0). THE PROPOSED NEW BUSINESS FORECAST:

15.1). The five- year projection indicates that AMC will obtain operational sustainability on a monthly basis in October, 2000. On an annual basis, the operational sustainability ratio rises from 91% in FY 2000, to a plateau of 142%-150% for the FY 2001-2004.

15.2). The rapid attainment of operational sustainability is largely attributable to the high level of grant funding from AMIR and the large, up-front, capital subscription from JNB. These funds provide AMC with an extremely low cost of capital, together with windfall income from investing surplus funds at attractive rates of interest. If the impact of this investment income from surplus subscribed capital is factored out, AMC achieves 100% operational sustainability on a monthly basis in March 2001.

15.3). If AMC had to pay commercial rates of interest on these grant funds (13%), the impact on their operational sustainability would be as follows:-

FY	*Operational Sustainability* %	*Adjusted Operational Sustainability* %
2000	82	69.3
2001	137	89.4
2002	141	110.0
2003	149	123.5
2004	146	124.8

15.4). This highlights the heavy reliance placed on the "cost free" grant funds to achieve operational sustainability during the first full year of operations. Nonetheless, even if the grant funds were treated as debt, the achievement of operational sustainability during the third full year of operations is impressive.

15.5). If a cost is attached to the subscribed capital plus retained earnings of 7.5%, this sustainability ratio further declines as follows:

FY	*Adjusted Financial Sustainability*[17] %
2000	54.4
2001	79.5
2002	102.0
2003	116.5
2004	117.2

15.6). This above table indicates that AMC would achieve adjusted financial sustainability during the third full year if operations. This is a very good performance by international microfinance standards.

[17] This ratio is the same as would be used for calculating financial sustainability except that the commercial cost of funds, instead of the cost of inflation, has been levied on grant funding, and a short-term investment rate of 7.5% has been charged against equity. Additionally, fixed assets have been deleted from the equation. The above formula is considered more pertinent to AMC.

15.7). The rapid achievement of operational sustainability also is driven by the increase in the average loan size disbursed, and the higher effective annual interest rate being charged on the loans. The increase in the average loan size being extended, which is approximately 3,100-3,600 JD for the period 2001-2004, enables AMC to achieve a high ratio of productivity as measured by the average portfolio per Loan Officer. This statistic rises steadily from 61,000 JD for FY 2000 to 203,000 JD for FY 2004, while at the same time the caseload per Loan Officer grows to a maximum of 105 clients. This is designed so that the Loan Officers (with training) will have sufficient time to undertake meaningful credit analysis before recommending a loan approval .

Revenue and Portfolio Growth:

15.8). For the five year period gross revenue from lending operations is projected to grow rapidly, increasing 391% in FY 2001, 235% in FY 2002, 43% in FY 2003, and 19% in FY 2004. This growth is driven by the rise in the loan portfolio, and the introduction of higher interest rates and commissions on all loan products. This sharp rise in the portfolio and the gross revenue is considered to be manageable regarding the maintenance of loan portfolio quality, since it is being driven by the increase in Loan Officers and the increase in loan size, rather than by a large caseload per Loan Officer.

15.9). The majority of the loan portfolio, and its growth, come from Loan Product A, which will comprise approximately 70% of the loan portfolio outstanding over the period of the projection. While the effective annual interest rate for this product is projected at 23.6% p.a., for many of the loans it could be considerably more, since the projected average tenor of all Loan As is 10 months. Loans with shorter tenors yield higher effective interest rates, so that if there is a high proportion of short maturity loans under this product than what has been projected, the profitability of AMC could increase. The focus on Loan Product A not only matches the demands of the market place for loans of this maturity, but it also matches the deliberate strategy of AMC to limit its credit risk by initially focusing on shorter term loans.

15.10). Over the period of the forecast, the number of active clients will increase from 1,238 loans outstanding at the end of FY 2001 to 3,660 active loans at the end of FY 2004. After allowing for a loan dropout rate of 30% per loan cycle, the number of actual borrowers from AMC will total nearly 7,000 over the five-year period. It is estimated that within AMC’s target market there are approximately 28,000 clients, thereby requiring AMC to win a 25% market share if its goals are to be reached. Within its chosen market, AMC’s main competition will come from MFW, who must be expected to have a clear marketing edge regarding the female market. However, MFW’s target market is for loans of less than 2,500 JD, which will permit AMC to market for female borrowers above this amount.

The Sources and Costs of External Borrowings:

15.11). Due to the restrictions imposed by the CBJ, AMC is limited to a subscribed capital of 750,000 JD, which was fully subscribed by JNB. For the time being, therefore, future capital will have to come from either debt capital, or the progressive build up of retained earnings.

15.12). The projections indicate that AMC will have enough equity capital to fund both its portfolio and operational/administrative expenses needs until October 2001. Thereafter, AMC will need to borrow steadily up to a projected level of 4,040,000 JD at the end of FY 2004.

15.13). The debt capital will be sourced initially from JNB in the amount of 750,000 JD, and up to 3,290,000 JD from the WLF, after the JNB line of credit has been exhausted. AMC expects to borrow from JNB at the prime lender rate, which currently is 13% p.a.. Access to the WLF will be on the lender of last resort basis, and is expected to be priced at 14% p.a. While borrowing under the JNB line of credit will be on an "in-house" basis, the borrowings from the WLF will be subject to a credit analysis and review by the WLF Manager, and therefore is not automatic. Nonetheless, it is considered to be the most likely source of external debt capital.

15.14). By FY 2004, retained earnings will provide an important source of capital for expanding AMC's outreach. Moreover, it is the cheapest source of funding available. The Business Plan projects that retained earnings could amount to 792,000 JD by the end of the projected period. This available amount could be reduced should the Board declare and pay a dividend on the issued share capital. For example should a dividend of 15% be declared for each year commencing in FY 2002, the amount of projected retained earnings would be reduced by 338,000 JD to 453,000 JD by the end of FY 2004, thereby simultaneously driving up borrowing costs and reducing earnings.

The Equity Structure:

15.15). The paid-in share capital is expected to remain fixed at 750,000 JD, with no further share purchases by either JNB and/or other domestic or foreign investors.

15.16). The balance of the AMIR Grant is forecast to be disbursed through the period ending July, 2001. These funds are limited to funding the portfolio, which means that the equity investment by JNB is being used to cover operational and administrative expenses, together with funding the acquisition of fixed assets. The drawdowns from AMIR are based on net portfolio funding needs and vary considerably on a monthly basis. Should the disbursement of these funds be delayed, however, AMC could tap into the capital subscription moneys, or access JNB's line of credit.

15.17). The surplus liquidity created by the timing of the capital subscription enables AMC to generate considerable investment income during FY 2000 (42,000 JD) and FY 2001 (31,000 JD). This helps accelerate the achievement of the 100% operational sustainability goal.

16.0). SENSITIVITY ANALYSIS:

16.1). The following sensitivity analysis has been undertaken:

A Shortfall in the Growth of the Loan Portfolio:

16.2). If AMC is unable to grow its portfolio at the rate assumed in the budget, and the loan portfolio is 10% per annum less than what has been projected, with a linear fall in income from loans, the effect on AMC's financial performance would be as follows:

	Decline In Revenue JD	Current Operational Sustainability Ratio %	Revised Operational Sustainability Ratio %
FY 2000	10,000	82	76
FY 2001	39,000	137	125
FY 2002	92,000	141	127
FY 2003	131,000	149	134
FY 2004	156,000	146	132

16.3). This analysis indicates that apart from FY 2000, a moderate shortfall in the growth projections would not put at risk AMC's ability to meet its goal of achieving operational sustainability. For AMC to not meet the goal of 100% sustainability in FY2001 the shortfall in growth projections would need to be more than 30% below budget.

An Increase in the Interest Rates on Borrowed Funds:

16.4). Currently, the interest rate on funds borrowed from JNB and the WLF is projected at 13% and 14% respectively, over the life of the projection. Should the interest rate increase by 1% per annum, the impact on operational sustainability would be as follows:

	Current Operational Sustainability Ratio %	Revised Operational Sustainability Ratio %
FY 2000	82	82
FY 2001	137	137
FY 2002	141	136
FY 2003	149	144
FY 2004	146	141

16.5). This indicates that even an increase of several percentage points will not result in AMC failing to achieve 100% operational sustainability in FY 2001. For years 2002-2004 the interest costs would have to rise, and remain, more than 8 percentage points higher than the current levels to cause AMC to fall below the 100% operational sustainability level, assuming that AMC does not increase its own lending rates.

Deterioration in the Loan Portfolio Quality:

16.6). Currently the Loan Loss Reserve averages 2.4% of the total loan portfolio outstanding. Should the loan portfolio quality deteriorate to the extent that the Loan Loss Reserve increases to 5.0% of the Loan Portfolio outstanding, the effect on the profitability of AMC would be as follows:

	Current Operational Sustainability Ratio %	Revised Operational Sustainability Ratio %
FY 2000	82	72
FY 2001	137	113
FY 2002	141	119
FY 2003	149	127
FY 2004	146	125

16.7). The above figures indicate that AMC's operational sustainability goal is vulnerable to a deterioration in their loan portfolio quality, should the Loan Loss Reserve need to exceed 7% of the loan portfolio outstanding. This highlights the need for a sound credit analysis and approval system, and an effective MIS with which to monitor loan performance.

An Increase in the Rate of Inflation:

16.8). An increase in the rate of inflation impacts most heavily the operational costs, which have been index linked. In particular the wages and salaries line item will be most sensitive to any change in the inflation rate, and these costs comprise 75% of total operational and administrative costs. Assuming that both the borrowing and lending rates are unchanged, an increase of 1% in the projected inflation rate of 3% will have the following impact on the profitability of AMC:

	Current Operational Sustainability Ratio %	Revised Operational Sustainability Ratio %
FY 2000	82	81
FY 2001	137	135
FY 2002	141	140
FY 2003	149	148
FY 2004	146	145

16.9). This analysis that the impact of a modest increase in inflation on AMC is relatively slight for the period up to FY 2004.

Conclusion:

16.10). The above analyses indicate that AMC is most vulnerable to a sudden deterioration in the quality of its loan portfolio. All of the other variances will have a relatively minor impact on the ability of AMC to meet its goal of achieving 100% operational sustainability.

17.0). RISKS:

17.1). The following risks to the successful implementation of the proposed strategy and business plan have been identified:

Adverse Developments in the Economy:

17.2). As discussed in the section on the socio-economic environment in Jordan, it is anticipated that the current growth recession will continue for the next one to two years. Thereafter, however, the benefits of the opening up of the economy and the accession to the WTO should become apparent, and the economy should start to recover. While this scenario will encourage the establishment of new microbusinesses and the expansion of existing ones, it could well have a negative effect on the demand for the products of these microbusinesses, as the spending power of their clients continues to decrease.

17.3). To manage this risk, emphasis will need to be placed on strong credit initiation and analysis procedures, and on a system of effective loan monitoring and tracking. In this regard AMC is well situated, since they have a sound loan analysis and approval system, and soon will be installing the Banking Beyond 2000 software package for loan portfolio tracking. Moreover, they require their Loan Officers to visit their clients at least once per month.

17.4). Should the economy go into a prolonged recession, though, and the loan demand by credit-worthy borrowers not grow as projected, all of the MFIs will be negatively effected. In this case AMC will be better positioned than its competitors, since JNB has the resources to support it until the economy recovers.

Capacity of the Target Market to Absorb the Supply of Loan Products:

17.5). Currently, AMC faces competition in its existing market from JMCC and MFW, and will face additional competition from CHF within the next 12-15 months. Moreover, seven of the eight other lenders to microbusinesses also are operating in at least some of same regions as AMC.

17.6). The segment of the market that has the most competition is in the 600 JD- 2,000 JD segment. It is estimated that the potential market demand in this segment of the market is limited to approximately 18,000 potentially creditworthy microbusinesses that are interested in debt capital. On the other hand, there are likely to be eleven competitors. This could lead to lenders cannibalizing each other's portfolios, and result in microbusinesses borrowing simultaneously from several institutions[18], and playing one lender off against the other. This could have the unfortunate result of preventing any of the MFIs expanding to a level where economies of scale can be achieved and/or where borrowers "kite" their loans, borrowing from one institution to pay off another.

17.7). This risk is being managed by AMC positioning itself in the tier above the 2,000 JD loan size, where the competition will be less in the immediate future. Nonetheless, to meet the above goals AMC will have to achieve a 25% market share of the expected creditworthy market for loans in the 2,000 JD-7,000 JD segment, assuming that there is a 70% loan retention rate. If the

[18] This has already occurred where one borrower has loans from AMC and MFW simultaneously.

loan retention rate is nil, the required market share will be 43%. This risk of market saturation is considered one of the critical risks faced by AMC, and the other MFIs, with the possible exception of MFW. The completion of a comprehensive market survey within the near future will diminish this risk considerably.

The Failure of the Proposed Strategy:

17.8). The proposed strategy to achieve operational sustainability could fail for several reasons, including poor market acceptance, feeble execution, heavy losses, oversupply of credit, or heavy loan losses.

17.9). This risk will be managed through regular reviews of the strategic business plan against its stated goals. Comparisons of actual results against the budget will be undertaken monthly, and the budget will be updated semiannually. If substantial variances develop, a re-appraisal of the existing strategy will be undertaken and alternatives considered.

17.10). The strategy will be subject to an annual review, and will be adjusted to meet developments as they evolve.

17.11). With this close monitoring of progress, and the frequent comparisons of actual results to the budget, senior management should be able to quickly adjust their strategy as circumstances dictate.

The Failure to Install and Operate a Comprehensive MIS System:

17.12). In common with all of the other MFIs, AMC is using a temporary MIS system, which is based on spreadsheet methodology. It was expected that this temporary MIS system would be replaced by the “Banking Beyond 2000” software package within the immediate future. During the course of this consultancy, though, it has been learnt that the business affairs of the vendor are in a state of flux, which could hamper, or even prevent, the smooth installation and start-up of the proposed MIS system. Such an event would pose a serious problem for AMC, particularly is it gears up to expand its portfolio, since the ability of the existing MIS system to handle a high volume of transactions is questionable. Currently, the SMI Unit of AMIR is seeking to clarify the situation with the vendor. However, it is suggested that, if the results of these discussions are inconclusive or unsatisfactory, the SMI Unit review the existing MIS system to see what support is needed to ensure that it can continue operating at an acceptable level of performance without crashing.

18.0). PROJECTED TECHNICAL ASSISTANCE AND TRAINING REQUIREMENTS FOR AMC:

18.1). The following technical assistance and training requirements have been identified and/or requested by senior management.

The Establishment of a Reliable MIS System for MFIs:

18.2). This is the top priority for AMC in terms of technical assistance. The current plan of installing the "Banking Beyond 2000" software program has run into difficulties that could well result in considerable delays in its installment and application. Since AMC is using a manual system as a stop gap measure, management is extremely keen to have the MIS program issue resolved as quickly as possible, but only if the program will meet their requirements and can be adequately supported by the supplier. AMIR is aware of this and is in taking steps to clarify the installation plans and support capability of the software vendor.

The Establishment of the Credit Bureau:

18.3). Management views the establishment of a nationwide Credit Bureau as a key component in the analyses of individual credit risk for themselves as well as for other MFIs. Moreover, it will be extremely useful in preventing "double-dipping" and "kiting" by prospective borrowers. In AMC's opinion, the Credit Bureau cannot be established too soon.

The Need for a Marketing Survey of the Northern Cities of Jordan:

18.4). A major component of AMC's Business Plan is the steady expansion of operations into the Northern Cities of Jordan. While conventional wisdom is that there is considerable demand for microfinance services in these regions, no comprehensive survey has been undertaken to quantify the amount and location of this demand. Currently a survey of the Irbid and Zarqa areas is in process, and its completion is expected in early July. While not covering all of the future potential target market areas for AMC, extrapolations should be able to be made for assessing demand in Jerash, Ramtha, and Mafraq. To obtain the maximum benefit from the survey, it should not only identify the loan size and maturities requested by the clients, but also identify the locations and density of demand for microfinance within those locations.

Ongoing Technical Training for Staff:

18.5). Management is very cognizant of the need to provide ongoing training to AMC's field and administrative staff, in addition to that provided prior to the field agents' assuming their full time duties. A "continuing professional education" program would need to include the following topics:

Credit Analysis:

18.6). Intermediate and Advanced Courses in
- Income Statement, Balance Sheet, and Cash Flow statement preparation
- How to match the loan repayment outflow with the client's cash cycle
- Gathering background information and helping the client prepare a business plan.
- How to recognize when a borrower is getting into financial difficulty.
- How to manage and recover a defaulted loan
- Marketing AMC's loan products

Loan Portfolio and Liquidity Management:

Preparing an institutional marketing plan
Loan Portfolio Risk Management
Portfolio Risk
Risk Rating
Treasury Management
Liquidity Planning
Cash Flow modeling

18.7). Many of these courses might be provided by the existing Institute of Banking Services microfinance-training program, on an individual subject matter basis. Others will have to be located from other sources. AMIR may consider funding the training for the Loan Portfolio and Liquidity Management Courses.

19.0). NEXT STEPS:

19.1). The following next steps have been identified:

July, 2000.

(i). Complete the necessary changes to the internal procedures and documentation for the introduction of the new loan products A, B and C, scheduled for August 2000.

(ii). Verify the timing for the installation of the proposed new MIS system and ensure that all of the necessary internal control procedures are in place.

(iii). Commence recruiting process for the staff required for the new office, and undertake introductory training.

(iv). Establish short-term investment strategy for surplus cash flow build-up.

August, 2000

(v). Introduce new Loan Products A and B.

(vi). Introduce Loan Product C on a trial basis.

(vii). Commence installation of the new MIS system

(viii). Review the new Market Survey for Irbid and Zarqa completed by CDG, and quantify the effect the results will have on AMC's proposed marketing strategy.

(ix). Commence work on designing a comprehensive marketing strategy for AMC

(x). Open the new branch office planned for Zarqa, and plan the marketing program for the office.

September 2000

(xi). Establish treasury and cash flow management models for the liquidity management function.

(xii). Discuss with AMIR ongoing training needs.

(xiii). Complete the comprehensive marketing strategy for AMC, and proceed to implementation.

November 2000

(xiv) Complete installation of new MIS system and associated training.

(xv). Review and revise Business Plan and projections.

20.0). SUMMARY AND CONCLUSION:

20.1). The MIP Grant Agreement requires that AMC achieve operational sustainability by January 11, 2002. This Business Plan, prepared after AMC has been in operation approximately 7 months, projects that AMC will reach 100% operational sustainability by October 31, 2000. For the FY 2001 the annual operational sustainability ratio is forecast at 137%. Thereafter for the period FY 2002-2004, it plateaus at around 142%-150%.

20.2). The strategy adopted to achieve these goals is for AMC to position itself in the market niche of clients requiring loans of between 3,000 JD- 5,000 JD, with requested loan maturities from 7 to (selectively) 24 months. The geographic target area will progressively expand from East Amman to the remainder of Greater Amman, and then progressively into the northern cities of Zarqa, Jerash, Ramtha and Irbid. The case loads for the Loan Officers is set at 105 clients per full time Loan Officer, thereby allowing sufficient time for meaningful credit analysis and loan monitoring to be undertaken on their portfolios.

20.3). A major factor in the rapid achievement of 100% operational sustainability is the impending disbursement of the grant funding and the large capital subscription. These have a positive impact on AMCs operations in two ways, firstly by providing a no-cost source of funding, and secondly by permitting substantial investment income to be generated. Nonetheless, if the impact of the investment income is factored out, AMC reaches operational sustainability in March 2001. An adjusted financial sustainability ratio of 100% is achieved in FY 2002.

20.4). AMC has several distinct strengths. These are the access to cheap funding, the general back up and support provided by JNB, a banking culture, a discrete although possibly limited target market in which they face little competition, and management’s flexible approach to growing the business. The major challenges it faces are the need to establish an effective MIS system, the lack of experience in the microfinance market place, and the need to establish a focused marketing plan and strategy. Along with the other MFIs, AMC has a requirement for a comprehensive marketing survey of microfinance in all of Jordan, specifically identifying the location of the demand for microfinance. Additionally, the usefulness of a functioning Credit Bureau is becoming increasingly apparent. Finally, there is the ongoing need for training, which will become even more important as the loan portfolio ramps up, and AMC diversifies its sources of funding.

20.5). The Business Plan is realistic in terms of market conditions and is within the capacity of management and staff to implement. While it will need to be reviewed and revised on a regular basis, the strategy is sufficiently viable for AMC to meet its operational sustainability goals.

APPENDIX III.

INDIVIDUALS MET DURING THE ASSIGNMENT:

Mr. Kadeggi, *Client AMC*

Mr. N. Taleh, *Client, AMC*

Mr. M.A. Rahman, *Client, AMC.*

Mr. F. Al Werr, *Chairman, AMC.*

Mr. G. Abuyaghi, General *Manager, AMC.*

Mr. Y. Kandah, *Credit Manager, AMC.*

Mr. M. Jawabreh, *Loan Officer, AMC.*

Mr. B. Erbeh, *Loan Officer, AMC.*

Mr. J. Lindborg, *Director, Economic Opportunities Office, USAID.*

Mr. R. Grohs, *Regional Economic Advisor, USAID*

Mr. G. Andersen, *Senior Private Sector Advisor, Economic Opportunities Office, USAID.*

Ms. R. Dababenh, *Project Management Specialist-Microenterprise, Economic Opportunities Office, USAID.*

Mr. J. Al-Jabari, *Cognizant Technical Officer, Economic Opportunities Office, USAID.*

Mr. S. Wade, *AMIR Program Director.*

Mr. I. Alvizo, *(Previous) AMIR Component Leader.*

Mr. J. Whitaker, *AMIR Component Leader.*

Ms. T. Kristalski, *AMIR Deputy Component Leader.*

Mr. J. El-Wheidi, *AMIR Microfinance Expert.*

Ms. H. Derhalli, *Administrative Assistant, AMIR.*

APPENDIX IV.

DOCUMENTS READ AS PART OF THIS ASSIGNMENT:

The Demand for Microfinancial Services in the Micro and Small Scaled Enterprise Sector in Jordan. *CDG/Al Jidara, July 1998.*

Market Specifics Survey #1 East Amman. *CDG/Al Jidara, December, 1999.*

Women's Economic Activities in Jordan, *WIDtech, February 1999*

Business Plan, *Ahli Microfinancing Company, February 13, 1999.*

Business Plan, *JWDS, December, 1999.*

Business Plan, *CHF, October, 1998.*

Business Plan, *CHF, June 19, 2000.*

Business Plan, *JMCC, Noor Al-Hussein Foundation, January 1999.*

The Alternative Funding Facility for Microfinance Institutions in Jordan, *AMIR, March 2000.*

Country Report, Jordan, *The Economist Intelligence Unit, First Quarter 1999.*