ISAMI – Building a Microfinance Industry for the West Bank and Gaza

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Analysis and Recommendations on the Feasibility of a Tri-partite MFI Merger in Palestine

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Submitted to:

Chemonics International/ Initiative for Sustainable and Accessible Microfinance Industry Project (ISAMI)
Arab Center for Agricultural Development (ACAD)
Palestinian Businesswomen's Association (ASALA)
Palestine for Credit and Development (FATEN)

Submitted By:

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November 2003

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Acronyms

ACAD	Arab Committee for Agricultural Development
ASALA	Palestine Business Women Association
CRS	Catholic Relief Services
FATEN	Palestine for Credit and Development
MFI	Microfinance Institution
MIS	Management Information System
NGO	Non Governmental Organization
PAR	Portfolio at Risk
PNA	Palestinian National Authority
PMA	Palestinian Monetary Authority
PBC	Palestinian Banking Corporation
PDF	Palestine Development Fund
Save	Save the Children
SME	Small and Medium Enterprises
UNRWA	United Nations Relief and Working Agency for Palestinian Refugees
USAID	United States Agency for International Development
WBG	West Bank and Gaza

Executive Summary

There are several strong arguments in favor of the merger of the Arab Center for Agricultural Development (ACAD), the Palestinian's Businesswomen's Association (ASALA), and the Palestine for Credit and Development (FATEN). The institutions share a common vision to create a Palestinian Bank of the Poor, a commitment to providing financial services to low-income households, and similar products and services. In a difficult operating environment, a merged institution could consolidate operations, lower costs, and reallocate human, financial and physical resources to better match market demand. For these reasons alone, there is no doubt that a merger is feasible.

At the same time, a review of the three institutions reveals a number of warning signs that could make a merger difficult. The three institutions are not equals; FATEN is the predominate institution in this merger. FATEN has significantly more capital, higher liquidity, more access to funding, greater infrastructure, and higher asset quality than the other two organizations. From this perspective, it appears to have the least to gain from a merger. Indeed, FATEN is well poised to acquire ACAD and ASALA. These institutions recognize this, but are not interested in being taken over by FATEN – and for good reason. FATEN also has the highest costs, most overhead, greatest losses, and lowest productivity of the three institutions. It has experienced the greatest decline in clients and loan portfolio during the most recent period of instability (intifada) and has been the slowest to respond. Because of these weaknesses, FATEN may indeed benefit from a merger.

ASALA's reason for merging is clearest – it lacks funds to grow. ASALA has been unable to attract sufficient donor funding despite the fact that its group lending operation in Gaza is arguably the most successful operation of the three. ACAD needs to increase capacity to use the funds it has and to turn around its less successful lending operation. If ACAD is to survive as a microfinance institution, it needs the technology and access to markets that both ASALA and FATEN offer.

The case of FATEN is less clear. The financial analysis reveals that the success of the merger will depend heavily on FATEN's ability to restructure by trimming both infrastructure and staff, something FATEN has been unwilling to do thus far. Given the high cost and multi-tiered organizational structure of its operations, it will be difficult for FATEN to absorb its excess capacity through growth alone. Should FATEN aggressively reduce its excess capacity and reinvigorate its group and microlending program, it could attain or surpass the level of success expected from completing a merger. The best reason for FATEN to merge is that the opportunity to realize its vision of a Palestinian Bank for Poor is greater with the two partners than on its own.

In short, the merger hinges on FATEN's commitment to this vision and its willingness to make the difficult decisions and compromises necessary for the merger to be successful.

1. Introduction

Low income households in the Palestinian territories of the West Bank and Gaza have suffered significantly during the intifada. Strict limitations on the number of Palestinians allowed to work in Israel have forced many Palestinian men into relying on family businesses. It has been estimated that 120,000 Palestinian employees are prevented from going to their jobs inside the 1948 borders, drastically reducing family income.[1] Regular incursions by the Israeli Defense Forces have cost more than 2500 Palestinians their lives, and left even more homeless. Normal trade routes between Palestinian cities and between the territories and Israel have been cut off, leaving the many Palestinian home industries without access to markets. There have been a number of reports and studies on the difficult environment in which Palestinian MFIs operate and the existing conditions of supply and demand. In the interest of brevity, the reader is encouraged to refer to the documents listed in the bibliography related to the environment.

Microfinance is a fledgling industry in Palestine. Microfinance in Palestine is primarily conducted by non-profit organizations, including specialized microfinance institutions (MFIs) as well as a number of multi-purpose non-governmental organizations (NGOs) and relief agencies. Until recently, credit has historically been used as a form of relief or donation. The laws and legal system in the territories is not yet sufficiently developed to ensure that MFIs can seize collateral, and there is still no special law governing microfinance institutions or operations.[2] In the late 1990s, MFIs began to adopt a strategy of sustainability and institution building. Unfortunately, the intifada has had a devastating effect on these efforts. Closures and curfews often make it impossible for loan officers to visit clients, for clients to reach the bank, or for employees to come to the office. There is little freedom of movement between the West Bank and Gaza or within the West Bank itself, and some MFI managers have been unable to visit branch offices for over two years. Many MFIs responded by halting operations. This coincided with a rise in delinquency and default by clients who were unable or unwilling to repay loans. In the past year, most MFIs have begun to adapt to the crisis and have found ways to find a "balance of toughness and flexibility on the all-important issue of portfolio quality."[3]

1.1 Background

Three Palestinian NGOs specializing in microfinance, namely ACAD, ASALA, and FATEN, entered into discussions in 2002 regarding merging the three institutions. The three executive directors held preliminary discussions and each director has approached his/her board of directors and received initial approval to analyze a potential merger. Although no decision has been made as to whether a merged institution would remain a

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[1] Building a Microfinance Industry in the West Bank and Gaza, p. 6.
[2] See Charitonenko for a complete description of the current legal environment of Microfinance.
[3] Larson, p. v.

NGO or seek to become a regulated financial institution, each of the three directors expressed an interest in eventually becoming a licensed, deposit-taking institution that would act as a “bank for the poor.” Upon the request of the three institutions, ISAMI contracted the consultant to conduct a feasibility study for the merger.

1.2 Purpose

The purpose of this document is to elaborate on the presentation given to the three MFIs on October 11, 2003. Given the extent of time required to analyze and meet with the institutions and other key players, it was not possible to complete this report while in-country. The ISAMI office and consultant agreed that the primary deliverable should be the presentation to the MFI’s senior staff and board members and this report should be considered a supporting document (see Annex C for the Presentation).

The scope of work required the consultant to complete a feasibility study examining the viability of a merger of the three institutions to form a licensed, deposit-taking, bank for the poor. The feasibility study was to focus on the financial and organizational viability of such a merger and to make suggestions for adaptation of these factors in a merged entity. It should be noted that the SOW characterized the consultancy as a first step in the process of analyzing a merger. The SOW deliberately excluded analysis of legal, regulatory and management issues suggesting that they be reviewed in depth only after the initial study was complete, if at that time the three institutions were still interested in merging. The complete SOW is included in Annex A.

1.3 Methodology

The consultant conducted the following activities to analyze the institutions and their potential to merge successfully:

- Introductory meeting to discuss background, expectations, and set schedules
- Completion of Self-Assessments by each MFI[4]
- Three-day visit to each MFI, including headquarters, West Bank branch and Gaza branch
- On-site review of key reports, manuals, documents, and MIS.
- Financial analysis of each institution (see Annex E)
- Financial projections with scenario analysis of merged institution (see Section 4)
- Mission, Vision, and Values workshop with MFI directors
- Review Meeting with directors
- Presentation to senior management and board members (see Annex XX)

[4] The MFI Self-Assessment tool was developed by the consultant’s employer, Alternative Credit Technologies. It includes seven areas of analysis including: market and clients; products and services; legal environment and governance; human resources and MIS; planning and reporting; policies and procedures; and internal controls and audit.

As noted during the presentation to senior management and board members, it is difficult to analyze three institutions in three weeks and be 100% accurate in all observations. In addition, the consultant relied heavily on interviews to obtain information. There may be some inaccuracies in this report which reflect misunderstandings or hearsay. A list of meetings is included in Annex B.

1.4 Structure of the Report

This report is divided into six sections and several annexes.

1. Introduction
2. Description and analysis of the institutions, including a SWOT analysis
3. Discussion of key issues related to the merger, including reasons to merge and potential impediments
4. Financial projections for the new institution, including three different scenarios
5. Conclusions and recommendations

The structure mirrors the questions posed in the scope of work for this project. As several annexes for this report are produced in spreadsheets, it was not possible to provide all of the financial data in the annexes.

2. Description and Analysis of the Institutions (ACAD)

Per the SOW, the consultant was requested to describe each of the three entities, specifically including their loan products, nature of market segment and penetration, capital resources, portfolio quality, MIS capabilities, management and personnel resources. This included an examination of the strengths and weaknesses of each of the three institutions, with attention to how these might affect their viability within a merged institution.

2.1 Arab Center for Agricultural Development

ACAD began as an agricultural support organization in 1993, providing training, seed, and other needed items to farmers. It first began lending in 1995 and currently lends in and around Nablus, Ramallah, and Jericho, as well as in Gaza. Up until 2001, most of ACAD's lending activity was small loans related to agriculture. In the past few years, ACAD has opened its lending to non-agricultural clients and is making smaller, shorter term working capital loans (≤ US$3000). While the effects on the profile of its clients are not yet significant, it intends to increase the number of microentrepreneurs it serves in urban and peri-urban areas.

Table 1 ACAD Statistics

	30-Aug-03	31-Dec-02
Total Clients	425	284
% Women Clients	2.6%	2.5%
Average Loan Size Disbursed	$5,820	$4,188
Gross Loan Portfolio	$1,595,052	$889,858
Portfolio at Risk > 90 days	30.8%	64.6%
Portfolio Yield	10.0%	7.6%
Operating Self-sufficiency	67.6%	36.6%
Adjusted Return on Assets	-47.9%	-42.3%
Staff	15	19
Loan Officers	5	5
Clients per loan officers	106	71
Clients per staff	28	15

2.1.1 Operations

ACAD currently offers two loan products: small loans (*capital investment loans*) for small businesses that employ others, primarily related to agriculture; and individual micro loans (*working capital loans*) for the working capital needs of microenterprises, primarily vendors, shopkeepers and traders.

ACAD has been plagued by high delinquency since the intifada with over $400,000 of its loan portfolio delinquent more than one year. In 2002, ACAD stopped lending due to the intifada. In 2003, it has significantly increased its lending activity, disbursing nearly $1mm through August. The majority of these loans are for working capital.

Table 2 ACAD Loan Products

	Product 1	Product 2
Product name	Capital Investment Loan	Working Capital Loan
Type of client	New or existing businesses that create new jobs, not traders	Existing businesses only, Traders, vendors, shopkeepers.
Client eligibility requirements	Low income, ability to employ others, 25% contribution to investment, 2 guarantors, bank account	Low income, 2 guarantors, bank account
Average time from first contact with client to disbursement	< 2 months[5]	1-2 months
Currency	USD	USD
Minimum *initial* amount per individual	$4000	$1000
Maximum amount per individual	$15,000	$3000
Minimum term	24 months, 6 month grace period.[6]	1 month[7]
Maximum term	36 month, 6 month grace period.	12 months, up to 6 month grace period.
Repayment frequency	Monthly, principal and interest.[8]	Monthly, principal and interest.
Nominal interest rates	12%	18%
Interest calculation (flat, declining, other)	Declining	Declining
Fees (% of loan or flat)9	1.5% of loan amount	1% of loan amount
Fee Payment (upfront, discount, amortized)	Upfront	Upfront
Penalty interest calculation	Pay existing interest rate on balance	Pay existing interest rate on balance

In addition to lending, ACAD is also active in training and technical assistance to farmers and agricultural producers. Its Jericho and Gaza offices are primarily focused on non-

[5] ACAD requires one month. Guarantor process can often add month to processing time.
[6] Can be tailored to production cycle.
[7] As an example, chicken producers usually borrow from 1 ½ to 2 months.
[8] There are some exceptions of businesses that have structured loans around cash flow plan.
[9] 1% is paid to bank to cover administration fee for facilitating guarantees. In the case of working capital loans, ACAD gets no part of the fee.

credit activities, with lending concentrated in the northern West Bank and in and around Ramallah.

ACAD's interest rates are low relative to other non-bank lenders and slightly higher than commercial banks. Lending procedures generally follow best practices, analyzing the character, capacity, contribution, cash flow, and collateral of prospective borrowers. ACAD requires collateral in the form of third-party guarantees; the guarantors are co-signers of promissory notes. ACAD has negotiated agreements with several banks that allow ACAD to collect payments from guarantors whose salary is directly deposited into the bank. [10] Loans currently require two guarantors, both of whom must be PNA employees who receive their salaries through one of ACAD's approved banks. ACAD also uses the banks for loan disbursement and collections. Borrowers must have checking accounts into which funds are disbursed. In the West Bank, all borrowers must provide post-dated checks for each payment that are cashed by the bank on the payment date.[11]

ACAD is planning to introduce two new products. The first is an individual micro loan (≤ $1500) that will be offered to artisans currently working with a Hope International project in Bethlehem. The loan will be more similar to traditional microlending, starting with small, short term loans that are increased in steps. In addition, ACAD has received funding from the European Union (EU) to help develop the savings and lending capacity of rural credit cooperatives. ACAD will train the cooperatives on credit and financial operations and will provide an initial interest free loan to help the cooperatives leverage their members' savings. Future loans to the cooperatives will have interest rates similar to capital investment loans.

2.1.2 Legal and Organizational Structure

ACAD was registered under Israeli law in 1993 and registered as a non-profit organization with the PNA in 2001. It was founded by nine Palestinians who formed the initial general assembly. The general assembly currently consists of 26 persons who select a nine-person board of directors for a 2-3 year term. The board appoints the General Manager who is practically responsible for the operations of ACAD. The board also appoints the Finance Director. At the same time, the law leaves board members liable and requires board members to perform certain operational duties.[12]

ACAD has a lean and centralized organizational structure at present. Credit operations are centralized under the Credit Manager. All credit decisions must be approved by the credit manager (and, when > $5000, approved by the board) and most financial analysis of clients is conducted in the head office by the credit manager. Loan officers currently

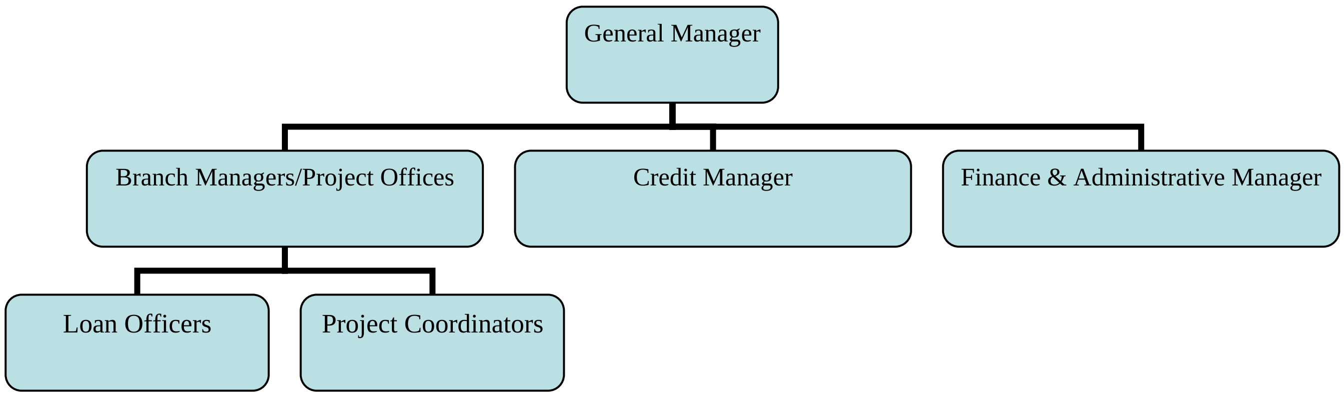
[10] Arab Bank, Cairo Amman Bank, Bank of Palestine, Arab Real Estate Bank

[11] In Gaza, ACAD requires a court witnessed notary deed rather than post-dated checks. This is due to the relative availability of notary deeds v. checking accounts in Gaza.

[12] Board members must sign checks, open bank accounts, and sign all legal contracts. These powers cannot be delegated to management under the law.

act as client managers, finding clients, gathering information, and monitoring payment performance. Loan officers report to the Branch Managers.

Chart 1 ACAD Organizational Structure



ACAD's Nablus Branch is primarily focused on credit and its staff consists primarily of credit officers. The Jericho and Gaza offices are responsible for both credit and non-credit programs, with an emphasis on the latter. Ramallah credit activities are managed out of the head office. ACAD's senior management is well-trained, experienced and competent. Field staff tend to be older, in comparison to the other MFIs, and to have more experience in agriculture and development projects. There is no specialized training for credit officers. It should also be noted that ACAD's staff is mostly male.

2.1.3 MIS and Reporting

ACAD uses a standard accounting software (Bisan) and has a specialized loan portfolio management system designed locally in MS Access. Local technical support is available for both. All data entry is currently done in the headquarters. The Nablus branch is sent the updated loan portfolio file on a weekly or bi-weekly basis, enabling them to see the status of payments. Technical difficulties have made this difficult for other offices, which lack timely access to data. Loan portfolio data and accounting data are combined manually to create financial reports. ACAD is able to track delinquency in its loan portfolio system. A list of bounced checks are tracked by the Finance Manager on a daily basis and monitored in an MS Access database for checks under collection. The information is input to the loan portfolio system allowing for a timely generation of delinquency reports. These reports are not immediately available to all field staff, but delinquency is communicated regularly to loan officers.[13] Financial statements are produced monthly for management and are provided quarterly to the board.

[13] The Gaza branch staff indicated that they do not receive regular or timely portfolio or delinquency reports from head office. As delinquency is monitored centrally, they do not know about late payments until informed by head office.

Box 1 Merger of CHISPA and Interfin – Transformation into CONFIA

Nicaragua[14]

Background – CHISPA, founded in 1990 by the Mennonite Economic Development Associates (MEDA), operated as a non-governmental organization owned by MEDA. By 1999, CHISPA had a $2.5 million microenterprise loan portfolio and served more than 6,000 clients throughout the country. Interfin operated as a licensed financiera in Nicaragua and had a commercial loan portfolio of $12.0 million with 750 clients in Managua. Interfin had equity capital of $2 million, owned by Nicaraguan individuals. Other partners involved in the merger process included: ProFund, a Costa-Rican based investment fund, IPC/IMI, a German-based consulting company and its investment fund, and Interbank, which shared common ownership with Interfin.

Process – After agreeing on their intent to merge in March 1999, CHISPA and Interfin began their due-diligence processes. CHISPA's due diligence uncovered significant, material issues that delayed the determination of ownership in the newly created organization, but did not drastically delay the operational merger, which was scheduled for January 1, 2000. During the first stages of the operational merger, the organization operated under dual management. Bank regulators, after reviewing Interfin's portfolio, mandated additional paid-in capital, which was provided by the international partners. A revised ownership structure was finalized in the second half of 2000. The newly formed CONFIA possessed Interfin's banking license and contained the lending operations of both Interfin and CHISPA.

Key Challenges

- Late Discovery of Material Issues – The discovery of material deficiencies in Interfin's portfolio delayed the organizational merger and greatly increased its complexity.
- Dual Management Roles – The parties were unable to come to an agreement on the management structure of the newly-formed organization and elected to have dual management. This process lasted only a few months before former senior management from Interfin had left CONFIA.
- Culture – While CHISPA staff were trained on the implications of the operational merger, staff from Interfin were not well prepared. Partly as a result of this, a number of former-Interfin staff members were let go or left the organization early in the merger process.

The Merger Process

- Agreement of intent
- Due diligence review
- Agreement of financial basis for a merger
- Preparation of a business plan
- Shareholders' agreement

Key Lesson Learned

The order of the merger process is important – The merger succeeded, but many challenges could have been avoided with a stronger due diligence review early in the process and agreement on an appropriate management structure prior to the operational merger.

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[14] Material for this summary is taken from, "CHISPA to CONFIA: A Transformation," a paper presented by Joyce Lehman, Senior Consultant with MEDA Consulting Group, at the IV Inter-American Microenterprise Forum in November, 2001 and "Mergers in Microfinance: Twelve Case Studies," by Elissa McCarter. Any inaccuracies created in summarizing and interpreting these documents are solely the responsibility of this author.

2.1.4 Policies, Procedures and Internal Controls

ACAD has manuals for lending, human resources, finance and administration. While there are still some differences in lending procedures between offices, the new credit manual (2001) appears to be generally followed by staff. ACAD does reschedule loans[15] but it does not have an approved write-off policy. A loan loss provision expense of 3.5% of the outstanding balance of loans is charged at the end of each year. As noted in the financial analysis, the current loan loss allowance is only 9.6% of the amount that international standards would suggest.[16]

There is no internal auditor for ACAD. Due to restrictions on travel, the Gaza office has not been visited in nearly two years by head office staff. ACAD utilizes the banking system and a centralized credit, accounting and cash management system to minimize risk to the institution. It controls clients through identification checks and requiring the establishment of bank accounts. At the same time, clients are often visited by only one ACAD employee, which makes it difficult to verify clients' businesses or identities.

2.1.5 Financial Condition and Performance

ACAD relies heavily on donor funding, primarily the EU, to cover its operating deficits. Its operational self-sufficiency in 2003 has climbed to 67% from 37% in 2002, but on an adjusted basis its financial self-sufficiency is closer to 14%. The adjusted return on assets is -48% in the current year.[17] This due to its poor asset quality: ACAD's portfolio at risk (PAR) > 90 days is 45% of its gross loan portfolio. This is down from 67% in the previous year, but still extremely high.

ACAD charges relatively low effective rates, ranging from 12%-20%, and has an even lower portfolio yield (10%) resulting from past-due loans and long grace periods without interest payments. It has no financial expenses and manages to maintain fairly low operating costs. Each loan officer serves approximately 85 borrowers, whereas the ratio of staff to clients is only 28. It currently costs ACAD $428 per annum to service a client. ACAD's costs to provide non-credit services are approximately $200,000, all of which is offset by grants to support these activities. ACAD has sufficient liquidity and access to more than Euro 1mm in funds the next two years.

A full financial analysis is presented in Annex D.

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[15] According to management, 9% of loans have been rescheduled since 1995.
[16] International standards, such as those used by the MicroBanking Bulletin, recommend that the portfolio at risk > 180 days should have a 100% allowance for loan loss and the portfolio at risk > 365 days should be written-off.
[17] Adjustments to ACAD are particularly heavy because the poor quality of its loan portfolio and lack of write-off policies required the charge-off over $400,000 in past-due loans. It also receives significant direct donor support to offset operating costs.

2.1.6 SWOT

ACAD brings significant experience in agricultural and rural lending to any merger. It has an established presence in rural areas and field staff that are comfortable with farm operations and employees. It is a fairly lean organization, with 11 of its 15 staff involved in credit operations and several of them also managing aspects of non-credit operations. Staff and administrative costs are reasonable considering the current size of its loan portfolio.

Table 3 SWOT

Strengths	Opportunities
• Sufficient capital • High liquidity • Rural expertise • Strong reputation in rural communities • Lean management and administrative structure • Pragmatic leadership	• Access to future funding (European Union, SIDI) • Merger • New loan products • Cooperation with ASALA
Weaknesses	**Threats**
• Low profitability • Low yields • High delinquency • Lack of micro lending experience • Stringent collateral requirements • Slow disbursement process • No internal audit • Lack of focus	• New loan products • Saturation of the guarantee market • Political unrest, closures • Political influence/interests

At the same time ACAD's weaknesses are apparent. It is the least focused organization of the three MFIs, continuing to seek grant funding for non-credit projects. Interviews with staff confirmed that its social mission is given higher priority than the objective to be profitable or sustainable. Its interest rates are relatively low and unlikely to lead to sustainability. Asset quality is poor and legal collection of delinquent loans has been slow. There has been a significant increase in disbursements in 2003, the majority of which are smaller working capital loans which carry grace periods of several months. The consultant is concerned that ACAD's credit staff is not fully prepared or trained for analyzing and monitoring this type of loan and that the grace periods may hide any problem in the short-term.[18] However, the movement to smaller, short-term loans creates potentially higher profitability for ACAD.

[18] The grace periods may be up to 6 months. Since 75% of its outstanding loans have been disbursed in the current year, many of those loans have not yet had payments due. This makes it difficult to determine the quality of those loans.

ACAD's centralized analysis and decision making is a powerful internal control, but it results in a one to two month lag between receipt of loan applications and disbursement. During the intifada it has added guarantee requirements that are similar to those of banks and are difficult for poorer clients to meet.

The consultant believes that ACAD has the most to gain from any merger. While it has sufficient liquidity and access to more donor funds, it does not have sufficient capacity, experience or lending technology to build a quality micro loan portfolio. It is also under pressure from the EU to increase outreach among lower income entrepreneurs. Senior management has already entered into discussions with ASALA to provide management of its micro loan portfolio. ACAD's management is pragmatic and recognizes that it is unlikely to achieve sustainability before grant funding expires. Its board and management also believe that ACAD's impact will be greater if it combines its resources with the other organizations.

2.2 Palestinian Businesswomen's Associations (ASALA)

ASALA started in 1997 as a project of Oxfam Quebec to promote small business. It concentrated on small business loans to women until 2001 when it negotiated the assumption of Catholic Relief Services (CRS) village banking program in Gaza. Since that time, ASALA's client base consists primarily of group loans (Gaza) and individual micro loans (West Bank). It operates primarily in Jenin, Ramallah, and Gaza, and also serves clients in Bethlehem and Nablus. 100% of its clients are women.

Table 4 ASALA Statistics

	30-Aug-03	**31-Dec-02**
Total Clients	1,225[19]	1,170
% Women Clients	100%	100%
Average Loan Size Disbursed	$512	$465
Gross Loan Portfolio	$1,080,646	$1,086,035
Portfolio at Risk > 90 days	25%	22%
Portfolio Yield	17.7%	21.6%
Operating Self-sufficiency	57.8%	68.2%
Adjusted Return on Assets	-60.4%	-26.5%
Staff	15	15
Loan Officers	9	9
Clients per loan officers	136	130
Clients per staff	82	78

[19] This number most likely understates the total number of clients. Due to difficulties with the MIS system, an accurate number was not available.

2.2.1 Operations

Approximately 80% of ASALA's clients are receiving group loans in Gaza. ASALA utilizes the best practice village banking methodology of CRS, which includes: starting small; structured loan cycles with programmed increases (steps) in loan size; a solidarity guarantee between members; and programmed savings. Members are requested to maintain savings in a local commercial bank, which are monitored by ASALA. Most clients are involved in trade or services. Group loan clients are also eligible for additional seasonal loans (*opportunity loans*), which are small short-term loans that provide liquidity to clients during a high season, such as holidays or harvesting. Group loans and seasonal loans account for approximately 40% of the gross loan portfolio.

Table 5 ASALA Loan Products

Product name	Group Loan	Opportunity Loans	Asset Acquisition Loan	Small Business Loan
Type of client	Female, low income microentrepreneurs[20]	Female, low income entrepreneurs	Female, low income entrepreneurs	Female, low to middle income with small business[21]
Client eligibility requirements	Start-ups or existing businesses, women only.	2 successful cycles of group loan	Completed group loan	
Average time to disbursement	2 weeks	2 weeks	7-10 days	1 month[22]
Minimum group size	5	NA	NA	NA
Maximum group size	15	NA	NA	NA
Currency	US$	US$	US$	US$
Minimum *initial* amount	$150	$250	$1000	$5,500
Maximum *initial* amount	$250	$500	$3000	NA
Maximum amount	$1500	$500	$5000	$20,000
Minimum term	4 months	1 month	1 year	1 year
Maximum term	12 months	6 months	2 years	3 years
Repayment frequency	Monthly	Monthly	Monthly	Monthly
Average length of time to next disbursement	1 week	1 week	3 weeks	NA
Nominal interest rates	24%	12-18%	12-18%	18%
Interest calculation	Flat	Flat	Flat	Declining

[20] Low income is considered by ASALA as a monthly family income of ≤ NIS700 ($175).

[21] Low to middle income is considered as a monthly family income of ≥ NIS2000-6000 ($500-1500)

[22] More analysis required and must be reviewed by BOD loan approval committee.

Fees (% of loan or flat)	1% on loan	2 % on total loan	2% on loan	2% on loan

In the West Bank, ASALA has a mixture of small business loans and individual micro loans (*asset acquisition loans*). Current portfolio growth in the West Bank is in the micro loan product, and is focused primarily in Jenin with nearly 100 active micro loans. ASALA intends to introduce group lending in Jenin in the coming year if sufficient funds are available.

ASALA has slightly over 100 small loans on its books which constitute approximately 40% of its loan portfolio. A solidarity guarantee of group members is required for all group loans. The group also signs a notary deed in the presence of an attorney. Obligatory savings are held in the accounts of the group[23], and therefore cannot legally be considered collateral. However, ASALA has an agreement with local banks that groups many not withdraw funds without ASALA's permission. On occasion, groups are permitted to withdraw savings to make final payments on loans. Both small and individual micro loans require at least one guarantor, and larger asset acquisition loans and small loans require two guarantors. Eligible guarantors included salaried PNA employees as well as shopkeepers with sufficient assets.

ASALA utilizes the banking system for disbursements and collections. For group loans, group treasurers receive loan disbursements at the bank via payment order from the ASALA head office. Treasurers are usually accompanied by loan officers to collect the disbursement and return to the ASALA office to divide the loan among members. Individual borrowers also receive loans through payment order. Both group and individual borrowers make deposits directly to ASALA's account at the commercial bank. On rare occasions, loan officers may accept payments from clients if closures and curfews make travel by the group treasurer difficult or impossible.

ASALA has discussed the possibility of building a micro loan portfolio for ACAD on a profit-sharing or management fee basis. Aside from the management fee income, this will enable ASALA to expand its group lending in Gaza and introduce it in the West Bank.

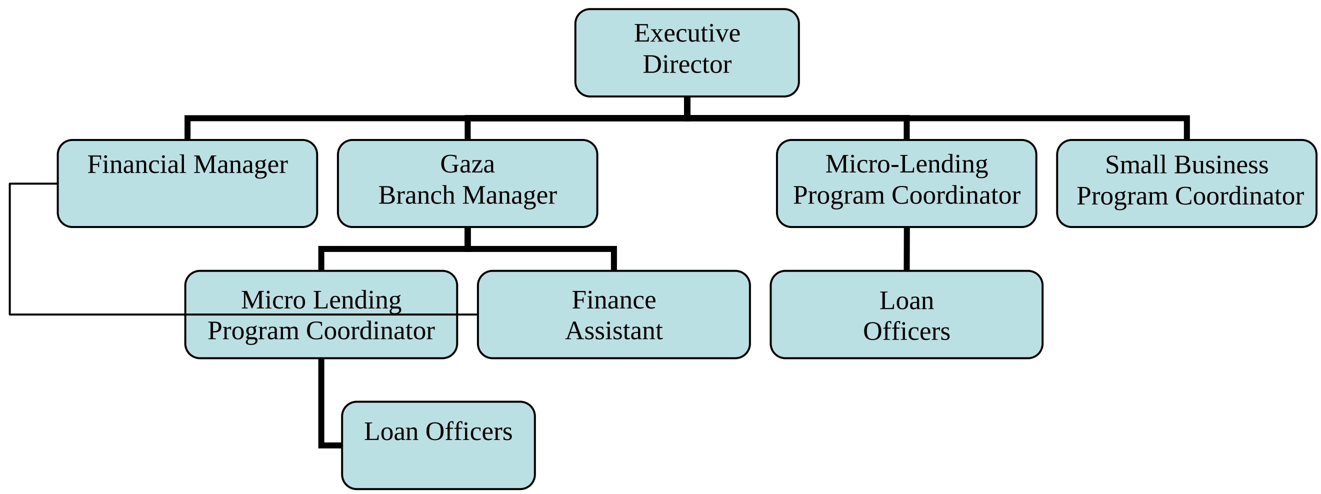
2.2.2 Legal and Organizational Structure

ASALA is registered as a non-profit organization with the PNA, and is regulated by the Ministry of Interior. With the assistance of Oxfam Quebec, ASALA was founded by twelve members who make up the current general assembly. Ten of the members act as the board of directors and are subject to election by the assembly every two years. As with ACAD, board members are liable for ASALA and certain responsibilities may not be delegated to management. In addition, the board has a credit committee which must approve loan applications exceeding $3000.

[23] Accounts are opened in the name of the group's chairwoman and treasurer.

Like ACAD, ASALA has a fairly lean and flat organizational structure. It has branch structure in Gaza, whereas West Bank lending operations are managed directly by the head office. Loan officers are specialized, focusing on either group lending or micro/small lending. However, Gaza group lending officers are beginning to make individual micro loans to group lending "graduates."

Chart 2 ASALA Organizational Chart



2.2.3 MIS and Reporting

ASALA utilizes an integrated accounting and loan portfolio management system developed by Arab Technology Systems (ATS) using Oracle. The system was developed in 2002 and the entry of data for previous periods was completed in the first quarter of 2003. As of the time of the consultant's visit, ASALA continued to experience significant problems producing reports with the system. Timely and accurate operational and financial reports for 2003 were difficult or impossible to produce.[24] The Gaza branch enters its own loan portfolio and accounting data, all entries are checked against original documentation by the head office. The Gaza branch and West Bank loan officers are maintaining parallel records in Excel which are used to produce reports. ASALA does have on-going support from ATS. The system is multi-user, allowing the Gaza branch to enter loan portfolio and accounting data directly by connecting through an ISDN line. All transactions are reviewed by the Finance Manager prior to being posted.

ASALA has audited financial statements for past years, but it has not been able to close its books for 2002. As of the time of the consultant's visit, the auditors were still making adjusting entries.

[24] The system cannot generate 2003 reports until the books are closed on 2002, which has not been done. In addition, the reports module is being modified to correct a number of calculation errors.

Box 2 Creation of Opportunity Microfinance Bank

Philippines[25]

Background – A small group of microfinance NGOs operating in the Philippines began discussions in 1998 around a possible merger. As of December 2000, these institutions were serving more than 46,000 entrepreneurs with a loan portfolio of nearly $3.5 million. The largest of these NGOs had reached the point where their growth was restricted by lack of access to capital. In a consultation meeting held in May 2000, nine members of APPEND – a network of microfinance NGOs in the Philippines – agreed to pursue a merger into a single regulated financial institution. The group was able to witness and benefit from the experience of CARD's transformation from an NGO to a regulated rural bank in that country.

Process **–** The merger began to accelerate when APPEND and its leader, Noel Alcaide, began to champion the commercialization process. The presence of a strong, credible leader without a financial or business interest in the merger process eased many of the concerns felt by participants. The selection at the end of the year of a strong, independent leader as CEO of the new bank solidified the commitment of the participants to the process. Legally, the merger hinged upon the successful granting of a thrift bank license by the central bank, which was received in July, 2001. Once this was accomplished, the NGOs began a process of transferring their clients to the new bank. Clients repaid outstanding loans to the NGOs, and received their subsequent loans from the newly formed Opportunity Microfinance Bank.

Key Challenges

- Legal and regulatory – Based upon the transformation experience of CARD, the merging organizations decided to pursue a thrift bank license, which required additional capital but allowed greater flexibility. The group was assisted by the passage of legislation that provided for microfinance-focused financial institutions.
- Mission orientation – A key element of each of the merging partner's missions was a focus on outreach and 'transformation of clients' lives.' Each group sought to ensure that this mission was not lost during the merger.

Timeline

May 2000 – Agreement to pursue merger
December 2000 – Memorandum of agreement signed
July 2001 – License approved by Central Bank
December 2002 – Approval from Central Bank to operate branch offices

Key Lesson Learned

"Pursue any opportunity to speed up the consolidation process if and where possible." OMB placed a high priority on aggressively tackling any issues that threatened the quick consolidation of the merging institutions. The bank was greatly assisted in this effort by the existing relationships between the merging institutions. These relationships were due, in part, to their participation in the Opportunity International network, which provided access to information on each institution's program and financial performance prior to any merger discussions.

[25] Material summarized from, ""Mergers in Microfinance: Twelve Case Studies," by Elissa McCarter. Any inaccuracies created in summarizing and interpreting that work is solely the responsibility of this author.

2.2.4 Policies, Procedures and Internal Controls

ASALA has documented all of its credit procedures for micro and small lending in a single operations manual. While there are some differences in documentation used and the documents in the manuals, it is generally followed. There are written policies for human resources and administration as well. There is no internal auditor and no internal controls or audit manual. All loans must be approved by at least two persons: the loan officer; the executive director; and in the case of Gaza, the branch manager. The board must approve loans greater than $3000. In Gaza, the client identity is verified by an attorney, who also witnesses loan agreements and explains the loan contract to borrowers. Loans are disbursed through payment orders or direct deposit to the borrower's bank account.

ASALA has established a three-tier loan loss provision expense requirement for group, micro, and small loans. In all cases, loans with past-due payments are monitored after the first day of delinquency and a 100% reserve should be created no later than 180 days after the first delinquent payment. Due to the problems with the MIS system, ASALA has not yet instituted this policy. As a result, they do not currently have an allowance for doubtful loans.

All bank accounts for disbursement and collection are controlled by head office.

2.2.5 Financial Condition and Performance

ASALA's operational self-sufficiency is currently at 58%. Because it has not been creating allowances for loan losses, its adjusted figures are significantly worse. Financial self-sufficiency is approximately 22% and adjusted return on assets is -60%. While better than ACAD, ASALA also has a relatively high PAR> 90 days of 25%. If it enacts its proposed write-off policy, it will be forced to write off $185,000 in delinquent loans, over 15% of its portfolio. It is important to note that most of these past due loans are from the small lending program.

Despite a strong effective rate to clients for group and micro loans (40-60%), it has a low annual portfolio yield of near 20%. This is primarily due to the concentration of 40% of its loan portfolio in small loans that have an effective rate near 20% as well as the high delinquency rate of small loans. As ASALA shifts resources to better performing group and micro loans, its yield should increase.

Unlike ACAD, ASALA is not highly liquid and lacks access to future funding for growth.[26] Its assets are efficiently allocated, with over 85% of its assets in its loan

[26] ASALA has negotiated a grant from Codespa to cover up to EU300,000 in operating expenses through March 2005. Its operating deficit for 2003 is projected to be approximately $100,000, which will not allow for ASALA to divert significant resources to portfolio growth.

portfolio.   ASALA is not adding many new clients. It is using its limited cash resources to meet demand for repeat loans from existing group and micro clients. ASALA has the highest productivity of the three organizations, with each loan officer serving 136 clients. Its cost per client is significantly lower than either ACAD or FATEN at $277.   It costs ASALA $0.32 per dollar lent – significantly higher than its current portfolio yield. This shows that even if it were not suffering from considerable delinquency, it would still not cover its costs. Unless it is able to find funds and grow its portfolio, it is unlikely to break even.

A full financial analysis is presented in Annex D.

2.2.6 SWOT

While ASALA has the least financial resources for a merger, it can provide a quality group lending program and an aggressive approach to the market that both ACAD and FATEN lack.   The consultant believes ASALA has a highly motivated staff that is keenly aware of the momentum they have in the market, particularly in Gaza and Jenin. Because ASALA commenced group and microlending during the intifada, it has not been as adversely affected by the current environment as its competitors; while others have declined, ASALA has grown.

Table 6 ASALA SWOT

Strengths	Opportunities
• Best practice group & micro loan product • Strong repayment and recovery of group & micro loans • High personnel productivity • High concentration of assets in loan portfolio • Aggressive in market	• Market potential in Gaza • Market potential for group lending in West Bank • Relationship with CRS • Management agreement with ACAD • Merger
Weaknesses	**Threats**
• Low profitability • High concentration of portfolio in small loans • Low yield • Poor asset quality on small loans • Lack capital, liquidity • MIS not functioning	• Restricted access to clients • Lack access to additional funds • Competition (FATEN, UNWRA) • Saturation of the guarantee market • Political unrest, closures • Political influence/interests

Unfortunately ASALA has not been able to translate these strengths into higher returns and self-sufficiency. It is burdened with a large number of low yielding small loans, many of which are in arrears. Without significant growth in its portfolio and a shift from small to group and micro loans, ASALA is unlikely to be sustainable. The lack of a functioning MIS system is also a significant weakness. While the integrated ATS system may be effective in the near future, it has hampered ASALA thus far due to the difficulties in producing timely and accurate reports. ASALA also faces tougher competition with FATEN and UNWRA than does ACAD because they are active in the same markets and serving similar clients.

Despite its success, ASALA's medium-term future is every bit as uncertain as ACAD's given the lack of funding for growth and on-going operating deficits. ASALA clearly has much to gain from a merger. It lacks the funds to realize its potential. As an alternative to a merger, ASALA's discussions with ACAD to develop their micro loan portfolio might offer a sufficient revenue stream to allow ASALA to stay in business.

2.3 Palestine for Credit and Development (FATEN)

FATEN emerged in 1998 from a group guarantee lending and savings program launched by Save the Children (Save). Similar to ASALA, FATEN serves primarily women and uses a solidarity group lending methodology. It is the largest of the three MFIs in terms of assets, clients, and branches. It currently operates with five Branch offices in Gaza and five in the West Bank, (Nablus, Jenin, Hebron, Bethlehem, and Ramallah). It also has three regional offices (Nablus, Hebron, and Gaza City). FATEN has received significant support from USAID/West Bank and Gaza, first through Save and currently through a direct agreement.

Table 7 FATEN Statistics

	30-Aug-03	31-Dec-02
Total Clients	1950	1467
% Women Clients	99%	100%
Average Loan Size Disbursed	$618	$435
Gross Loan Portfolio	$911,198	$549,397
Portfolio at Risk > 90 days	7.6%	12.3%
Portfolio Yield	27%	37%
Operating Self-sufficiency	36%	40%
Adjusted Return on Assets	-7.7%	-11%
Staff	75	79
Loan Officers	35	38
Clients per loan officers	58	39
Clients per staff	26	19

FATEN has been hard hit by two events. A fraud in 1998 of over $750,000 in the West Bank resulted from the collusion of loan officers to create fictitious clients and take advantage of weak internal controls.[27] Second, the intifada and resulting closures and crisis contributed to the decline of FATEN's client base from over 6,000 to fewer than

[27] Most of the money was eventually recovered through legal means.

1,000 in 2002. FATEN has begun adding clients and currently serves close to 2000 clients. To its credit FATEN has been transparent in dealing with both issues and developing strategies to recover bad loans and maintain its asset base during the intifada.

2.3.1 Operations

Most of FATEN's clients participate through best practice solidarity groups (*group guaranteed lending and savings* or GGLS), which require a minimum of three women with existing businesses to guarantee each other's repayment. FATEN requires solidarity group members to set aside savings during the loan term, which FATEN holds as collateral. GGLS clients are primarily vendors, traders and small producers. Loan terms begin at 24 weeks and may extend to 40 weeks with biweekly payments of principal and interest. GGLS clients with more than a year's experience and an excellent repayment record are also eligible for seasonal loans (*quick loans*)-a one month loan to provide liquidity for seasonal or emergency needs. Approximately 40% of FATEN's portfolio consists of solidarity group and seasonal loans. GGSL and quick loans carry a high effective rate of 50% and 100% per annum, respectively.

Since 2000, FATEN has offered individual micro loans. Most individual clients are "graduates" of solidarity groups, having successfully completed three loan cycles.[28] Individual borrowers start with loans less than $3000, but may access up to $10,000 for future loans. Terms are up to two years. Individual loans require a more intense investigation of the client's business and the development of a business plan. Micro loans make up 17% of FATEN's portfolio. The effective rate of individual loans to the client is approximately 40%.

As a result of the intifada, FATEN introduced a new loan product to utilize excess liquidity. Employee loans (or *NGO loans*) are made to salaried employees of FATEN or other NGOs. Loans are made on the basis of the employee's accumulated severance and pension benefits with the NGO and are guaranteed by the NGO's reserve for the same. Loans are available for up to three years, if approved by the employer. These loans are low yielding as FATEN charges only 5% per annum on a declining basis. They currently account for nearly 40% of the loan portfolio.

FATEN has also received funding from USAID to develop and pilot test credit-life insurance to its borrowers. This will begin in 2004.

[28] FATEN is currently pilot testing a "Phase 2" individual loan that is available to new clients rather than just GGSL graduates.

Table 8 FATEN Loan Products

Product name	**GGLS**	**Individual**	**Quick Loans**	**Employee Loans**
Type of client	Low income women	Low income women	Low income women	Employee of FATEN or other NGO
Client eligibility requirements	Existing business, 4 orientation sessions	Stage 1 – GGLS client. Stage 2 – existing business.	> 1 year as client, with active GGLS	Accumulated severance/pension or employer guarantee
Average time to disbursement	5-10 days	3-10 days	1-2 days	3-10 days
Minimum group size	3			
Maximum group size	10			
Currency	JD	US$	JD	US$
Minimum *initial* amount	150	700	NA	1000
Maximum *initial* amount	300	3000	50% of current loan or ≤ 500	≤ accumulated pension & severance or $10,000
Maximum amount	1000	5000	500	$10,000
Minimum term	6 months	4 months	1 month	6 Months
Maximum term	10 months	24 months	1 month	36 months
Repayment frequency	Bi-weekly	Monthly	Monthly	Monthly
Nominal interest rates	24%	12-18%	4% / Month	5% annual
Interest calculation	Flat	Flat	Up front	Declining
Fees	JD5	5%	JD8	1%
Fee Payment	Up front	Amortized	Up front	Up front
Penalty interest calculation	1 JD per day up to 7 days then 2 JDs per day	$3 per day	1 JD per day up to 7 days then 2 JDs per day	$3 per day
Other Charges		$20-$50 application fee		
Rebates or discounts		20% rebate of interest for on-time repayment		

FATEN issues checks for loan disbursements and requires clients to deposit funds directly in FATEN's local bank account.[29] In addition to payment of principal and interest, GGSL clients are required to deposit their programmed savings into FATEN's account. Since the intifada and the increase in repayment problems, GGSL groups in Gaza are required to sign a notary deed in court to make their solidarity guarantee officially recognized. Individual loans require a salaried person with direct deposit as a guarantor. Guarantors must co-sign promissory notes and sign notary deeds in court. In addition, FATEN has agreements with local banks to collect from guarantors.

2.3.2 FATEN Legal and Organizational Structure

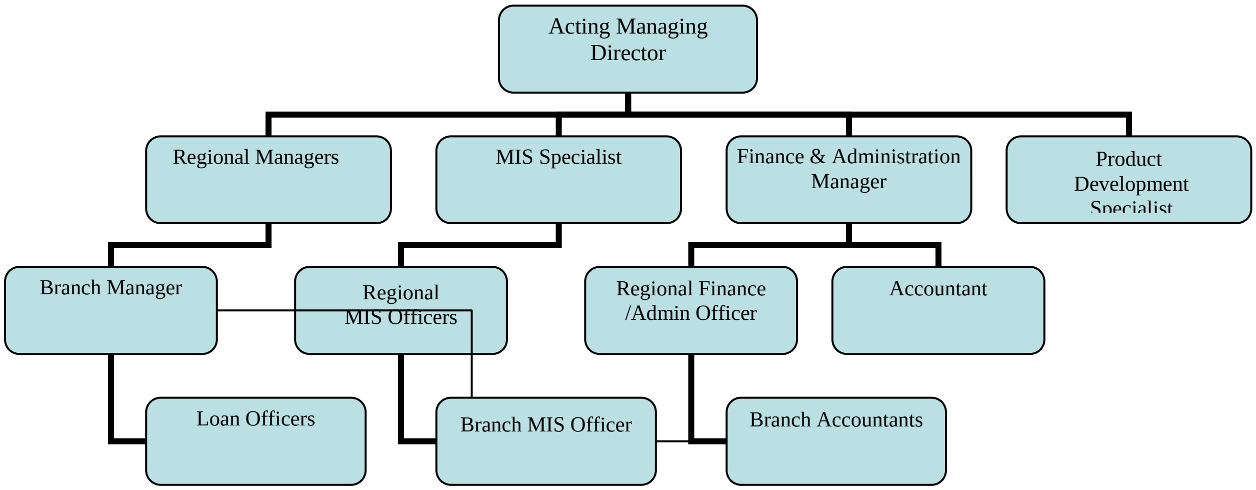
FATEN is a non-profit limited liability corporation. It is registered under the 1928 legal code which has partially been superceded by the new Palestinian law on non-profit organizations. This allows it to avoid the problem of board member liability and lack of delegation authority that are problematic for ACAD and FATEN. However, it is not clear how long FATEN will be permitted to maintain its current legal form as Palestinian entities are being required to register under PNA law.[30] FATEN has 8 founding members, selected by Save. Each of the founders has committed to contribute $10,000 in capital of which only a total of $4080 has been paid in. As the law requires a 75% majority for any significant change in the company, Save maintains a 26% share of FATEN. The remaining equity was granted by Save and other accumulated donations.

FATEN is legally governed by a general assembly. The assembly is responsible for naming the board, which consists of 9 persons. Boards are selected for three year terms. FATEN's Managing Director emigrated in 2002. At present, FATEN is overseen by the Finance Director acting as Managing Director. The acting MD has requested that the board form an Executive Committee of three persons to assist in making key institutional decisions.

FATEN's organizational development reflects its goal to become a registered, deposit-taking financial institution. It has 10 branches and three regional offices - a significant infrastructure. It has two branch models, one which is fully decentralized (having its own accountant, MIS person, etc.) and the other type in which the accounting and back office functions are performed by the regional office. Branches are allowed to approve repeat GGLS loans on their own, whereas new GGLS loans and all individual loans must be approved by the regional manager. Because the individual loans are still a new product, the Product Development Specialist at headquarters is also required to review and approve individual loans.

[29] Checks are issued in the name of the group president and treasurer. FATEN loan officers accompany these officers to the bank to cash the check.
[30] Conversations with other MFIs and industry professionals indicated that FATEN is under pressure to register under PNA law. This was not stated by FATEN to the consultant.

Chart 3 FATEN Organizational Structure



2.3.3 MIS and Reporting

Like ACAD, FATEN uses a Bisan, but FATEN's is DOS based. It is complemented by an in-house loan portfolio management system (Al Faten) on SQL. Bisan is not multi-user and requires all accounting data to be entered by the head office. Vouchers are faxed from the field and followed by original documents. Al Faten is multi-user and is accessed by regional offices and/or branches through an ISDN connection. It is flexible and can easily be modified to support all products. It has a report writer which FATEN's MIS specialist can use to create necessary reports. FATEN has sold Al Faten to a few other MFIs to whom the MIS specialist and assistant are providing support. There is no user's manual and the system is still in development. FATEN views Al Faten as a business line and continues to invest in its in-house development.

Payment information is entered from bank vouchers and is available daily to loan officers. FATEN was easily able to produce all reports requested. Financial statements are produced monthly, and FATEN fulfills monthly and quarterly reporting requirements from its board and USAID. FATEN produced annual reports and has audited financial statements for each year of operation.

2.3.4 Policies, Procedures and Internal Controls

FATEN has documented policies and procedures for administration, accounting, and credit operations. It has developed standard documentation for operations. Procedures seem to be standard throughout FATEN's network.

FATEN does not have an internal auditor, although it intends on hiring one in the coming year. The Save programs early efforts at decentralization led to the aforementioned fraud. Since that time, FATEN has instituted a number of controls. FATEN is the most decentralized of the three organizations, giving branches the authority to approve solidarity group credits. In theory, individual loans can be approved by regional managers; however head office (the product development specialist) still retains the authority to review all individual loans. In addition, regional managers and branch managers together have the authority to sign checks and manage bank accounts. FATEN manages dozens of bank accounts for each branch which are managed by branch offices and reviewed by head office. At the client level, FATEN requires IDs and notary deeds to minimize the risk of false clients. It disburses loans by check. In the head office, senior management has authority to manage FATEN's main bank accounts which currently hold several million dollars in excess liquidity.

2.3.5 Financial Condition and Performance

Given the size of its infrastructure and staff, it is not surprising that FATEN has the lowest operational self-sufficiency of the three MFIs at 36%. On an adjusted basis, FATEN looks better than the others with 37% financial self-sufficiency. Its adjusted return on assets is -8%, primarily due to the fact that its assets are three times those of the others.

FATEN has been aggressive in maintaining the quality of its loan portfolio, with only 7.6% PAR > 90 days. Unlike ASALA and ACAD, it has systematically written off loans and is now recovering more in 2003 than it is writing off. Its allowance for doubtful loans is 114% of that recommended by international standards. FATEN is highly liquid and has access to future funding from USAID. FATEN also has the highest yields, although they are declining. The portfolio growth of nearly 100% in 2003 is misleading because most of this growth comes from employee/NGO loans.

FATEN has the least efficient allocation of assets, with only 15% of its assets in the loan portfolio. It is also the least efficient organization serving only 56 clients per loan officer and 26 per staff member. Less than half of its staff is loan officers. It costs FATEN $526 to maintain each client, yet the average loan outstanding for each client is only $467. It operating expenses each year (not including loan loss provision expenses) are nearly $900,000, over three times that of ASALA and four times that of ACAD.

A complete financial analysis can be found in Annex D

2.3.6 SWOT

FATEN has significant strengths, including a tested and sound lending methodology, well-documents policies and procedures, and a dedication to maintaining portfolio quality. It also benefits from strong financial management and significant capital. It has the resources and access to technology for new product development, and its continuing relationship with Save and USAID will guarantee its survival in the medium term.

Table 9 SWOT

Strengths	Opportunities
• Best practice group and micro lending • High portfolio quality • Significant capital • Highly liquid • Strong financial management • Presence through territories • New product development • Preserve capital during crisis	• Expansion of micro loan product • Relationship with Save • Continued USAID support • Merger
Weaknesses	**Threats**
• Significant operating losses • Low productivity • High overhead • Declining portfolio yield • Costly organizational structure • Missing senior staff	• Decentralized authorities • Competition • Saturation of guarantee market • Legal form

In the consultant's opinion, FATEN has lost momentum. Its conservative response to the crisis effectively preserved capital, but lost over 75% of its client base. It has not reduced infrastructure or staff which has led to large operating deficits. It does not appear to have any pressure to do so from its board or USAID. Its recent portfolio growth is primarily due to employee/NGO loans, which are primarily for consumption. FATEN's acting managing director is very competent, but it appears he has not been given the authority by the board to lead the institution. That fact that they have not promoted him or found a new managing director is indicative of the lack of dynamism in the institution.

FATEN has the least to gain from a merger in the short term. Despite its excess capacity and significant losses, it has the staff, infrastructure, technology, and capital to operate and grow for many years. It portfolio is now in good condition and it has slowly begun to grow. While it is having financial difficulties, there is no immediate pressure to reform and no threat of bankruptcy. At the same time, FATEN lacks the momentum and aggressive market approach to recover. The consultant is left with the impression that FATEN would benefit from the merger primarily because it would force FATEN to change and address the problems it faces.

3. Issues related to Merging

In accordance with the SOW, the consultant was requested to examine and describe the resources of new entity, highlighting what each of the three institutions could bring to the merger. This includes a comment on the disadvantages of a merger.

3.1 Reasons to Merge

There are a growing number of examples of MFI mergers to learn from. An examination of these cases reveals some typical reasons why MFIs choose to merge, including:

- increase market share;
- improve profitability/sustainability;
- reduce costs;
- gain banking/financial license;
- increase products and services;
- access funding;
- raise new capital;
- provide career path for employees.

It is worth noting that the three institutions listed most of these reasons, with the exception of gaining a banking license. In the current legal environment, there is little certainty that a merged institution would have any greater chance of becoming regulated than it precedents. Conversations clearly indicate that all the institutions are motivated by the vision of creating a “bank for the poor” in Palestine. Each mentioned the development of such banks in other countries in and around the region and the interest in Gulf States donors in supporting such an institution in Palestine. The directors believe that a merger would not only attract funding from outside sources, but it might also preempt an outside player from setting up a microfinance bank in Palestine. The institutions agree that their long-term viability is more secure if they merge.

In initial discussions with the directors of each institution, the directors highlighted their reasons for merging (see Table 10). For ASALA, the need for funding overshadows all other reasons for merging. For ACAD, it is the realization that it most likely cannot survive in the medium-term once donor funding ceases. FATEN’s motivations are not as clear, but the consultant believes that FATEN has recognized the shortcomings and sees the merger as a way to absorb its excess capacity. Underlying all three of these concerns is a desire of management to provide for greater job security to staff.

Box 3 Attempted Merger of PRODEM and FIE

Bolivia[31]

Background – The microfinance market is better developed in Bolivia than in nearly any other country in the world. This advanced development, along with deteriorating macroeconomic conditions, has forced MFIs in Bolivia to innovate and diversify. It was in this context that two leading Private Financial Funds – FIE and Prodem – began discussing the possibility of merging. The two organizations served complementary areas, with FIE primarily serving urban areas and PRODEM aggressively targeting rural and secondary urban areas. In terms of size, FIE possessed a $19.3 million portfolio, while PRODEM's exceeded $20.8 million.

Process – Merger discussions were initiated by PRODEM's CEO, Eduardo Bazoberry, who researched the issue and contacted FIE's President, Pilar Ramirez, directly. Formal due diligence was eschewed. The two firms instead opted to contract their mutual auditing firm to valuate the MFIs. Although FIE was not happy with the results, both MFIs accepted the valuation and engaged their shareholders in discussions. While PRODEM's shareholders were supportive of the merger, there were reservations on the part of some of FIE's shareholders. Merger discussions broke down in their later stages and FIE withdrew from the proposed merger.

Key Challenges

- Culture – The organizational cultures and individual personalities in the merger were at odds. While differences in culture can sometimes be overcome through an intense process designed to build trust and understanding, this did not take place between PRODEM and FIE.
- Perceptions of Inequality – The initial valuation of the two MFIs left FIE in a weaker position during negotiations. Ultimately, this contrasted with FIE's view that, in order to succeed as a merger, the two MFIs would have to be treated as equals. Ironically, both FIE's President believe the merger could have succeeded had it been structured as a takeover by PRODEM.

Key Reasons for the Merger

1. Bleak condition of the microfinance industry in Bolivia
2. Shared belief that there were too many MFIs operating
3. The need to optimize resources
4. Synergies between PRODEM's rural portfolio and FIE's urban portfolio

(Eduardo Bazoberry, PRODEM)

Key Lessons Learned

Mergers will not always succeed ***– In the case of PRODEM and FIE, there were a variety of excellent reasons for both MFIs to seriously consider a merger, particularly their complementary service areas. Both MFIs pursued the merger process in good faith, but ultimately FIE determined that the proposed merger was not in the best interests of its stockholders and withdrew before the merger occurred.***

[31] Material summarized from, ""Mergers in Microfinance: Twelve Case Studies," by Elissa McCarter. Any inaccuracies created in summarizing and interpreting that work are solely the responsibility of this author

Table 10 Stated Reasons to Merge

	ACAD	ASALA	FATEN
Shared Vision	High	High	High
Shared Mission	Low	High	High
Short-Term Viability	Medium	Medium	Low
Long-Term Viability	High	High	Medium
Need Funding	Low	High	Low
Access to new Funding	Medium	Medium	Low
Avoid Competition	Low	Low	Medium
Access New Markets	High	High	Low
Careers for Staff	High	Medium	Medium
Acquire New Technology	High	Low	Low

A review of the SWOT analysis of the three MFIs shows that a number of synergies can be achieved through a merger. As Table 11 shows, ACAD has the most to gain and FATEN has the most to offer. In addition, each provides something the others lack. Any merger should not be judged on the relative contributions or gains of the three, rather it should be evaluated on whether the benefits outweigh the costs for each individual institution and its clients.

Table 11 Synergies of the Merger

	ACAD	ASALA	FATEN
What they lack	• Expertise in Micro lending • Quality portfolio • Strategy for sustainability • Focus • Delinquency management • Decentralization strategy	• Capital • Future Funding • Access to new markets • Infrastructure • Sufficient Fin/Admin • Decentralization strategy	• Momentum • Strategy for sustainability • Efficiency

	ACAD	ASALA	FATEN
What they offer	• Capital • Donor contacts • Rural expertise	• Momentum • Strategy for growth • Focus • Quality portfolio • Efficiency	• Capital • Quality portfolio • Future Funding • Geographic coverage • Infrastructure • Sufficient Fin/Admin • Decentralized Operations

3.1.1 Merging to realized a Shared Vision and Mission

The most compelling reason for the merger is the common vision shared by all three institutions to eventually create a "bank for the poor." Given the lack of clarity in the local legal environment, this may not be possible for many years. However, if the three combine asset, capital, and donor support, they will have greater bargaining powers with the Palestinian Monetary Authority (PMA) and will be more attractive to investors. If the three unite behind this vision and if they have strong and decisive leadership, it could help bring about the necessary changes required to increase outreach and improve their financial performance in the short term.

3.1.2 Merging for Growth

If merged today, the combined institutions create an MFI of considerable assets, infrastructure and staff – but limited outreach. Only 3,600 clients would be served, most of them women.

Table 12 Merged MFI Outreach

As of August 2003	
Clients	3,600
% Women	88%
Gross Loan Portfolio	$3.6mm
Assets	$9.1mm
Avg. Loan Size	$996
Staff	105

It is also unclear how many of the combined institutions clients are poor. The average loan size is $1,000, which compares with the poverty line at for a household of two adults and four children at $767 per annum.[32] This becomes more pronounced when reviewing the loan portfolio by type of loan. Only about 50% of the merged institutions loan portfolio is concentrated in micro loans for poorer clients, with the concentrated in small loans to presumable less poor households.

Table 13 Breakdown of loan portfolio

Gross Loan Portfolio	
Solidarity Group	742,969
Fast Loans	41,417
Micro Loans	925,409
Small Loans	1,462,871
Employee Loans	366,680
Total	3,539,346

A key advantage of the merger would allow the merged institution to more clearly focus on the poor. It will be able to shift its resources from low earning assets (time deposits and small business loans) to group and micro loans. This growth would initially come from ASALA's clients and potential clients in Gaza and Jenin. Discussions with directors confirmed that the merged institutions would build its group and micro loans first, and seek to make small loans a minor part of its operations.

Market surveys indicate that nearly 50% of clients interested in borrowing want loans less than $5,000, which matches the range of the merged institutions group and individual micro lending products. Surveys estimate that the demand for loans less than $5,000 could reach $30mm, although up to 25% of that demand may be for credit under Islamic banking principles which the merged institution would not offer.

Table 14 Credit demand by loan size[33]

Description	Percent	Population demand	Average amount requested (USD)	Total amount requested (USD)
375-1,500	6	1,081	1,167	1,260,953
1501-3,000	15	2,701	2,583	6,977,379
3,001-5,000	26	4,682	4,803	22,488,609
5,001-7,000	8	1,441	6,695	9,645,333
7,001-10,000	25	4,502	9,641	43,404,899
10,001-15,000	11	1,981	14,176	28,081,677
15,001-20,000	9	1,621	20,000	32,415,234
Total	100	18,008	8,003	144,121,732

[32] From the Burjoree, p.5.
33 Massar Associates, p. 29.

The merged institution would have a strong presence throughout the territories and would have a good opportunity to capture at least $10mm of the estimated demand.

3.1.3 Merger for Cost Reduction

The combined financial reflects the negative results of the three institutions. While large, the combined institution faces declining yields, high costs, large deficits, and low efficiency.

Table 15 Merged Institutions Financial Results

	August 2003	December 2002
Operational Self-Sufficiency	47%	45%
Financial Self-Sufficiency	23%	29%
Adjusted Return on Assets	-7%	-9%
Portfolio Yield	17%	23%
Clients per Loan Officer	75	57
Clients per Staff	34	25
Cost per dollar lent	$0.32	$0.68
PAR > 90 Days	23%	35%
Operating deficit	-$427,912 (for 8 months)	-$860,654

Once merged, the three institutions could consolidate their branch networks. It is likely that FATEN's branch network would survive, as it has invested the most in it offices and is present throughout the entire WBG. Unfortunately, even if ASALA's and ACAD's administrative costs were eliminated due to the merger, the total savings would be less than $100,000 – barely 15% of the combined operating deficit.

The merged institution could also reduce staff. Loan officer productivity is low due to the excess capacity of FATEN. There would be excess administrative staff. The new institution would most likely inherit FATEN's regional and branch offices. In addition, the merger would create several redundancies at the senior management level. A major issue related to cost is the product delivery structure. At present, only 45% of all staff is loan officers. This reflects FATEN's approach to decentralization. As noted in the organizational chart of FATEN, the structure assumes a minimum management and administrative staff of 4 for each branch: branch manager, accountant, secretary, MIS. In addition, FATEN has regional offices which add an additional management layer.

The ability to reduce costs will depend on the merged institutions' willingness to cut personnel. As the majority of staff is currently in the employ of FATEN, it is likely that the deepest cuts will be among FATEN's staff. Until now, FATEN has been unwilling to reduce staff and has continued to pursue its decentralized model. For cost reduction to be feasible, FATEN must change its strategy and reduce its staff, neither of which is likely without the agreement of FATEN's board and/or pressure from USAID.

3.1.4 Merger for Access to Funding

In the short and medium-term, it is likely that a merger would improve all three institutions' viability. First, it would allow for a more rapid deployment of excess liquidity (ACAD and FATEN) into high yielding group and micro loans (ASALA). Second, a merged institution is more likely to attract donor funding after the existing donor agreements expire. Third, a merged institution is more likely to successfully lobby the PNA for either a banking license or a specialized microfinance license that will allow it to capture deposits. A for-profit structure will also make the merged institution a more attractive candidate for investors. It is worth noting that FATEN also faces some pressure for funding in the medium-term. New covenants regarding terrorism in USAID agreements will make it difficult for FATEN to enter into a new cooperative agreement with USAID. This means FATEN must make itself marketable to other donors or investors once its agreement expires in 2005.

Box 4

Transformation of the Palestinian Banking Corporation

PBC was formed through the merger of three Israeli registered NGOs into the Palestinian Development Fund (PDF), a commercial company. Given the lack of clarity on how to transfer assets, the PDF acted as a management company while the loan portfolios remained on the books of the founding NGOs. The PDF was granted a license to be an Investment Development Bank, and changed its name to PBC. To meet the minimum capital requirements, the NGOs transferred $20mm of their assets into a off-shore trust, which in term became the majority shareholder of PBC. The trust is governed by a mixture of appointees from the NGOs and their major donor, the European Union.

The transformation created a number of difficult issues. The PBC had extended negotiations with the EU to determine who owned their grant funds to the NGOs. Only one of the NGOs has been liquidated, while the others continue to exist for a variety of legal issues related to outstanding loans. In addition, PBC continues to dispute with Israeli whether it or the NGO board members must pay taxes on the transfer of funds to capitalize the new institutions. Just recently, the PMA issued an order denying PBC the permission to accept deposits despite its banking license.

Projections reveal that the merged institution would have sufficient funds for two or more years to expand. If growth is slower than expected, its existing funds may last for up to four years.

3.1.5 Merger for a license

As noted above, a merger will not necessarily facilitate a banking license or registration as a finance company. As noted in a recent study, "the nascent and evolving nature of the legal and economic systems of the [West Bank and Gaza] presents a challenging combination of "holdover" legal and regulatory provisions, and sometimes hastily (and in some cases, poorly), prepared new laws and administrative regulations. Second, many of the bodies of law and administrative regulation most important to microfinance – the banking law, the law of security interests in moveable assets, the law of enforcement, to name a few - are at this moment in the process of development or substantial overhaul." There is no clear path for an NGO wishing to transform into a commercial institution. An interview with the CEO of the Palestinian Banking Corporation (PBC) confirmed this observation (see Box 4).

While each of the institutions consider the long term goal of creating a "bank for the poor" important, the directors expressed mixed opinions as to whether the new institution should be for-profit or non-profit. There is no clear consensus among the boards of the institutions either. There is no immediate threat to the any of the MFIs resulting from their non-profit status. The primary reason to gain a banking license is to be able to accept deposits. The institution has no great need to fund its operations through deposits in the short or medium term. A secondary reason is to attract investors. This may be a higher priority depending on the urgency of attracting investment from the Gulf States. Finally, creating a joint-stock company will clarify the ownership structure. But this does not seem to be a major concern of the institutions. Therefore, the new MFI could merge and remain a non-profit organization.

3.2 Impediments to Merging

Mergers are often entered into with the right intentions for the wrong reasons. As an example, institutions may seek a merger partner who can help them solve internal problems. Unfortunately, this usually results in importing the same problems into the new institution. Some institutions merge to avoid a threat, such as a takeover. Such mergers are usually done in haste and without proper due diligence, leading to unpleasant surprised for both parties.

The proposed merger of ACAD, ASALA and FATEN and the motivations behind it also raise some "red flags" of warning. While none of the issues is enough to recommend against merging, it is important that all partners are aware of the problems that the others are bringing to the table.

3.2.1 Poor Asset Quality and Insufficient Reserves

ACAD and ASALA bring poor performing loans with them, including loans more than 180 days past due of $432,029 and $186,057, respectively.[34] In the case of ACAD, this is due to the lack of write-off policy and a hesitance to declare loans uncollectible. For ASALA, the write-off policy exists but has not been implemented due to MIS difficulties.

[34] As of August 31, 2003.

The new institution will be burdened with the time and effort necessary to collect these non-performing loans.

Neither ACAD nor ASALA have sufficient reserves to cover the potential losses related to non-performing loans. While FATEN has over 100% of the recommend amount, the new MFI would only have 11% coverage.[35] Again, the new institution would have to increase reserves by taking a loan loss expense charge of over $700,000.

3.2.2 Rapid Growth in New Loan Products

A particular point of concern lies in the credit quality of rapidly growing loan portfolio. Although portfolio growth is a positive sign for an institution, an institution "may be sacrificing credit quality, compromising loan administration capacity, or lending where it has insufficient management knowledge or skill."[36] In the case of ACAD, it has disbursed nearly $1mm in loans from January through August 2003. This is ten times the loans disbursed in the previous year. Furthermore, many of these loans are working capital loans (individual micro loans), which is a relatively new product for ACAD. Because many of these loans carry a grace period of up to six months, no payments have been required on many of them. There is no way of assessing how likely it is that the loans will be repaid. In the case of FATEN, its loan portfolio has grown nearly 100% (over $500,000) in the first eight months of the year. Most of the growth has been concentrated in a new product, NGO/employee loans. This is also a new loan product which is for consumption. They are low yielding (5% declining per annum) and long-term (up to three years).

In both cases, the newer loan products require guarantees and are not inherently more risky than other loan products. Because the loan products are relatively untested and their quality is difficult to measure, such rapid growth is traditionally considered a "red flag."

3.2.3 Low Profitability and Donor Dependence

As mentioned above, each institution is losing money. It is rare that two loss making enterprises will invest in a merger. It complicates the valuation process for any merger as there is no positive return (or predicted return) to help determine the value of the merger to each party. It also makes cost-cutting and layoff decisions more difficult as none of the institutions can claim to have a more successful or profitable structure. Lack of surpluses leaves the new institution without extra funds to cover the cost of merger and will force them to rely on cash reserves and donor funds.

All three institutions rely heavily on donor funds to cover operating deficits. Aside from the negative financial aspects of donor dependence, this can complicate a merger. Donor

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[35] Based on the MicroBanking Bulletin and SEEP Standards, a recommended allowance amount is: 1-30 days – 1%; 31-60 days – 25%; 61-90 days – 50%; 90-180 days – 75%; > 180 days – 100%.
[36] Analyzing Bank Financial Statements, p. 161.

funds may carry conditions or restrictions that prevent the new institution from using funds as needed. It also requires time and effort to negotiate the use of those donor funds by the new institution.

3.2.4 Non-profit reality and mentality

Traditional valuation methods rely on the concept of fair market value, which is considered to be the price at which a company's common shares would trade under the presumption that a market exists. It can also be considered the price at which a willing seller and willing buyer could trade shares. These methods rely on discounting expected future cash flows to determine the premium over the book value of the companies' shares. The three institutions do not have a shareholder structure or any clear ownership, making it impossible to determine what a single share of these institutions might be worth.   Given the losses incurred by all three institutions, future cash flows are negative. Therefore, a valuation would likely conclude that each of the institutions is worth more if they were liquidated today rather than if they continue in operation.

Non-profit structures also complicate the process of merging due to the lack of beneficial ownership. Even in mature legal systems, the method of transfer of assets from non-profit institutions is not clear. It usually requires creating some beneficial owners, such as the NGO itself or its board members. In the case of the merger, it is not clear who would or could be the owner of a merged institution.   Even if the new institution is a NGO, there is no clear path for merging NGOs and determining who shall be the new board of directors.

In interviews with staff, the consultant also noted the persistence of a "non-profit mentality" among ACAD's staff, in particular. Staff members generally saw their credit activities as an extension of their assistance to the agricultural sector and seemed less convince of the importance of charging sustainable interest rates. This is reflected in the low interest rates charged by ACAD, and there is discussion to lower the rates of the working capital loans to the same as the capital investment loans (12% declining). ASALA also maintains low interest rates on small loans and has recognized that their small loan program is unlikely to be sustainable. It is shifting its focus and resources to group and micro lending. Among the three, FATEN has a clearest commitment to set sustainable interest rates.

3.2.5 Excess Staff

A traditional warning sign is excess staff. A merged institution would have many more staff members than necessary and it would take several years of high growth for the staff to reach acceptable productivity levels. This is related to the non-profit mentality in that NGOs often make decisions based on the best interest of the staff rather than the needs of the beneficiaries.   In the evaluator's opinion, this tendency is fairly strong in FATEN and ACAD. FATEN's development of a loan product for its staff (at a very low interest rate) and its reluctance to trim its staff in the face of mounting losses demonstrates its loyalty to staff and the lack of pressure it feels from its board to be profitable or client focused.

ACAD is also seeking to maintain job security, finding small grants for non-credit services to help cover salaries of existing staff. This situation is not unusual in non-profit organizations, but it does make staff lay offs during a merger more difficult. It is worth noting that interviews with FATEN's field staff revealed them to be opposed to the idea of merging.[37] This contrasts with a generally positive view of the merger among ASALA and ACAD's staff. In small institutions, particularly in non-profits, staff morale and participation is vital to a successful merger.

3.2.6 Incomplete Data

ASALA has problems with its new MIS system. It was extremely difficult for the evaluator to get accurate and complete data, despite the complete cooperation and best efforts of the Financial Director. It had also not completed its 2002 audit as of October 2002. Each institution must be able to provide accurate, reliable, and verifiable data prior to merging. Lack of accurate information and due diligence is one of the primary causes of failed mergers.

3.2.7 Lack of Internal Audit

None of the three institutions has a functioning internal audit program. With a regular spot checks and routine inspections, it is difficult for management to know what control problems exist or how well stated procedures are followed. For this reason, each of the institutions must be prepared for surprises in their own institution during the due diligence process. It is likely that the due diligence and the integration process will uncover some inappropriate and/or incorrect actions during the due diligence for the merger process.

[37] This was particularly strong among FATEN's Gaza City branch in which all the loan officers strongly opposed the merger. A slim majority of field officer interviewed in FATEN's Ramallah branch also felt the merger was unnecessary.

4. Financial Projections

The evaluator worked with the three directors to develop assumptions for five year projections of the merged institution. Based on these assumptions, the evaluator developed the three scenarios discussed in this section. The projections are not exhaustive and should not be considered a substitute for a strategic planning exercise. However, they are helpful in analyzing the alternative scenarios discussed with the directors.

Three scenarios were considered namely: (1) rapid growth and aggressive cost control; (2) rapid growth and little cost control; (3) slow growth and little cost control. For the three scenarios, many of the assumptions are the same. Some of the key assumptions that are valid for all three scenarios are included in Table 16.

Table 16 General assumptions for projections

Item	Assumption
Percentage Women	• Group loans – 100% • Individual micro loans – 50% or lower • Small loans – Minimum 10%
Caseload	• 250-300 for loan officers with groups • 75-80 for loan officers with individual micro loans • 80-100 for loan officers with small loans
Products	• Group loans • Individual micro loans • Small business loans • NGO/Employee loans
Portfolio Distribution	• Group loans and Micro loan - 80% • Small loans and NGO Loans - 20%
Interest Rates (effective)	• Solidarity Group – 40% (2% flat per month, amortizing) • Fast Loans - 36% (3% up front) • Micro Loans – 20% (1% flat per month amortizing) • Small Loans – 12% (declining) • Employee/NGO Loans – 5% (declining)

Item	Assumption
Fees	• 1% flat up front on all products
Branch Staff	• Branch Manager • Accountant • MIS Person • Secretary • Driver • Loan Officers
Headquarters Staff	• CEO • CFO • Human Resources • Operations Manager • MIS Manager • Senior Accountant • Asst. Accountant • Int. Auditor (2) • Secretary • Driver • Admin Asst. • Cleaner
Taxes	• VAT – 17% on purchases • Corporate – 20%[38]

The assumptions which vary according to each scenario are as follows:

Table 17 Variables assumptions for projections

Item	Assumption
Client Growth	The increase in borrowers over the previous year by loan product
Caseload	The number of borrowers per loan officer by loan product
Branch Network	The number of full service branches and agencies

The three items in Table 17 capture the main revenue driver (client growth), productivity indicator (caseload) and expense driver (infrastructure). All other factors remain constant to show the effects of these three items. It is assumed that all branches have the same structure and must be fully staffed similar to FATEN's full service branches. It is important to note that none of the extraordinary costs related to a merger are included in any of the scenarios.

[38] Would only be charged after all deferred losses are used. Therefore corporate tax would not affect the merged entity given the project losses.

4.1 Scenario 1: Growth and Cost Control

The first scenario assumes an improved external environment, including increased freedom of movement for clients, higher levels of economic activity, and more political stability. It also assumes that the new institution will have the ability and will to cut costs and reduce staff as is needed.

4.1.1 Key Assumptions

- Annual growth rate in loans outstanding would be as follows:
  - Group 50%
  - Fast Loans 50%
  - Micro Loans 50%
  - Small Loans 5%*
  - Employee/NGO Loans -10%*

  *this reflects the directors belief that the small loans and employee/NGO loan programs would be reduced to accommodate more rapid growth in micro loans.

- PAR is calculated by product. It is assumed that PAR ≥ 90 days would drop from 10% in the first year to 5% by year 5.

- Caseload required for loan officers would be:
  - Group/Fast 300
  - Individual micro 90
  - Small 90
  - NGO NA (are handled by the accountants, at present)

The MFI would require this case load to be reached by the end of 2005.

- The MFI would trim its branch structure and create less expensive points of services using small agencies or meeting rooms, staffed only by loan officers.

4.1.2 Projections

Table 18 Results of Scenario 1

	2003	2004	2005	2006	2007	2008
Outreach						
Clients	3,586	5,246	7,735	11,465	17,058	25,444
% Women	88%	94%	91%	90%	89%	90%
Growth in Clients	35%	46%	47%	48%	49%	49%
Gross Loan Portfolio	3,586,896	4,291,203	5,725,551	7,920,389	11,313,986	16,606,698
Growth in Loan Portfolio	63%	38%	33%	38%	43%	47%
Average Loan Size	996	818	740	691	663	653
Branches	15	7	5	5	5	5
Agencies	2	8	10	13	15	15
Staff	105	105	83	95	125	161
Loan Officers	48	52	42	53	78	114
Profitability						
Net Operating Income	(1,748,932)	(876,827)	(247,830)	71,988	382,603	860,178
Portfolio Yield	17%	25%	27%	28%	30%	30%
Operational Self-Sufficiency	24.5%	51.4%	84.3%	103.9%	115.5%	125.0%
ROA	-7.0%	-2.2%	-0.5%	0.2%	0.7%	1.3%
Asset Quality						
Portfolio at Risk > 90 days	23%	5.0%	4.4%	3.9%	3.5%	3.1%
Write-offs	11%	4.4%	3.7%	3.1%	2.6%	2.1%
Efficiency						
Loan Officer/Staff	46%	50%	51%	56%	62%	71%
Loan Officer Productivity	75	101	184	216	219	223
Personnel Productivity	34	50	93	121	136	158
Funding						
Grant Funding		3,745,011	-	-	1,000,000	-
Equity Contributions (private)		-	-	-	-	-
Obligatory Savings		67,461	63,988	105,581	174,208	287,443
Deposits		-	-	-	-	-
Borrowing		50,000	(50,000)	-	-	4,000,000

In this scenario, the loan portfolio is expected to grow at an increasing rate by increasing clients nearly 50% per year, primarily in group and individual micro loans. This will result in a decrease in average loan size. Portfolio at risk will decrease as well, reflecting the higher quality of the group and micro loans. Scenario one assumes that the new MFI will aggressively cut costs, reducing branches and staff in the first two years of the merger. Staff would be decreased from 105 to 83 by 2005 and then grow according to the work load. There would be a streamlining of branches and personnel resulting in only 5 branches and a number of agencies (small offices/meeting rooms) staffed by loan officers only. Under this scenario, the new MFI might reach breakeven by the very end of 2006.

It is estimated that the MFI would need an additional $5mm in funding starting in 2007. Because it is able to hit break-even by 2006, the funds are to grow the loan portfolio. It is assumed that a profitable institution will have access to concessional loans[39]; $4mm of the $5mm in funding is projected to be borrowed at a concessional rate of 5% per annum.

4.2 Scenario 2: Rapid Growth with little cost control

The second scenario assumes the same improvements in the external environment without the aggressive approach to cost cutting or reducing infrastructure.

4.2.1 Key assumptions

- Annual growth rate in loans outstanding would be as follows:
  - Group 50%
  - Fast Loans 50%
  - Micro Loans 50%
  - Small Loans 5%*
  - Employee/NGO Loans -10%*

  *this reflects the directors belief that the small loans and employee/NGO loan programs would be reduced in a growth environment to accommodate more rapid growth in micro loans.

- Portfolio at risk is calculated by product. It is assumed that PAR ≥ 90 days would drop from 10% in the first year to 5% by year 5.

- Caseload required for loan officers would be:
  - Group/Fast 200
  - Individual micro 60
  - Small 60
  - NGO NA (are handled by the accountants, at present)

The MFI would not cut staff and would not require the target case load to be reached by any certain time. In addition, the MFI would not cut its existing branch structure, with the exception of eliminating duplicate branches and headquarters.

[39] This might be possible using a USAID Development Credit Authority loan guarantee.

4.2.2 Results

Table 19 Scenario 2 Results

	2003	2004	2005	2006	2007	2008
Outreach						
Clients	3,586	5,246	7,735	11,465	17,058	25,444
% Women	88%	94%	91%	90%	89%	90%
Growth in Clients	35%	46%	47%	48%	49%	49%
Gross Loan Portfolio	3,586,896	4,291,203	5,725,551	7,920,389	11,313,986	16,606,698
Growth in Loan Portfolio	63%	38%	33%	38%	43%	47%
Average Loan Size	996	818	740	691	663	653
Branches	15	10	9	9	9	9
Agencies	2	0	0	0	0	0
Staff	105	100	120	142	182	235
Loan Officers	48	49	59	80	115	168
Profitability						
Net Operating Income	(1,748,932)	(793,841)	(905,178)	(745,516)	(703,966)	(392,966)
Portfolio Yield	17%	25%	27%	28%	29%	31%
Operational Self-Sufficiency	24.5%	53.9%	59.6%	72.1%	80.1%	91.7%
ROA	-7.0%	-2.0%	-2.0%	-1.7%	-1.4%	-0.6%
Asset Quality						
Portfolio at Risk > 90 days	23%	5.0%	4.4%	3.9%	3.5%	3.1%
Write-offs	11%	4.4%	3.7%	3.1%	2.6%	2.1%
Efficiency						
Loan Officer/Staff	46%	49%	49%	56%	63%	71%
Loan Officer Productivity	75	107	131	143	148	151
Personnel Productivity	34	52	64	81	94	108
Funding						
Grant Funding		3,745,011	-	-	4,000,000	6,000,000
Equity Contributions (private)		-	-	-	-	-
Obligatory Savings		67,461	63,988	105,581	174,208	287,443
Deposits		-	-	-	-	-
Borrowing		50,000	(50,000)	-	-	-

In this scenario, the MFI still success in increasing clients and portfolio. However the fully decentralized branch structure remains in place and the MFI does not lay off staff. The combined branch network is reduced to 9 full service branches without extension agencies. As a result, the MFI will not break even until after 2008. This reflects the relatively high cost of staff. The MFI would need an additional $10mm in financing, primarily in 2007-2008 for loan portfolio expansion and covering the cumulative operating deficits of $3.5mm. Since the MFI would be losing money, it is likely this money would need to come from donors.

4.3 Scenario 3 Slow Growth with little cost control

This scenario presupposes as business as usual approach with little or no improvement in the external situation. Clients would continue to suffer from closures and low economic growth. The directors felt that in such a situation, they would attempt to maintain their small lending activities, as these clients would continue to lack access to the formal financial sector. Employee loans would also be maintained in order to help staff. The MFIs would attempt to retain their existing infrastructure and staff rather than making significant cuts.

4.3.1 Key Assumptions

- Annual growth rate in loans outstanding would be as follows:
  - Group 25%
  - Fast Loans 25%
  - Micro Loans 25%
  - Small Loans 10%
  - Employee/NGO Loans 10%

- Portfolio at risk is calculated by product. It is assumed that PAR ≥ 90 days would drop from its current level to 10% year 5.

- Caseload required for loan officers would be:
  - Group/Fast 200
  - Individual micro 60
  - Small 60
  - NGO 1000 (are handled by the accountants, at present)

The MFI would not cut staff and would not require this case load to be reached by any certain time. In addition, the MFI would not cut its existing branch structure, with the exception of eliminating duplicate branches and headquarters.

4.3.2 Results

Table 20 Results of Scenario 3

	2003	2004	2005	2006	2007	2008
Outreach						
Clients	3,586	4,441	5,505	6,832	8,484	10,544
% Women	88%	94%	90%	89%	87%	88%
Growth in Clients	35%	24%	24%	24%	24%	24%
Gross Loan Portfolio	3,586,896	4,016,368	4,860,179	5,923,996	7,275,137	9,003,592
Growth in Loan Portfolio	63%	29%	21%	22%	23%	24%
Average Loan Size	996	904	883	867	857	854
Branches	15	10	9	9	9	9
Agencies	2	0	0	0	0	0
Staff	105	93	105	111	128	140
Loan Officers	48	42	44	49	61	73
Profitability						
Net Operating Income	(1,748,932)	(917,532)	(859,913)	(678,761)	(726,731)	(567,038)
Portfolio Yield	17%	24%	25%	26%	26%	27%
Operational Self-Sufficiency	24.5%	48.7%	56.4%	67.3%	70.6%	79.3%
ROA	-7.0%	-2.3%	-1.9%	-1.6%	-1.8%	-1.3%
Asset Quality						
Portfolio at Risk > 90 days	23%	8.8%	8.3%	7.8%	7.4%	6.9%
Write-offs	11%	4.7%	4.4%	4.1%	3.8%	3.4%
Efficiency						
Loan Officer/Staff	46%	45%	42%	44%	48%	52%
Loan Officer Productivity	75	106	125	139	139	144
Personnel Productivity	34	48	52	62	66	75
Funding						
Grant Funding		3,745,011	-	-	-	1,700,000
Equity Contributions (private)		-	-	-	-	-
Obligatory Savings		57,245	33,085	45,492	62,552	86,009
Deposits		-	-	-	-	-
Borrowing		50,000	(50,000)	-	-	-

The growth in clients is less than half of that proposed in the other scenarios. Loan size will drop less dramatically since the MFI will grow its small loan program. Still the portfolio is expected to grow to $9mm, rather than $16mm. Not surprisingly, the MFI will need only $1.7mm in additional funding (in 2008), mostly to fund the cumulative deficits. Operational self-sufficiency increases, but is still low after five years at 79%.

4.4 Observations

The projections exercise further demonstrates that the combined MFIs have a structural problem that makes it difficult to become profitable simply by expanding. In the scenarios 2, a portfolio of $16mm leads to an operational self-sufficiency of 91%. In scenario 3, the MFI reaches operational self-sufficiency of 79% with a portfolio of only $9mm. This indicates that the marginal returns to growth are fairly low. If the merged MFI continues to use a high cost, low productivity model, growth will not quickly lead to self-sufficiency. There are a number of reasons for this.

- *Yields on individual small and micro loans are low*. The proposed rates for individual and small loans (12% and 20% per annum) are too low. The do not reflect the risk of these loans which have historically had high write-offs.
- *Caseloads are too low*. The proposed caseload of 80-90 for individual micro loans is low. While this number may seem reasonable to the three institutions given their methodology, it is low by international standards.[40] A merged MFI must consider ways of streamlining the process for individual lending such that caseloads can be safely increased.
- *Loan officers are too expensive for individual loans*. A third reason is that loan officers are too expensive for individual loans, particularly for ASALA and ACAD. The average salary for these loan officers is approximately $1,200 per month or $14,400 per annum. Since the average yield on individual micro and small loans is approximately 15%, each loan officer must have a portfolio of at least $96,000 to cover her salary.

  Portfolio Requirement = 14,400 / 15% = $96,000

  Assuming the average outstanding small loan is approximately $2,500; this implies a case load of 38 clients per loan officer. As loan officers only account for 45% of the overall salaries of the merged institution, each loan officer must carry twice that caseload (76 clients) to cover her salary and that of her administrative support staff. In addition, the overhead rate (administrative expenses/personnel expenses) on personnel is close to 40%, which implies an additional a breakeven caseload of 106 clients. Discussions with management indicated that the maximum individual client caseload for loan officers is considered to be 80-90. This indicates a structural problem for the delivery of small and individual micro loans: the marginal cost of delivering the product exceeds the marginal revenue.

- *The full branch structure is expensive*. The full branch model proposed by the directors is costly. In addition, decentralization requires a strong internal control system which none of the three MFIs have. As the institution is credit focused and is likely to continue to be so, there is no strong argument for having fully staffed branches.

[40] The international average is 276, reported in the MicroBanking Bulletin, p. 71. July 2003.

5. Conclusions and Recommendations

The institutions share a common vision, similar missions, the same market, and similar clients and products. In addition, each has something that the other seeks. For this reason, there is no reason to suggest that this merger is not feasible. There are also a number of reasons addressed for the three institutions to proceed with caution. This merger will have a significant impact on personnel, including an increase in workload, a change of environment, and for some, the loss of a job. For this reason, no consultant can advise an institution to merge with another. The boards and management of ACAD, ASALA, and FATEN need to carefully consider the costs and benefits or merging in both human and financial terms. If they decide to merge, then they need to be fully committed to a shared outcome and willing to take the steps necessary to achieve it.

This is particularly true for FATEN. As noted throughout this report, FATEN has the least to gain from this merger and the most to offer. For the merger to be a success, FATEN will have to make the greatest cuts in staff and rethink its approach to decentralization. It also needs to regain its momentum in its credit operations. If FATEN can do this without merging, it may have better financial results than the merged institution could achieve. FATEN must carefully consider its reasons for merging and make a determination if the merger is truly necessary for it to achieve its goals. The merger may not bring any significant financial benefit to FATEN. However, if FATEN wishes to realize its vision of being a Palestinian "bank for the poor," this may be best served by joining efforts with ACAD and ASALA.

5.1 Questions for further discussion

There are a number of unanswered questions that should be addressed by the boards and management before a decision is made to merge.

Is this a takeover or a merger? If the three institutions were for-profit institutions, the most effective way to combine the institutions would be for FATEN to take over the other two institutions. FATEN has the capital, the infrastructure and even sufficient staff to manage the merged entities. FATEN could easily purchase ASALA's Gaza and Jenin portfolios and hire ASALA's loan staff. It could do the same with ACAD's Nablus micro loan portfolio.

It is clear that the ACAD and ASALA are not interested in being taken over. FATEN's attitude is less clear. It is also not clear if the board members recognize that a merger does not necessarily mean that all three institutions are equally represented in the new institution. Each institution should be clear about what its position is in the new entity. This agreement may determine how and how much funds are contributed to the new entity.

What is the primary reason for merging? Directors listed a number of reasons for merging. It is important that all parties agree on what the main goals are the merger are, such as cutting costs, increasing market share, or attracting additional funding. Again, the priority placed on the goals will help determine what key decisions must be made during the merger and how quickly the merger should happen. Given the current external environment, using the merger as a defensive move to reduce costs makes sense. However, this presupposes a willingness of the partner to lay off employees and reduce infrastructure, something that could begin before the merger. If merging is to attract more funding, the parties should consider how the merger can be done quickly in order to present a unified front to potential donors.

Are there options to merging? As noted above, there is no guarantee a merger will result in a more profitable or successful institution. A merged institution can continue to do as well or as poorly as its predecessors. This question is particularly important for FATEN, which has no immediate pressure to merge. If FATEN were willing to pursue cost cuts and began demanding higher productivity from its employees, it may be able to achieve better results on its own.

If the institutions do not merge, there is little incentive for FATEN and ASALA to work together since they compete in the same markets. ACAD and ASALA could move forward with the proposed management contract in which ASALA would manage a portion of ACAD's loan portfolio. This could solve the short-term need of ASALA for funding and ACAD for growth.

Box 5

Characteristics of a Successful Merger

- Select a highly capable leader
- Win the commitment of senior management
- Define the approach to integration before starting
- Make decisions as quickly as possible
- Develop measurable goals and objectives
- Choose and support dedicated team leaders
- Conduct good due diligence, both financial and human resource
- Continually communicate with staff

5.2 Recommendations

During the presentation on October 11, the consultant made a number of key recommendations to the management and board members of the three institutions. The following recommendations are dividing into three sections, including the suggestions on issues that should be addressed prior to merging and those for the merger process itself. The final section includes recommendations on general strategic issues that a merged institution should consider.

5.2.1 Pre-Merger Issues

- *Agree on ownership.* It is recommended that the parties agree in advance on the desired ownership structure. It is important to define who the owners will be and how their ownership will be calculated. The agreement reached on ownership could dictate the legal form used by the institutions as well as the method of transferring funds to it.

- *Begin discussions with the PMA.* The legal system is still in development which makes it more likely that a law (or regulations) could be structured to accommodate the new institutions needs as a specialized financial institution. The board and senior management should be proactive by presenting a recommendation for draft regulations for the industry. The recommendation should be realistic and take into consideration the PMA's interest in prudential regulations of deposit-taking institutions.

- *Sign a letter of intent*. If the three institutions decide to move forward with the merger, the boards should express their commitment through a letter of intent. While such a letter is non-binding it should do the following:
    - state the purpose of the merger;
    - highlight the expectations of each party in the coming months;
    - state the roles and responsibility of the boards and management;
    - make clear the code of conduct (cooperation, transparency, ethical behavior) expected of all board members and employees;
    - describe the due diligence to be conducted and set deadlines
    - identify potential costs and how they will be covered;

- *Develop a steering committee*. The boards should nominate members to a steering committee who are committed to the merger and available to participate in planning. The committee will have the responsibility to:
    - oversee due diligence;
    - participate in planning
    - select senior management

  The steering committee must also be empowered to approve key decisions made by senior management related to the merger as well as oversee the overall merger process.

- *Conduct formal due diligence*. Due diligence is vital for a successful merger. At the same time, excessive investigations and delays can lower staff morale and make the process more contentious and expensive. In the case of these three MFIs, the following due diligence is recommended:
    - *Legal and governance*. Determine the best option of merging the institutions as well as the transfer of assets.
    - *Financial*. A standard terms of reference should be used to conduct a financial and operational external audit of all three institutions. This TOR should include a portfolio audit that reviews each loan, payment records, delinquencies, and collection activities.
    - *Donor agreements*. Each donor agreement must be reviewed and discussions with donors held to determine what impediments there are to transferring grant funds (both past and future) into the new institution.

- *Human resources*. All employment contracts and other employment agreements should be reviewed and summarized so that senior management is aware of the conditions of employment.

- *Write off bad loans prior to the merger*. There is no need for the new institutions to be burdened with nearly half a million dollars in non-performing loans. The NGOs should write-off loans more than one year past due and assign a person to collect. These assets should not be transferred to the new MFI.

- *Conduct informal due diligence*. Informal due diligence includes exchanges of staff and organizing events to for staff to be better informed. This gives staff a chance to prepare for the integration and replaces rumors with relationships.

- *Identify and address deal breakers*. In the course of the negotiation and due diligence process, the steering committee and management should identity issues that are barriers and may be non-negotiable to one of the parties. These issues should not be ignored. Otherwise, they will undermine the integration process and/or lead to problems in the near future. If an institution knows that it will not go forward unless it is accommodated on the issue, then it should inform the others immediately. The steering committee should be empowered to negotiate these issues so that they may be incorporated in any merger plan.

- *Set date for moving forward*. Set a firm date for committing to the merger. Such a date would coincide with the completion of many of the steps listed above. Once all three institutions are determined to move forward, they can execute a formal agreement and begin to planning and integrating. Ideally, the formal merger would occur prior to the merger process itself. Practically, the legal merger often occurs after the merger process is well underway.

5.2.2 Merger Process

- *Make an announcement and communicate directly with clients.* Clients need to be informed of the merger as soon as it is decided. The message to clients should come directly from management, rather than conveyed from the perspective of the loan officer. Change in the field staff, the loan products, or collection procedures can cause confusion and lead to fraud if not monitored carefully. Management must determine a way to communicate the advantages of the merger to their clients and keep them up to date on how it will affect them. Clients should be made aware of whom they can talk to (other than their loan officer) if they have questions.

- *Time is of the essence.* Time is the enemy of successful mergers. While it is important to be diligent and thorough, long delays can lead to a loss of momentum, frustration, low morale and extra costs. Once the commitment is made to merger, do it. Honor deadlines as much as possible and require staff to stay on schedule. Even logistical changes, such as moving staff from one office to another, convey a sense of progress.

- *Select one CEO*. Once the merger is decided, the board should select a single CEO through a competitive process. Joint management rarely works and slows the integration of institutions. Candidates should include both staff and outside applicants. The board should also not commit to long-term contract with the CEO. The best person to merge the institutions may not be the best person to run the new MFI post-merger.

- *Appoint new senior management team*. To avoid confusion, the CEO and board should quickly determine which senior management positions are necessary and appoint senior managers. It is suggested that the steering committee approve the hiring of senior managers to avoid the impression that the CEO is choosing his or her "own people." All three NGOs have strong senior mangers. Given the pool of talent and the collective knowledge of operations, it is wise to select from the existing managers. Similar to the CEO, no long-term employment should be promised to any manager and all should be evaluated on a regular basis by the CEO and the steering committee.

- *Identify key employees and win their commitment*. There are strong employees at all levels of the institution. Early on, management should identify these employees and win their commitment to help with the merger. Mergers flounder quickly when the most talented staff leave or work against the merger process. These staff members may act as your integration team leaders.

- *Find a trusted advisor*. The steering committee and senior management can benefit from identifying and hiring an outside advisor who is beholden to none of the parties. This advisor can help negotiate sensitive issues between the parties and provide a less biased opinion on whose products, policies, procedures or staff should be included in the new institution. It is not necessary that this person be a full time consultant, but it is recommended that he or she be available from the planning process through the end of the merger process.

- *Draft a strategic plan and merger plan*. The steering committee and senior management should develop a long-term strategic plan and short-term merger action plan for the institution. The plans should not only identify objectives and goals, but should identify the activities, resources, and time needed to complete the merger. The steering committee should monitor progress on the plan on a regular basis (i.e. monthly).

- *Develop integration teams*. Mergers require team work. Management should select integration teams organized around specific topics or goals comprised of employees from different ranks and different organizations. It is also important to delegate responsibility; senior managers will have enough to do without acting as team leader on every team. Some areas for integration teams include: products & services; finance & accounting; human resources; governance & legal issues;

MIS; Marketing and communication; and audit. The teams will assist in the due diligence process as well as recommending changes and implementing decisions. They will identify the need for outside consultants, develop terms of reference, and monitor their work. The teams will also be responsible for organizing training of staff on the new policies and procedures.

- *Be prepared to cut staff*. If the new institution isn't willing to reduce some of its excess capacity, it is far less likely to become sustainable in the medium-term. Some additional recommendations in managing staff reductions include:
  - *Promise job security for a period*. One way to reassure staff is to ensure that no layoffs will take place for a fixed period of time, such as one week or one year. This "grace period" allows staff more time to prove their value to the institution.
  - *Set clear targets for staff performance*. For loan officers, make clear what the expected productivity and job performance is by the end of the grace period.
  - *Offer incentives for staff to leave*. Staff members will soon figure out who is likely to be cut. One means of easing this transition is to offer incentives for staff to leave, such as doubling the severance pay during the first year. In exchange, departing staff will be expected to help smooth the transition, particularly with clients.
  - *Inform clients when staff members are dismissed*. For many clients, the loan officer may be their only contact with the MFI. It is important for clients to be informed immediately when a loan officer leaves so that there is no chance of fraud by the loan officer.

5.2.3 Strategic Issues

- *Become a for-profit institution*. For-profit companies have clearer ownership structures, interested owners, and are less subject to political manipulation. The greatest advantage is a shareholder structure is the ability to raise capital through issuing shares, which is a long-term goal of the merged institution.

- *Put ownership in a trust*. It is not clear who would be the owner of a new shareholder company. It could be the NGOs themselves or it could be the NGOs current board members. In the short-term, it is recommended that the NGOs put the shares of the new institution in a trust. The trust should be required to maintain its investment in the new MFI for at least ten years. The trust could be governed by a combination of board members of the contributing NGOS and professional persons that have no financial or political interest in the MFI or Palestine. Over time, the trust could be authorized to sell its shares to private investors. Alternatively, the new institution could be owned by the NGOs who commit to maintain their investment in the MFI for period of time (e.g. ten years).

- *Invest and Lend*. One method of creating equal ownership among the partners is for each to invest (or contribute) the same amount of capital. FATEN and ACAD could then lend the remainder of their capital to the new MFI on a subordinated basis. This could facilitate the transfer of all assets without making FATEN the majority owner.[41]

- *Reconsider the branch structure*. As a credit led institution, a large fully staffed branch network does not seem necessary. Communication lines and mail service are fairly predictable throughout the territories, making it easy for back office operations to be conducted in a few centers. It makes more sense to limit branches to just a few, perhaps two in the West Bank and one in Gaza, which offer additional points of services through small agencies. These agencies need only be staffed by loan officers and need not be open full days. Accounting and MIS functions can be centralized in the branches.

- *Focus on Gaza*. Gaza has greater population and population density, a higher percentage of low-income households, low costs, and fewer closures. With a new focus on smaller loans, it is likely that growth will be greatest in Gaza. All three MFIs are currently headquartered in the West Bank, cut off from Gaza. Given the larger market in Gaza, it might make sense for the new MFI to be headquartered in Gaza.

- *Keep the focus on women*. The consultant agrees that there is a great potential to increase lending among men and that Palestine men are almost as disadvantaged as women due to the current environment. At the same time, the mission and cultures of ASALA and FATEN are firmly rooted in serving women and women remain statistically poorer than men. It is also fair to say that the situation of men will improve more quickly than women as the political and economic environment improves. If the new MFI focuses more on group lending, this will naturally lead to a higher percentage of female clients.[42] In the long term, the MFI will have to develop a strategy for increasing services to men.

- *Reconsider the small loan product*. The small loan products of ACAD and ASALA have the poorest performance and the lowest yield. The loan officers managing these loans are also the highest paid in the organizations. As discussed with the directors, small lending should only be offered to a clearly targeted market that does no otherwise have access to credit, such as women and farmers. This product should be priced according to risk rather than compared to commercial banks.

- *Shift assets to group loans, seasonal loans, and individual micro loans*. Group loans have the highest quality and return of the all of the loan products, but account for less than 25% of the combined institution's loan portfolio. There is disagreement among the three institutions as to the size of the market for such

[41] The evaluator does not have a strong opinion on the distribution of shares between the three institutions. This recommendation reflects the likelihood that ACAD and ASALA would not be in favor of becoming minority shareholders in the new institution.
[42] All three MFIs agree that solidarity group lending among Palestinian men is difficult.

small loans, but it is safe to say that it is much larger than the $742,000 of group and micro loans currently outstanding. In addition, the MFI should seek to promote the individual micro loan product among existing group loan clients or increase the amount of group loans.[43]

- *Seek alternatives to PNA guarantors*. According to loan officers, the market for guarantors is already tight. The merged MFI should seek to further expand its guarantor pool beyond employees of the PNA, to included salaries persons and business owners.[44] In addition, the MFIs should consider and pilot test the use of moveable property as collateral. While there are legal constraints to seizing this collateral, the threat of loss may be a sufficient incentive to repay.

[43] FATEN is currently doing this with "Stage 1" individual loans.
[44] ASALA is currently doing this.

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Annex A Scope of Work

CHEMONICS INTERNATIONAL

ISAMI Project Scope of Work - #CI-35-2003

Feasibility Study for the Creation of a Bank for the Poor Through the Merger of FATEN, ACAD & ASALA

I. Background

Through the FS IQC Task Order #802, “Building a Microfinance Industry in the West Bank and Gaza” (ISAMI Project) USAID is supporting a program of technical assistance and training to commercial banks and non-profit organizations, to develop a sustainable micro-lending industry in the West Bank and Gaza, targeting its Strategic Objective #1, “expanded private sector economic opportunities”. Small and micro enterprises conduct approximately ninety-five percent of the business in the West Bank and Gaza. There is a need to make formal credit available to these enterprises. Chemonics International and its partners are implementing the Project to enhance the potential for rapid growth of micro-lending and to make the availability of this product and other related financial services a permanent and sustainable feature in the region. This Project consists of seven components that work to achieve the main objective of establishing a sustainable Palestinian microfinance industry.

II. Purpose of Assignment

Three viable Palestinian non-bank small and micro finance provider institutions of substantial size (FATEN, ACAD, ASALA), have held preliminary discussions at both general manager and board levels, regarding the possible advantages of merging their three institutions to form an entirely new entity, a “bank for the poor”, which would be a licensed, deposit-taking, institution.

Contemplation of such an undertaking requires rigorous examination and analysis and is a complex endeavor requiring a variety of expertise, some of which the institutions possess, but some of which they prefer be sourced from outside; the institutions have, therefore, asked ISAMI, as theirs and the industry’s partner, to involve itself in assisting where appropriate, with various stages of the merger process; for this first stage, the feasibility study, ISAMI has agreed to provide a distinguished international consultant, to work with the institutions in conducting the feasibility study. If the feasibility study indicates that subsequent assistance from ISAMI is warranted and the institutions request such, ISAMI will seriously consider providing whatever assistance it can.

Should the feasibility study recommend that merger to form a bank is feasible, and the subsequent stages of the merger process result in a viable bank for the poor, the Palestinian small and micro finance industry should gain an institution which is far more capable of serving Palestinian small and micro entrepreneurs, than the three institutions can do separately. Such an institution will be able to combine the diverse lending specialties, market knowledge, customer bases, capital resources, and personnel experience of all three institutions, into one institution which should be able to experience significant cost reductions by eliminating duplicate functions and staff, as well as being in a position to cross-sell a wide variety of financial products, to the various market segments each institution will bring to the new entity. Additionally, by being a licensed deposit taking institution, the bank will be able to mobilize capital through deposits, both reducing its dependence upon grant funding, but also putting those deposits to use for the benefit of the Palestinian economy, unlike what is occurring in the case of most of the commercial banks operating in Palestine, whereby because of those banks' extreme aversion to risk, too few of their deposits are being redeployed into productive local commercial endeavors, and particularly not to the loan capital needs of small and micro entrepreneurs.

Merging the three institutions to form a bank, will be a phased process, as ISAMI's experience with a number of ongoing projects, is that phasing better organizes, defines, and controls, the tasks which must be accomplished; if the feasibility study concludes that merger is both feasible and desirable, it will also recommend the subsequent phases which should follow. These subsequent phases will likely call for the employment of specialized expertise to assist the institutions with some of the tasks required for accomplishment in the phases, and it is anticipated that ISAMI will be called upon to help evaluate the nature of both the process and the tasks, help define how the tasks are to be accomplished, and assist with recommendations for consultants and selection.

The first phase will be a comprehensive feasibility study of the viability of the contemplated merger, to include potential strengths and weaknesses of such an endeavor, potential advantages and disadvantages, a recommendation whether a merger should continue to be contemplated, and if the recommendation is that a merged entity could be viable as a bank, a listing of the subsequent phases and tasks which must be undertaken.

III. Tasks of the Consultant

The consultant will undertake a feasibility study which will examine the viability of a merger of the three institutions to form a licensed, deposit-taking, bank for the poor; the feasibility study will focus on the financial, commercial, organizational, markets and products appropriateness and viability of such a merger and suggestions for adaptation of the foregoing to a merged entity, but not at this time should legal, regulatory and management issues be approached comprehensively and in depth, although they do merit comment. The feasibility study shall include, but not be limited to, the following tasks:

- Descriptions of each of the three entities, relative to their loan products, nature of market segment and penetration, capital resources, portfolio quality, MIS capabilities, management and personnel resources.
- An examination of the strengths and weaknesses of each of the three institutions, with attention to how such might affect their viability as merged components.
- An examination and description of the resources of advantage to the new entity, which each of the three institutions could bring to the merger.
- Based on the foregoing, a preliminary examination of both the potential benefits and disadvantages (if any) a merger could provide.
- Describe potential impediments to merger which currently exist within the three institutions, as well as characteristics which those institutions might carry with them into the merger, which could be deleterious to the merged entity and how those impediments and characteristics might be ameliorated prior to or after merger.
- To the degree possible with the information at hand, produce financial projections and analyses intended to demonstrate what will be required for the merged entity to be financially viable; this analysis and modeling can be similar to that which the consultant produced for his feasibility study of the viability of a Palestinian small and micro finance bank subsidiary.
- The above financial modeling should include an examination of loan capital requirements for the merged entity and the impact on financial viability if loan capital must be borrowed from the commercial market, as is being done in Jordan.
- Make recommendations for type, range and pricing of products the merged entity would need to offer in order to be successful; this is not only necessary to illustrate the entity's product strategy, but necessary to enable the financial viability modeling to be undertaken.
- Prepare staffing break even analysis calculations regarding case loads per loan officers, using current assumptions and presenting options as to how these breakeven points can be reached.
- Suggest an organizational structure appropriate to the new entity, to include headquarters, regional and field offices.
- If analysis, observation and research indicate that a merged entity could be commercially and financially viable and likely affords more advantages than the three institutions remaining independent, recommend the next phase in the merger process, and the tasks therein, which should be undertaken.

IV. Deliverable

The deliverable, is a feasibility study (based around the "Tasks of the Consultant", above) which thoroughly examines the viability of FATEN, ACAD, and ASALA, merging to form a bank for the poor, and should the study conclude that such a merger is commercially sound and financially viable, makes recommendations for tasks to be undertaken during the next phase of the merger process.

V. Qualifications

Preferred qualifications:

- Several years experience formulating business plans for microfinance institutions, restructuring microfinance institutions, and redesigning/re-pricing microfinance institution products.
- Expert in financial analysis and financial modeling, extrapolations and projections, using a variety of modeling techniques.
- Extensive experience in organizational analysis and formulation.
- Commercial or investment banking experience.
- Experience formulating and conducting/supervising/overseeing financial institution mergers.

VI. Level of Effort and Timing

Thirty-two days Level of Effort, including travel, is required for this SOW. This LOE includes 30 days for completing the feasibility study and two days of travel.

VII. Reporting

The consultant will report to the chief of party or his designee.

Annex B   List of Persons Interviewed

ACAD	Samir Barghouti	Director
ACAD	Ahsraf K. Al-Zein	Credit Manager
ACAD	Fahmi Mustafa	Finance & Administrative Manager
ACAD	Mohsen Abu Ramadan	Gaza Branch Manager
ACAD	Aladdin Saga	Gaza Branch Loan Officer/Attorney
ACAD	Khaled Khateeb	Nablus Branch Manager
ACAD	Loan Officers (2)	Nablus Branch
ASALA	Reem Abboushi	Executive Director
ASALA	Miranda Mina	Financial Manager
ASALA	Mary Sarraf	Senior Project Coordinator
ASALA	Do'a Wadi	Project Coordinator
ASALA	Samy Hammoudeh	Gaza Branch Manager
ASALA	Nancy Missak	Group Lending Operations Manager
ASALA	Loan Officers (4)	Gaza Branch
FATEN	Fares Abdel Nour	Finance Admin Manager
FATEN		Product Development Specialist
FATEN		MIS Specialist
FATEN		Accountant
FATEN	Amani Ali	Gaza Regional Manager
FATEN		Hebron Regional Manager
FATEN	Shireen El-Basha	Ramallah Branch Manager
FATEN		Gaza Branch Manager
FATEN	Loan Officers (3)	Ramallah Branch
FATEN	Loan Officers (4)	Gaza City Branch
ISAMI	Jim Whittaker	Chief of Party
Palestinian Network	Elen Saba el Baba	Coordinator
PBC	Chris August	CEO
USAID	Johny Zeiden	Private Sector Specialist
USAID	A Hidmi	

Annex C October 11 Presentation to

ACAD, ASALA, and FATEN

Palestinian Microfinance Bank

Assessing the Feasibility of a Tripartite Merger

INTRODUCTION

Examine what is said, not him who speaks
Arab Proverb

Purpose

- Descriptions of each of the three entities
- An examination of the strengths and weaknesses of each of the three institutions
- An examination and description of the resources of advantage to the new entity
- A preliminary examination of the potential benefits and disadvantages (if any) a merger could provide
- Describe potential impediments to merger which currently exist within the three institutions and how those impediments might be ameliorated prior to or after merger
- Produce financial projections and analyses intended to demonstrate what will be required for the merged entity to be financially viable
- Examine the capital requirements for the merged entity and the impact on financial viability if loan capital must be borrowed from the commercial market
- Make recommendations for type, range and pricing of products the merged entity would need to offer in order to be successful
- Prepare staffing break even analysis calculations regarding case loads per loan officers
- Suggest an organizational structure appropriate to the new entity, to include headquarters, regional and field offices
- Recommend the next phase in the merger process, and the tasks therein, which should be undertaken.

Methodology

- Interviews with key headquarters staff
- Interviews with West Bank and Gaza Branches regional and branch managers
- Discussion group with loan officers
- On-site review of documents and manuals
- Financial analysis and review
- Mission and objectives workshop
- Review of surveys and evaluations

Disclaimer

- Time was limited
- Not all financial information was available
- Only a limited number of branches were visited
- Data collected is a mixture of self-reported, both verified and unverified
- Projections are basic and will be refined

MFI Mergers

- Typical Reasons for
  - Increase market share
  - Improve profitability/sustainability
  - Reduce costs
  - Gain banking/financial license
  - Increase products and services
  - Access funding
  - Raise new capital
  - Provide career path for employees

Stated Reasons to Merge

	ACAD	ASALA	FATEN
Shared Vision	XXX	XXX	XXX
Shared Mission	X	XXX	XXX
Need Funding		XXX	
Avoid Competition		X	XX
Access New Markets	XXX	XX	
Careers for Staff	XX	X	X
Acquire New Technology	XXX	X	X

Additional Reasons to Merge

	ACAD	ASALA	FATEN
What they lack	●Expertise in Micro lending ●Quality portfolio ●Strategy for sustainability ●Focus ●Delinquency management ●Decentralization strategy	●Capital ●Future Funding ●Access to new markets ●Infrastructure ●Sufficient Fin/Admin ●Decentralization strategy	●Momentum ●Strategy for sustainability ●Efficiency
What they offer	●Capital ●Donor contacts ●Rural expertise	●Momentum ●Strategy for growth ●Focus ●Quality portfolio ●Efficiency	●Capital ●Quality portfolio ●Future Funding ●Geographic coverage ●Infrastructure ●Sufficient Fin/Admin ●Decentralized Operations

Review of the Institutions

As of August 2003	ACAD	ASALA	FATEN
Clients	425	1,225	1,920
% Women	2.6%	100%	99%
Gross Loan Portfolio	$1.59mm	$1.08mm	$0.91mm
Assets	$2.15mm	$1.38mm	$5.58mm
Avg. Loan Size	$3,753	$882	$467
Staff	15	15	75

ACAD

- Specialized in rural clients
- Individual lending (micro and small)
- 70% of loans > 1 year
- Concentrated in North/Central West Bank
- 72% of portfolio in small
- Pursues donor-funded development activities
- Significant European Union funding

	30-Aug-03	31-Dec-02
Adj. Net Op. Income	-$542m	-$728m
Financial self-sufficiency	13.9%	9.7%
Adjusted ROA	-47.9%	-42.3%
Portfolio yield	10.0%	7.6%
Portfolio at risk	30.8%	64.6%
Adjusted write-Offs	26.5%	61.6%
Growth in loan portfolio	118%	-2%
Clients per loan officers	106	71
Clients per staff	28	15

ASALA

	30-Aug-03	31-Dec-02
Adj. net op. income	-$459m	-$375m
Financial self-sufficiency	22%	34%
Adjusted ROA	-60.4%	-26.5%
Portfolio yield	17.7%	21.6%
Portfolio at risk	24.6%	22.2%
Adjusted write-Offs	6.8%	17.2%
Growth in loan portfolio	-1%	63.5%
Clients per loan officers	136	130
Clients per staff	82	78

- Specialized in lending to women
- Group lending and individual (micro and small)
- Concentration in Gaza (group), Jenin and Ramallah (individual)
- Affiliated with Catholic Relief Services/Oxfam Quebec
- Some funding from Codespa
- 60% of portfolio in group and micro

FATEN

- Specializes in group lending for women
- Offers group and individual (micro and employee loans)
- 60% of portfolio in micro
- Serves entire Gaza and West Bank
- Affiliated with Save the Children
- Significant USAID funding

	30-Aug-03	31-Dec-02
Adj. Net Op. Income	-$283m	-$585m
Financial self-sufficiency	37%	42%
Adjusted ROA	-7.7%	-11%
Portfolio yield	27%	37%
Portfolio at risk	7.6%	12.3%
Adjusted write-Offs	-11%	21.2%
Growth in loan portfolio	99%	-65.8%
Clients per loan officers	56	37
Clients per staff	26	19

SWOT Analysis

	ACAD	ASALA	FATEN
Strengths	•Capital •Liquidity •Rural experience •Reputation	•Best practice group & micro loan product •High personnel productivity •Efficient allocation of assets •Aggressive	•Best practice group & micro loan product •Capital •Liquidity •Infrastructure •Crisis strategy to preserve assets
Weak-nesses	•Low profitability •Low yield •Poor asset quality •High losses •Lack micro experience •Eligibility requirements •Slow disbursement •Controls	•Low profitability •Low yield on small loans •Poor asset quality on small loans •Lack capital, liquidity •MIS	•Low profitability •Low productivity •Declining yield •High overhead •Defensive •Missing Director

SWOT Analysis

	ACAD	ASALA	FATEN
Opportunities	• Continued EU funding • SIDI funding • Merger	• Growth in Gaza • Group lending in West Bank • Merger	• Medium-term USAID support • New product development • Infrastructure • Merger
Threats	• Restricted access to clients • Trouble with legal collection • Competition • Focus on development projects • Saturation of guarantee market	• Restricted access to clients • Lack access to additional funds • Competition	• Limited access to clients • Competition • Saturation of guarantee market • No long-term funding

Warning Signs

Issue	Institution	Comment
Asset Quality	ACAD, ASALA	ACAD PAR > 365 days = $401,678 (25.2%) ASALA PAR > 365 days = $73,516 (6.8%)
Insufficient Reserves	ACAD	7.8% of recommended
Low profitability	ALL	Failure to prove sustainability
Non-profit mentality	ACAD	Focus on development projects, low pricing of products
Excess staff	FATEN	Unwillingness to cut staff in response to crisis
Opposition of staff to merger	FATEN	Non-management staff expressed opposition
Lack of quality data/Incomplete Audit	ASALA	MIS and accounting not currently functioning
Unclear ownership/ Control	ALL	NGO structures, no controlling entity, non-professional boards
Lack of internal audit, some controls	ALL	No audit function, varying internal control weaknesses
Rapid growth in new product	ACAD, FATEN	Micro lending with grace periods, Employee Loans
Donor dependence	ACAD, FATEN	EU, USAID funding has allowed inefficiencies

Merged Institution Analysis

Seek counsel of him who makes you weep, and not of him who makes you laugh

Arab Proverb

Outreach

As of August 2003	
Clients	3,600
% Women	88%
Gross Loan Portfolio	$3.58mm
Assets	$9.1mm
Avg. Loan Size	$996
Staff	105

Gross Loan Portfolio	
Solidarity Group	742,969
Fast Loans	41,417
Micro Loans	925,409
Small Loans	1,462,871
Employee Loans	366,680
Total	3,539,346

Indicators

	30-Aug-03	31-Dec-02
Adj. Net Op. Income	-$1.2mm	-$1.7mm
Financial self-sufficiency	24%	29%
Adjusted ROA	-22%	-20%
Portfolio yield	17%	23%
Portfolio at risk	23%	35%
Adjusted write-Offs	11%	19%
Growth in loan portfolio	63%	-17%
Clients per loan officers	74	57
Clients per staff	34	26

Growth/Cost Control Scenario

- 50% growth per annum in micro lending (group and individual) per year
- 5 branches with village offices
- Case load of 300 for group loans and 90 for individual by 2005
- Additional $7mm in grant funding for loan portfolio

Outreach	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Clients	3,586	5,246	7,735	11,465	17,058	25,444
% Women	88%	94%	91%	90%	89%	90%
Growth in Clients	35%	46%	47%	48%	49%	49%
Gross Loan Portfolio	3,586,896	4,291,203	5,725,551	7,619,189	11,313,986	16,606,698
Growth in Loan Portfolio	63%	38%	33%	33%	48%	47%
Average Loan Size	996	818	740	665	663	653

Growth/Cost Cuts

Profitability	2003	2004	2005	2006	2007	2008
Net Operating Income	(1,748,932)	(1,062,306)	(553,054)	(487,015)	(82,407)	(173,003)
Portfolio Yield	17%	24%	23%	26%	25%	26%
Operational Self-Sufficiency	24%	46%	68%	78%	97%	95%
ROA	-7.0%	-2.7%	-1.2%	-1.1%	-0.2%	-0.3%
Asset Quality						
Portfolio at Risk > 90 days	23%	5.0%	4.4%	6.6%	3.5%	3.1%
Write-offs	11%	4.4%	3.7%	7.2%	2.6%	2.1%
Efficiency						
Loan Officer Productivity	75	101	184	216	219	223
Personnel Productivity	34	50	93	121	136	158

Growth/Less Cost Control

- 50% growth per annum in micro lending (group and individual) per year
- 5 branches with village offices
- Case load of 150 for group loans and 50 for individual by 2005
- Additional $9mm in grant funding for loan portfolio

Outreach	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Clients	3,586	5,246	7,735	11,465	17,058	25,444
% Women	88%	94%	91%	90%	89%	90%
Growth in Clients	35%	46%	47%	48%	49%	49%
Gross Loan Portfolio	3,586,896	4,291,203	5,725,551	7,619,189	11,313,986	16,606,698
Growth in Loan Portfolio	63%	38%	33%	33%	48%	47%
Average Loan Size	996	818	740	665	663	653

Growth/Less Cost Control

Profitability	2003	2004	2005	2006	2007	2008
Net Operating Income	(1,748,932)	(1,247,393)	(1,301,468)	(1,220,166)	(596,416)	(704,040)
Portfolio Yield	17%	24%	23%	26%	25%	26%
Operational Self-Sufficiency	24%	42%	47%	59%	80%	84%
ROA	-7.0%	-3.2%	-3.0%	-3.0%	-1.2%	-1.0%
Asset Quality						
Portfolio at Risk > 90 days	23%	5.0%	4.4%	6.6%	3.5%	3.1%
Write-offs	11%	4.4%	3.7%	7.2%	2.6%	2.1%
Efficiency						
Loan Officer Productivity	75	81	112	145	183	193
Personnel Productivity	34	44	64	88	114	135

Slow Growth/Cost Cuts

- 15% growth in micro loans (group and individual)
- 4 branches with village offices
- Caseload of 300 for groups and 90 for individual
- No additional grant funding needed

Outreach	2003	2004	2005	2006	2007	2008
Clients	3,586	4,110	4,711	5,401	6,193	7,102
% Women	88%	94%	89%	88%	86%	86%
Growth in Clients	35%	15%	15%	15%	15%	15%
Gross Loan Portfolio	3,586,896	3,766,309	4,355,447	4,920,246	5,892,219	6,894,280
Growth in Loan Portfolio	63%	21%	16%	13%	20%	17%
Average Loan Size	996	916	924	911	951	971

Slow Growth/Cost Cuts

Profitability	2003	2004	2005	2006	2007	2008
Net Operating Income	(1,748,932)	(807,431)	(390,908)	(319,486)	(152,516)	(200,101)
Portfolio Yield	17%	25%	23%	24%	23%	23%
Operational Self-Sufficiency	24%	51%	71%	78%	89%	88%
ROA	-7.0%	-2.1%	-0.9%	-0.7%	-0.3%	-0.4%
Asset Quality						
Portfolio at Risk > 90 days	23%	10.2%	9.9%	11.2%	9.1%	8.7%
Write-offs	11%	7.1%	6.9%	9.5%	6.3%	6.0%
Efficiency						
Loan Officer Productivity	75	114	162	193	200	203
Personnel Productivity	34	52	75	84	88	96

Observations

- Sustainability under all scenarios is long-term
- Structural issues must be addressed
  - Yields on individual micro and small loans are low
  - Costs for individual loan officers are high
  - Case load targets for individual micro loans are low
- Loan officer/staff ratio is low
- Margins are too low to accept commercial loans
- Gaza is more profitable market
- Need to analyze profitable of individual lending
  - Increase yields
  - Increase efficiency
  - Systematize
- Gaza as primary market
  - Growth potential
  - Higher margins
  - Lower cost
  - Higher population density
- Streamline branch model

To merge or not to merge

- Yes, if:
  - Prepared to cut infrastructure
  - Willing to cut staff
  - Can address structural issues
    - Branch Structure
    - Salary structure
    - Individual loan costs
    - West Bank efficiencies
  - Have donor support for merger costs
  - Able to win consensus of boards and senior management

- Need to:
  - Shift assets to group lending
  - Reconsider individual micro pricing
  - Find ways to increase individual micro caseload
  - Reduce small lending
    - Focus on core groups that lack access (farmers, women)
    - Price according to risk and delivery cost
  - Write off bad debt
  - More attention to Gaza

Mergers

Successful Mergers

- Highly capable leader
- Committed senior management
- Defined approach to integration
- Speedy decisions
- Measurable goals and objectives
- Dedicated team leaders
- Financial and human resource due diligence
- Continuous communication

Unsuccessful Mergers

- Poor leadership
- No clear plan
- Conflicting corporate cultures
- Overestimation of synergies
- Inadequate due diligence
- Slow integration
- Unclear decision-making
- Poor communication

Merger Questions

- Is this a takeover or a merger?
- Is this a merger of equals?
- Is this a full integration or minimal integration?
- Are there options to merging?

Key Milestones

- Donor/Board approval
- Merger strategy agreed
- Agreement of intent
- CEO/Merger Manager selected
- Announcement
- Formal and Informal due diligence
- Integration planning
- Preparation of a business plan
- Shareholders agreement
- Operational merger begins
- Full integration complete

Letter of Intent

- Non-binding
- Expiration date
- Purpose
- Expectations
- Roles and responsibilities
- Conduct
  - Collaboration
  - Disclosure
  - Ethics
- Due diligence description
- Cost coverage

Trust in Allah, but tie your camel

Arab Proverb

- Identify Steering Committee of board members
  - Characteristics
    - Committed to merger
    - Available to participate in planning
  - Responsibilities
    - Select/hire senior management
    - Oversee due diligence
    - Participate in planning
- Have support of senior management
- Select CEO or Merger Manager and appoint merger task force
  - Manage due diligence
  - Communicate to staff
- Agree on integration strategy
  - Speed, decision-making process
  - Communication
  - Need/use of consultant
  - How Reassure staff

Due Diligence

- Legal and governance
  - By-law, registration, taxes, board
- Financial audit
  - Statements, procedures, contracts or liabilities, reserves, bank accounts
- Portfolio audit
  - Loan contracts, payment records, delinquent, collection actions
- Human resource inventory
  - Contracts, payroll, benefits, incentives, side agreements
  - Identify indispensable staff
- Fixed asset inventory
- Donor agreements
  - Commitments, restrictions
- Cultural due diligence
  - Structure interview with management staff
  - Survey of field staff
- Conduct informal due diligence
  - Arrange for exchanges and management and middle management staff
  - Organize events for field staff
- Communicate
  - Reassure staff
  - Develop communication system for all institutions
  - Provide regular updates on process
- Time is of the essence
  - Timely is better than perfect, forgo time-consuming processes
  - Set deadlines
  - Use local audit firms for financial and portfolio audit
  - Use staff for human resource and asset inventory
- Identify deal breakers and tough issues
  - Identify issues, be transparent
  - Resolve as quickly as possible
  - Win steering committee approval

Strategic Planning

- Strategic Plan
  - Mission, vision, values
  - Goals, objectives
  - Organizational structure/facilities
  - Financial projections
- Operational/Transition Plan
  - Activities with deadlines
  - Assign responsibility
  - Targets
  - Budget
  - Technical assistance needs
- Address all important issues
  - do not defer until later
  - If more information needed, list preference
- Be clear on how decisions will be made
- Use a trusted facilitator
- Produce a written plan

Key Issues to Resolve

Issue	Comment	Recommendation
Legal Structure	For profit v. non-profit	For-profit, either commercial company and/or specialized bank
Ownership	Broad based ownership or closely held, distribution of equity	Closely held, preferably in trust. Strict by-laws on use of funds.
Governance	How are selected, roles and responsibilities	Selected by shareholders, professional persons
CEO	How to appoint or hire	Select one, competitive process with preference on internal, limited contract
Senior Management	How to appoint or hire	Select one for each position, internal, selected by Committee & CEO
Donor funds	How can donor funds be used by new institution	Begin immediately, gain written agreements
Layoffs	How to reduce redundancy	Promise no layoffs for period of time, offer incentives to leave, set transparent criteria
Transfer of assets	As equity or liabilities	Initially as liabilities

Changing Role of the Board

Ranked according to importance	Non-Profit	For - Profit
Assess Management	1	4
Monitor/Review Financial Performance	2	3
Approve Budget	3	2
Conduct Strategic Planning	4	1
Review Audits	5	5

- Characteristics
  - Financial
  - Legal
  - Funding
  - Marketing/Public Relations
  - Social/Cultural
  - Ethical
- Responsibilities
  - Business planning and budgeting
    - Strategic planning
    - Approval/oversight of operational planning & budgeting
  - Risk management and oversight
  - Fiduciary responsibilities
    - Internal audit
    - External audit
  - Management assessment and accountability
    - Hiring/overseeing CEO

How to manage staff

- Need to sell idea to staff
- Identify strong staff and win commitment to stay
- State expectations for performance and cooperation
- Promise job security for period
- Open new positions to competition
- Offer departure incentives for redundant staff
- Set transparent criteria for staff selection
- Integrate offices quickly
- Communicate, communicate, communicate
- Address rumors directly
- Organize social events

Integration Planning

- Utilize Teams
  - Products & Services
  - Human Resources
  - Finance/Administration
  - MIS
  - Audit
  - Legal/Taxation
  - Governance
  - Communication/Marketing
  - Decentralization/Controls
  - Fixed Assets
- Select strong team leaders
  - Report to integration task force
  - Coordinate activities
  - Identify and request support needed
  - Consensus first, then refer to task force
  - Organize training
  - Work with consultants, as needed

Annex D Financial Analysis Spreadsheets of

ACAD, ASALA, FATEN

Assumptions Used in Calculating Quantitative Indicators
Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1.00	**Exchange Rate:**	1.00

No.		Formula					
1	Exchange Rate (End of Period)	USD = XX Local Currency		1.00			1.00
2	Inflation Rate	Annual rate of inflation		3.0%			3.0%
3	Market Deposit Rate	Paid by commercial banks on demand deposits		0.0%			0.0%
4	Market Commerical Bank Rate	90-day time deposit or other rate		0.5%			0.5%
5	Effective Interest Rate of MFI			15.0%			15.0%
6	Average Effective Interest Rate of Competition	This should be provided by the MFI and/or a third party		25.0%			25.0%
7	Average Assets	In the case of single-purpose institutions, use average total assets. In the case of multipurpose institutions, use average performing assets.		2,201,061			2,001,446
		Sum of total assets at end of year one and end of year two	4,402,122			4,002,892	
		2	2			2	
8	Adjusted Average Assets			1,696,431			1,724,251
		Sum of adjusted total assets at end of year one and end of year two	3,392,862			3,448,502	
		2	2			2	
9	Average Equity			1,908,659			1,732,459
		Sum of total equity at end of year one and end of year two	3,817,318			3,464,917	
		2	2			2	
10	Adjusted Average Equity			1,404,029			1,455,264
		Sum of adjusted total equity at end of year one and end of year two	2,808,059			2,910,527	
		2	2			2	
11	Number of Active Clients (End of Period)	Number of active clients at end of year		425			284
12	Number of Active Clients (Beginning of Period)	Number of active clients at beginning of year		284			295
13	Number of Active Female Clients	Number of active female clients at end of year 2, provided by portfolio report or other institution report.		11			7
14	Number of Active Borrowers (End of Period)	Number of active borrowers at end of year		425			284
15	Number of Active Borrowers (Beginning of Period)	Number of active clients at end of year		284			295
16	Number of Staff (End of Period)	Number of all full time and full time equivelant employees		15			19
17	Number of Loan Officers (End of Period)	Number of loan officers		4			4
18	Value of Loans Disbursed	Sum of the value of all loans disbursed		995,150			100,500
19	Number of Loans Disbursed	Total number of loans disbursed		171			24
20	Value of Payments Past Due	Value of all payments past-due one or more days		439,367			
21	Value of restructured or rescheduled portfolio	Value of loan balances of restructured loans that have payments 1-180 days past due as per portfolio reports. The analyst should be sure NOT to include any restructured portfolio over 180 days past due.		100,204			-
22	Gross Loan Portfolio (Beginning of Period)			889,858			908,151
23	Average Gross Loan Porfolio	Current Period Gross Loan Portfolio + Previous Period Gross Loans Outstanding	2,484,910	1,242,455		1,798,009	899,005
		2	2			2	

Adjusted Income and Expense Statement

Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	Previous Period Ending:	31-Dec-02
Number of Mont	8	Number of Months:	12
Exchange Rate:	1.00	Exchange Rate:	1.00

Currency: USD

		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	Financial Income and Expense						
1	*Interest on Loan Portfolio*	*79,240*	-	*79,240*	*67,331*	-	*67,331*
2	*Fees and Commissions on Loan Portfolio*	*3,693*	XXX	*3,693*	*728*	XXX	*728*
3	Financial Revenue from Loan Portfolio	82,933	XXX	82,933	68,059	XXX	68,059
4	Financial Revenue from Other Financial Assets	*4,532*	XXX	*4,532*	*10,274*	XXX	*10,274*
	Financial Revenue	87,465		87,465	78,333		78,333
5	*Interest and Fee Expense on Deposits*	-	XXX	-	-	XXX	-
6	*Interest and Fee Expense on Commercial Borrowings*	-	XXX	-	-	XXX	-
7	*Interest and Fee Expense on Concessional Borrowings*	-	XXX	-	-	XXX	-
8	Financial Expense on Liabilities	-	XXX	-	-	XXX	-
9	Net Inflation Adjustment Expense	-	-	-	-	-	-
10	Subsidized Cost-of-Funds Adjustment Expense	XXX	-	-	XXX	-	-
11	Other Financial Expenses	-	XXX	-	3,690	XXX	3,690
	Financial Expense	-	XXX	-	3,690	XXX	3,690
12	NET FINANCIAL INCOME	87,465		87,465	74,643		74,643
13	Other Revenue related to Financial Services	-	XXX	-	-	XXX	-
14	*(Loan Loss Provision Expense)*	*(35,424)*	*(454,870)*	*(490,294)*	*(1,523)*	*(554,390)*	*(555,913)*
15	*Recovery on Loans Written-off*	*7,236*	*XXX*	*7,236*	-	-	-
16	Net Loan Loss Provision Expense	(28,188)	*XXX*	(483,058)	(1,523)	*XXX*	(555,913)
	Operating Expenses						
17	Personnel Expense	71,084	*XXX*	*71,084*	141,915	*XXX*	*141,915*
18	*Rent and Utilities*	*9,167*	*XXX*	*9,167*	*27,755*	*XXX*	*27,755*
19	*Transportation*	*780*	*XXX*	*780*	*1,692*	*XXX*	*1,692*
20	*Office Supplies*	*2,509*	*XXX*	*2,509*	*8,147*	*XXX*	*8,147*
21	*Depreciation and Amortization*	*11,735*	*XXX*	*11,735*	*4,784*	*XXX*	*4,784*
22	*Other Administrative Expenses*	*5,937*	*XXX*	*5,937*	*24,302*	*XXX*	*24,302*
23	Administrative Expense	30,127	XXX	30,127	66,680	XXX	66,680
24	Adjustment for In-Kind Personnel Subsidy	XXX	*37,760*	37,760	XXX	*38,820*	38,820
25	Adjustment for In-Kind Donations of Administrative or Fixed Asset Subsidies	XXX	*7,500*	7,500	XXX	-	-
26	Operating Expense	**101,211**	XXX	**146,471**	**208,595**	XXX	**247,415**
27	NET OPERATING INCOME	(41,934)	XXX	(542,064)	(135,475)	XXX	(728,685)
	Non-Operating Income and Expenses						
28	*Non-operating Revenue*	*227,624*	*XXX*	*227,624*	*214,067*	*XXX*	*214,067*
29	*(Non-operating Expense)*	*(200,714)*	*XXX*	*(200,714)*	*(189,241)*	*XXX*	*(189,241)*
30	Net Non-Operating Income	26,911	XXX	26,911	24,826	XXX	24,826
31	NET INCOME BEFORE TAXES AND DONATIONS	(15,023)	XXX	(515,153)	(110,649)	XXX	(703,859)
32	Donations to Subsidize Financial Services	*20,512*	-	20,512	*4,838*	-	4,838
33	(Taxes)	-	XXX	-	-	XXX	-
34	NET INCOME/(LOSS) AFTER TAXES AND DONATIONS	5,488	XXX	(494,642)	(105,811)	XXX	(699,021)

Adjusted Balance Sheet
Organization: ACAD
Currency: U.S. Dollar

Period Ending: 30-Aug-03		Previous Period En 31-Dec-02	
Number of Months:	8	Number of Months:	12
Exchange Rate:	1.00	Exchange Rate:	1.00

Currency: USD

No.		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	ASSETS						
	Short Term Assets						
1	Cash and Due from Banks	46,871	XXX	46,871	47,060	XXX	47,060
2	Reserves in Central Bank	-	XXX	-	-	XXX	-
3	Short Term Financial Assets	360,000	XXX	360,000	1,261,570	XXX	1,261,570
4	Short Term Gross Loan Portfolio	415,032	-	415,032	215,949	(391,241)	(175,292)
5	(Short Term Loan Loss Reserve)	(14,526)	(53,192)	(67,718)	(7,558)	(163,149)	(170,707)
6	Short Term Net Loan Portfolio	400,506	XXX	347,314	208,391	XXX	(345,999)
7	Interest receivable	39,077	-	39,077	-	-	-
8	Short Term Accounts Receivable Associated/Affiliated companies	-	XXX	-	-	XXX	-
9	Other Accounts Receivable and Short Term Assets	65,257	XXX	65,257	20,831	XXX	20,831
10	Subtotal Short Term Assets	951,711	XXX	898,519	1,537,852	XXX	983,462
	Long-Term Assets			-			-
11	Long Term Gross Loan Portfolio	1,180,020	(401,679)	778,341	673,909	XXX	673,909
12	(Long Term Loan Loss Reserve)	(54,205)	-	(54,205)	(25,750)	-	(25,750)
13	Long Term Net Loan Portfolio	1,125,814		724,136	648,159		648,159
14	Long Term Financial Assets	-	XXX	-	-	XXX	-
15	Long Term Accounts Receivable Associated/Affiliated companies	-	XXX	-	-	XXX	-
	Fixed Assets						
16	Tangible Fixed Assets	137,500	XXX	137,500	127,779	XXX	127,779
17	(Depreciation of Tangible Fixed Assets)	(69,215)	XXX	(69,215)	(57,479)	XXX	(57,479)
18	Net Tangible Fixed Assets	68,285	XXX	68,285	70,300	XXX	70,300
19	Intangible Fixed Assets	-	XXX	-	-	XXX	-
20	(Depreciation of Intangible Fixed Assets)	-	XXX	-	-	XXX	-
21	Net Intangible Fixed Assets	-	XXX	-	-	XXX	-
22	Net Fixed Assets	68,285	XXX	68,285	70,300	XXX	70,300
23	Other Long Term Assets	-	XXX	-	-	XXX	-
24	Subtotal Long-term Assets	1,194,100	XXX	792,422	718,459	XXX	718,459
25	TOTAL ASSETS	2,145,811		1,690,941	2,256,311		1,701,921
	LIABILITIES						
	Current Liabilities						
26	Compulsory Savings	-	XXX	-	-	XXX	-
27	Voluntary Savings	-	XXX	-	-	XXX	-
28	Total Demand Deposits	-	XXX	-	-	XXX	-
29	Short Term Time Deposits	-	XXX	-	-	XXX	-
30	Bank Overdrafts	-	XXX	-	-	XXX	-
31	Short Term Commercial Borrowings	-	XXX	-	-	XXX	-
32	Short Term Concessional Borrowings	-	XXX	-	-	XXX	-
33	Short Term Borrowings	-	XXX	-	-	XXX	-
34	Interest Payable	-	XXX	-	-	XXX	-
35	Short Term Accounts Payables Associated/Affiliated companies	-	XXX	-	-	XXX	-
36	Other Short Term Liabilities	11,479	XXX	11,479	15,831	XXX	15,831
37	Subtotal Short Term Liabilities	11,479	XXX	11,479	15,831	XXX	15,831
	Long-Term Liabilities						
38	Long Term Time Deposits	-	XXX	-	-	XXX	-
39	Long Term Commercial Borrowings	-	XXX	-	-	XXX	-
40	Long Term Concessional Borrowings	-	XXX	-	-	XXX	-
41	Long Term Borrowing for Mortgage of Property or Equipment	-	XXX	-	-	XXX	-
42	Deferred Revenue	45,829	XXX	45,829	98,377	XXX	98,377
43	Long Term Accounts Payables Associated/Affiliated companies	-	XXX	-	-	XXX	-
44	Other Long Term Liabilities	212,678	XXX	212,678	200,610	XXX	200,610
45	Subtotal Long-Term Liabilities	258,507	XXX	258,507	298,987	XXX	298,987
46	TOTAL LIABILITIES	269,986	XXX	269,986	314,818	XXX	314,818
	EQUITY						
47	Paid-in Capital	-	-	-	-		-
48	Donated Equity	1,369,710	-	1,369,710	1,420,354	-	1,420,354
49	Reserves	-	-	-	-	-	-
50	Adjustments	-	45,260	45,260	-	38,820	38,820
51	Retained Earnings Prior Periods	521,139	-	521,139	631,788	-	631,788
52	Retained Earnings Current Period	(15,023)	(500,130)	(515,153)	(110,649)	(593,210)	(703,859)
53	Other Equity Accounts	-	-	-	-	-	-
	Foreign Currency Adjustment			-			
54	TOTAL EQUITY	1,875,825	XXX	1,420,955	1,941,493	XXX	1,387,103
55	TOTAL LIABILITIES AND EQUITY	2,145,811	XXX	1,690,941	2,256,311	XXX	1,701,921

Financial Indicators
Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Annualization Factor:	0.667	**Annualization Factor:**	1
Exchange Rate:	1.00	**Exchange Rate:**	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Financial Viability					
Net Financial Margin*	Total Financial Revenue - Total Financial Expense	87,465	6.0%	74,643	3.7%
	Average Total Assets	2,201,061		2,001,446	
Adjusted Net Financial Margin*	Adjusted (Financial Revenue - Financial Expense)	87,465	7.7%	74,643	4.3%
	Average Adjusted Assets	1,696,431		1,724,251	
Operating Margin*	Net Operating Income	(41,934)	-2.9%	(135,475)	-6.8%
	Average Total Assets	2,201,061		2,001,446	
Adjusted Operating Margin*	Adjusted Net Operating Income	(542,064)	-36.9%	(728,685)	-36.4%
	Average Assets	2,201,061		2,001,446	
Profit Margin	Net Operating Income	(41,934)	-47.9%	(135,475)	-172.9%
	Operating Revenue	87,465		78,333	
Operational Self-Sufficiency	Total Operating Income	87,465	67.6%	78,333	36.6%
	Financial and Operating Costs (+) Loan Loss Provision Expense	129,399		213,808	
Financial Self-Sufficiency	Total Operating Income	87,465	13.9%	78,333	9.7%
	Financial and Operating Costs(+) Provision (+) Financial Adjustments	629,529		807,018	
Return on Assets*	Net Operating Income	(41,934)	-2.9%	(135,475)	-6.8%
	Average Assets	2,201,061		2,001,446	
Adjusted Return on Assets*	Adjusted Net Operating Income	(542,064)	-47.9%	(728,685)	-42.3%
	Adjusted Average Assets	1,696,431		1,724,251	
Return on Equity*	Net Operating Income	(41,934)	-3.3%	(135,475)	-7.8%
	Average Equity	1,908,659		1,732,459	
Adjusted Return on Equity*	Adjusted Net Operating Income	(542,064)	-57.9%	(728,685)	-50.1%
	Adjusted Average Equity	1,404,029		1,455,264	
Asset/Liability Management					
Portfolio Yield*	Adjusted Financial Revenue from Loan Portfolio	82,933	10.0%	68,059	7.6%
	Average Gross Loan Portfolio	1,242,455		899,005	
Effective Interest Rate with Respect to Competitors	Effective Interest Rate Charged by MFI	15.0%	60.0%	15.0%	60.0%
	Average Effective Interest Rate of Major Competitors	25.0%		25.0%	
Current Ratio	Short-term Assets	951,711	82.91	1,537,852	97.14
	Short-term Liabilities	11,479		15,831	
Funding Expense Ratio*	Interest and Fee Expense on Funding Liabilities	-	0.0%	-	0.0%
	Average Gross Loan Portfolio	1,242,455		899,005	
Cost of Funds Ratio*	Interest and Fee Expense on Funding Liabilities	-	#DIV/0!	-	#DIV/0!
	Average Funding Liabilities	-		-	
Debt to Equity Ratio	Funding Liabilities	-	-	-	-
	Average Equity	1,908,659		1,732,459	

Financial Indicators
Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Annualization Factor:	0.667	**Annualization Factor:**	1
Exchange Rate:	1.00	**Exchange Rate:**	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Efficiency/Productivity					
Loan Officer Productivity	Number of Borrowers / Number of Credit Officers	425 / 4	106.3	284 / 4	71.0
Personnel Productivity	Number of Clients / Number of Staff	425 / 15	28.3	284 / 19	14.9
Operating Expense Ratio*	Operating expense / Average Assets	101,211 / 2,201,061	6.9%	208,595 / 2,001,446	10.4%
Cost per Client*	Operating expense / Average Total Clients	101,211 / 355	$428.25	208,595 / 290	$720.54
Costs per Loan	Operating expense / Total Value of Loans Disbursed	101,211 / 995,150	$0.10	208,595 / 100,500	$2.08
Portfolio Quality					
Areas Rate	Value of Payments Past Due 1 or More Days / Gross Loan Portfolio	439,367 / 1,193,373	36.8%	- / 498,617	0.0%
Portfolio at Risk > 90 Days	Value of Loan Balances for Loans with Past-due Payments / Gross Loan Portfolio	491,267 / 1,595,052	30.8%	574,573 / 889,858	64.6%
Adjusted Write Off Ratio	Adjusted Value of Loans Written Off / Gross Loan Portfolio	422,899 / 1,595,052	26.5%	548,355 / 889,858	61.6%
Risk Coverage Ratio	Loan Loss Reserve / Portfolio at Risk > 90 Days	68,731 / 491,267	14.0%	33,308 / 574,573	5.8%
Outreach					
Number of Clients	Total Number of Clients at End of Period		425	-	284
Annual Growth in Number of Clients*			74.5%		-3.7%
Percentage of Female Clients	Total Active Female Clients / Total Active Clients	11 / 425	2.6%	7 / 284	2.5%
Growth in Gross Loans Outstanding*			118.9%		-2.0%
Average Outstanding Loan Balance	Gross Loan Portfolio / Number of Active Borrowers	1,595,052 / 425	3,753.06	889,858 / 284	3,133.30
Average Value of Loan Disbursed	Value of Loans Disbursed / Number of Loans Disbursed	995,150 / 171	5,819.59	100,500 / 24	4,187.50
Average Outstanding Loan Balance (USD)			$3,753.06		$3,133.30
Average Value of Loans Disbursed (USD)			$5,819.59		$4,187.50

Adjustments to Financial Statements
Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

1 Adjustment to Loan Loss Reserve and Provision Expense

	Provision Rate	Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
Current Loan Portfolio	1%	1,423,860	XXX	1,423,860	646,529	XXX	646,529
Loan Portfolio overdue 1-30 days	10%		XXX	-		XXX	-
Loan Portfolio overdue 31-60 days	25%	31,585	XXX	31,585	34,068	XXX	34,068
Loan Portfolio overdue 61-90 days	50%	50,018	XXX	50,018	25,929	XXX	25,929
Loan Portfolio overdue 91-180 days	75%	59,237	XXX	59,237	59,287	XXX	59,287
Loan Portfolio overdue over 180 days	100%	30,351	XXX	30,351	124,045	XXX	124,045
Loan Portfolio overdue over 365 days	100%	XXX	401,678	(401,678)	XXX	391,241	(391,241)
Total Gross Portfolio		1,595,052	XXX	1,193,373	889,858	XXX	498,617
Adjustment to Gross Portfolio				(401,678)			(391,241)
(Loan Loss Reserve)		(68,731)	XXX	(68,731)	(33,308)	XXX	(33,308)
Adjustment to Reserve		XXX	(53,192)	(53,192)	XXX	(163,149)	(163,149)
Total Net Portfolio		1,526,320	XXX	669,772	856,550	XXX	(89,081)

		Required Reserve			Required Reserve		
Current Loan Portfolio	1%	(14,239)			(6,465)		
Loan Portfolio overdue 1-30 days	10%	-			-		
Loan Portfolio overdue 31-60 days	25%	(7,896)			(8,517)		
Loan Portfolio overdue 61-90 days	50%	(25,009)			(12,964)		
Loan Portfolio overdue 91-180 days	75%	(44,428)			(44,465)		
Loan Portfolio overdue over 180 days	100%	(30,351)			(124,045)		
Loan Portfolio overdue over 365 days	100%	401,678			391,241		
Required Loan Loss Reserve		(121,923)			(196,457)		
Actual Loan Loss Reserve		(68,731)			(33,308)		
Adjustment to Loan Loss Reserve		(53,192)			(163,149)		
Adjustment to Provision Expense		(454,870)			(554,390)		

Adjustments to Financial Statements
Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

2 Adjustment for Interest Accrued on Past Due Loans

Financial Revenue accrued on Loans 31-90 Days Past Due		-			
Financial Revenue Accrued on Loans > 90 days past due		-			
Adjustment for Interest Accrued on past due loans		-			-

3 Subsidized Cost of Funds Adjustment

Description of Subsidized Liability not included in Concessionary Borrowings		Average Outstanding Balance for Period	Actual Rate		Average Outstanding Balance for Period	Actual Rate
	Total	-			-	

Short Term Concessional Borrowings		-			-
Long Term Concessional Borrowings		-			-
Other Subsidizied Liabilities		-			-
Market Interest Rate		0.5%			0.5%
Market Interest and Fee Expense		-			-
Actual Interest and Fee Expense on Concessional Borrowing		-			-
Subsidized cost of funds Adjustment		-			-

Adjustments to Financial Statements
Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

4 Adjustment for Inflation

Average Equity		1,908,659			1,732,459
(Average Fixed Assets)		(69,293)			(70,300)
(Average Hard Currency Financial Assets)		(2,063,240)			(2,160,575)
Inflation Rate		3.0%			3.0%
Recommeded Adjustment for Inflation		(8,716)			(14,952)
Actual Inflation Adjustment		-			-
Adjustment for Inflation		-			-

5 Adjustment for In-Kind Donations

Personnel					
General Manager					
Financial Manager		6,280			
Credit Manager		15,480			23,220
Gaza Loan Officer		5,200			
Nablus Loan Officer		8,000			12,000
Nablus Branch Manager		2,800			3,600
Total Adjustment for Personnel		37,760			38,820
Other					
Fixed Assets					
Depreciation Rate					
Fixed Assets		-			-
Other Expenses					
Rent (HQ)		6,667			
Rent (Gzza)		833			
C					
D					
E					
F					
G					
Sub-total Other Expenses		7,500			-
Total Adjustment for In-Kind Donations of Fixed Assets and Equipment		7,500			-

Adjustments to Financial Statements
Organization: ACAD
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

6 Adjustment for Loan Capital Donations and Other Not Reported in Income Statement

Description of Grant or Donation		Value of Subsidy			Value of Subsidy
A					
B		-			-
C		-			-
D		-			-
E		-			-
F		-			-
G		-			-
		-			-
		-			-
	Total	-			-

7 Total Scope of Adjustments

	USD	Local		USD	Local
Income	-$462,370	(462,370)		-$554,390	(554,390)
Assets/Liabilities	-$454,870	(454,870)		-$554,390	(554,390)

Assumptions Used in Calculating Quantitative Indicators
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1.00	**Exchange Rate:**	1.00

No.		Formula					
1	Exchange Rate (End of Period)	USD = XX Local Currency		1.00			1.00
2	Inflation Rate	Annual rate of inflation		3.0%			3.0%
3	Market Deposit Rate	Paid by commercial banks on demand deposits		0.0%			0.0%
4	Market Commerical Bank Rate	90-day time deposit or other rate		0.5%			0.5%
5	Effective Interest Rate of MFI			38.0%			38.0%
6	Average Effective Interest Rate of Competition	This should be provided by the MFI and/or a third party		25.0%			25.0%
7	Average Assets	In the case of single-purpose institutions, use average total assets. In the case of multipurpose institutions, use average performing assets.		1,463,957			1,554,783
		Sum of total assets at end of year one and end of year two	2,927,914			3,109,566	
		2	2			2	
8	Adjusted Average Assets			1,140,140			1,413,608
		Sum of adjusted total assets at end of year one and end of year two	2,280,279			2,827,216	
		2	2			2	
9	Average Equity			1,224,659			1,346,015
		Sum of total equity at end of year one and end of year two	2,449,319			2,692,031	
		2	2			2	
10	Adjusted Average Equity			900,842			1,204,840
		Sum of adjusted total equity at end of year one and end of year two	1,801,684			2,409,680	
		2	2			2	
11	Number of Active Clients (End of Period)	Number of active clients at end of year		1,225			1,170
12	Number of Active Clients (Beginning of Period)	Number of active clients at beginning of year		1,170			878
13	Number of Active Female Clients	Number of active female clients at end of year 2, provided by portfolio report or other institution report.		1,225			1,170
14	Number of Active Borrowers (End of Period)	Number of active borrowers at end of year		1,225			1,170
15	Number of Active Borrowers (Beginning of Period)	Number of active clients at end of year		1,170			878
16	Number of Staff (End of Period)	Number of all full time and full time equivelant employees		15			15
17	Number of Loan Officers (End of Period)	Number of loan officers		9			9
18	Value of Loans Disbursed	Sum of the value of all loans disbursed		683,000			853,200
19	Number of Loans Disbursed	Total number of loans disbursed		1,333			1,833
20	Value of Payments Past Due	Value of all payments past-due one or more days		163,893			134,075
21	Value of restructured or rescheduled portfolio	Value of loan balances of restructured loans that have payments 1-180 days past due as per portfolio reports. The analyst should be sure NOT to include any restructured portfolio over 180 days past due.		-			-
22	Gross Loan Portfolio (Beginning of Period)			1,086,035			664,189
23	Average Gross Loan Portfolio	Current Period Gross Loan Portfolio + Previous Period Gross Loans Outstanding	2,166,681	1,083,341		1,750,224	875,112
		2	2			2	

Adjusted Income and Expense Statement
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	Previous Period Ending:	31-Dec-02
Number of Mont	8	Number of Months:	12
Exchange Rate:	1.00	Exchange Rate:	1.00

Currency: USD

		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	Financial Income and Expense						
1	*Interest on Loan Portfolio*	*117,154*	-	*117,154*	*177,500*	-	*177,500*
2	*Fees and Commissions on Loan Portfolio*	*10,590*	XXX	*10,590*	*11,649*	XXX	*11,649*
3	Financial Revenue from Loan Portfolio	127,744	XXX	127,744	189,149	XXX	189,149
4	Financial Revenue from Other Financial Assets	*313*	XXX	313	*2,338*	XXX	2,338
	Financial Revenue	128,057		128,057	191,487		191,487
5	*Interest and Fee Expense on Deposits*	-	XXX	-	-	XXX	-
6	*Interest and Fee Expense on Commercial Borrowings*	-	XXX	-	-	XXX	-
7	*Interest and Fee Expense on Concessional Borrowings*	-	XXX	-	-	XXX	-
8	Financial Expense on Liabilities	-	XXX	-	-	XXX	-
9	Net Inflation Adjustment Expense	-	-	-	-	*3,105*	3,105
10	Subsidized Cost-of-Funds Adjustment Expense	XXX	250	250	XXX	250	250
11	Other Financial Expenses	-	XXX	-	-	XXX	-
	Financial Expense	-	XXX	250	-	XXX	3,355
12	NET FINANCIAL INCOME	128,057		127,807	191,487		188,132
13	Other Revenue related to Financial Services	-	XXX	-	104	XXX	104
14	*(Loan Loss Provision Expense)*	-	*(365,284)*	*(365,284)*	-	*(282,351)*	*(282,351)*
15	*Recovery on Loans Written-off*	-	*XXX*	-	-	-	-
16	Net Loan Loss Provision Expense	-	*XXX*	(365,284)	-	*XXX*	(282,351)
	Operating Expenses						
17	Personnel Expense	156,597	*XXX*	156,597	164,569	*XXX*	164,569
18	*Rent and Utilities*	*12,607*	*XXX*	*12,607*	*43,746*	*XXX*	*43,746*
19	*Transportation*	*3,282*	*XXX*	*3,282*	*6,981*	*XXX*	*6,981*
20	*Office Supplies*	*8,314*	*XXX*	*8,314*	*11,324*	*XXX*	*11,324*
21	*Depreciation and Amortization*	*13,088*	*XXX*	*13,088*	*27,405*	*XXX*	*27,405*
22	*Other Administrative Expenses*	*27,505*	*XXX*	*27,505*	*27,085*	*XXX*	*27,085*
23	Administrative Expense	64,796	XXX	64,796	116,541	XXX	116,541
24	Adjustment for In-Kind Personnel Subsidy	XXX	-	-	XXX	-	-
25	Adjustment for In-Kind Donations of Administrative or Fixed Asset Subsidies	XXX	-	-	XXX	-	-
26	Operating Expense	221,393	XXX	221,393	281,110	XXX	281,110
27	NET OPERATING INCOME	(93,336)	XXX	(458,871)	(89,519)	XXX	(375,225)
	Non-Operating Income and Expenses						
28	*Non-operating Revenue*	*430*	*XXX*	*430*	-	*XXX*	-
29	*(Non-operating Expense)*	-	*XXX*	-	*(2,370)*	*XXX*	*(2,370)*
30	Net Non-Operating Income	430	XXX	430	(2,370)	XXX	(2,370)
31	NET INCOME BEFORE TAXES AND DONATIONS	(92,906)	XXX	(458,441)	(91,888)	XXX	(377,594)
32	Donations to Subsidize Financial Services	*109,750*	-	109,750	*28,347*	-	28,347
33	(Taxes)	-	XXX	-	-	XXX	-
34	NET INCOME(LOSS) AFTER TAXES AND DONATIONS	16,844	XXX	(348,691)	(63,541)	XXX	(349,247)

Adjusted Balance Sheet
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	Previous Period En	31-Dec-02
Number of Months:	8	Number of Months:	12
Exchange Rate:	1.00	Exchange Rate:	1.00

Currency: USD

No.		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	ASSETS						
	Short Term Assets						
1	Cash and Due from Banks	740	XXX	740	640	XXX	640
2	Reserves in Central Bank	-	XXX	-	-	XXX	-
3	Short Term Financial Assets	259,473	XXX	259,473	302,319	XXX	302,319
4	Short Term Gross Loan Portfolio	764,018	(73,516)	690,502	708,017	(158,428)	549,589
5	(Short Term Loan Loss Reserve)	-	(291,768)	(291,768)	-	(123,923)	(123,923)
6	Short Term Net Loan Portfolio	764,018	XXX	396,734	708,017	XXX	425,666
7	Interest receivable	36,314	-	36,314	37,600	-	37,600
8	Short Term Accounts Receivable Associated/Affiliated companies	-	XXX	-	52,694	XXX	52,694
9	Other Accounts Receivable and Short Term Assets	-	XXX	-	60	XXX	60
10	Subtotal Short Term Assets	1,010,545	XXX	645,261	1,101,330	XXX	858,979
	Long-Term Assets			-			-
11	Long Term Gross Loan Portfolio	316,628	XXX	316,628	378,018	XXX	378,018
12	(Long Term Loan Loss Reserve)	-	-	-	-	-	-
13	Long Term Net Loan Portfolio	316,628		316,628	378,018		378,018
14	Long Term Financial Assets	-	XXX	-	-	XXX	-
15	Long Term Accounts Receivable Associated/Affiliated companies	-	XXX	-	-	XXX	-
	Fixed Assets						
16	Tangible Fixed Assets	93,601	XXX	93,601	91,263	XXX	91,263
17	(Depreciation of Tangible Fixed Assets)	(37,282)	XXX	(37,282)	(26,189)	XXX	(26,189)
18	Net Tangible Fixed Assets	56,319	XXX	56,319	65,074	XXX	65,074
19	Intangible Fixed Assets	-	XXX	-	-	XXX	-
20	(Depreciation of Intangible Fixed Assets)	-	XXX	-	-	XXX	-
21	Net Intangible Fixed Assets	-	XXX	-	-	XXX	-
22	Net Fixed Assets	56,319	XXX	56,319	65,074	XXX	65,074
23	Other Long Term Assets	-	XXX	-	-	XXX	-
24	Subtotal Long-term Assets	372,947	XXX	372,947	443,092	XXX	443,092
25	TOTAL ASSETS	1,383,492		1,018,208	1,544,422		1,262,071
	LIABILITIES						
	Current Liabilities						
26	Compulsory Savings	-	XXX	-	-	XXX	-
27	Voluntary Savings	-	XXX	-	-	XXX	-
28	Total Demand Deposits	-	XXX	-	-	XXX	-
29	Short Term Time Deposits	-	XXX	-	-	XXX	-
30	Bank Overdrafts	-	XXX	-	-	XXX	-
31	Short Term Commercial Borrowings	-	XXX	-	-	XXX	-
32	Short Term Concessional Borrowings	-	XXX	-	-	XXX	-
33	Short Term Borrowings	-	XXX	-	-	XXX	-
34	Interest Payable	-	XXX	-	-	XXX	-
35	Short Term Accounts Payables Associated/Affiliated companies	-	XXX	-	25,760	XXX	25,760
36	Other Short Term Liabilities	-	XXX	-	-	XXX	-
37	Subtotal Short Term Liabilities	-	XXX	-	25,760	XXX	25,760
	Long-Term Liabilities						
38	Long Term Time Deposits	-	XXX	-	-	XXX	-
39	Long Term Commercial Borrowings	-	XXX	-	-	XXX	-
40	Long Term Concessional Borrowings	50,000	XXX	50,000	50,000	XXX	50,000
41	Long Term Borrowing for Mortgage of Property or Equipment	-	XXX	-	-	XXX	-
42	Deferred Revenue	-	XXX	-	170,000	XXX	170,000
43	Long Term Accounts Payables Associated/Affiliated companies	50,137	XXX	50,137	60,867	XXX	60,867
44	Other Long Term Liabilities	50,274	XXX	50,274	21,557	XXX	21,557
45	Subtotal Long-Term Liabilities	150,411	XXX	150,411	302,424	XXX	302,424
46	TOTAL LIABILITIES	150,411	XXX	150,411	328,184	XXX	328,184
	EQUITY						
47	Paid-in Capital	-	-	-	-		-
48	Donated Equity	1,445,765	-	1,445,765	1,336,015	-	1,336,015
49	Reserves	-	-	-	-	-	-
50	Adjustments	-	250	250	-	3,355	3,355
51	Retained Earnings Prior Periods	(119,777)	-	(119,777)	(27,889)	-	(27,889)
52	Retained Earnings Current Period	(92,908)	(365,534)	(458,441)	(91,888)	(285,706)	(377,594)
53	Other Equity Accounts	-	-	-	-	-	-
	Foreign Currency Adjustment			-			
54	TOTAL EQUITY	1,233,081	XXX	867,797	1,216,238	XXX	933,887
55	TOTAL LIABILITIES AND EQUITY	1,383,492	XXX	1,018,209	1,544,422	XXX	1,262,071

Financial Indicators
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Annualization Factor:	0.667	**Annualization Factor:**	1
Exchange Rate:	1.00	**Exchange Rate:**	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Efficiency/Productivity					
Loan Officer Productivity	Number of Borrowers	1,225	**136.1**	1,170	**130.0**
	Number of Credit Officers	9		9	
Personnel Productivity	Number of Clients	1,225	**81.7**	1,170	**78.0**
	Number of Staff	15		15	
Operating Expense Ratio*	Operating expense	221,393	**22.7%**	281,110	**18.1%**
	Average Assets	1,483,957		1,554,783	
Cost per Client*	Operating Expense	221,393	**$277.32**	281,110	**$274.52**
	Average Total Clients	1,198		1,024	
Costs per Loan	Operating Expenses	221,393	**$0.32**	281,110	**$0.33**
	Total Value of Loans Disbursed	683,000		853,200	
Portfolio Quality					
Areas Rate	Value of Payments Past Due 1 or More Days	163,893	**16.3%**	134,075	**14.5%**
	Gross Loan Portfolio	1,007,130		927,607	
Portfolio at Risk > 90 Days	Value of Loan Balances for Loans with Past-due Payments	266,031	**24.6%**	241,073	**22.2%**
	Gross Loan Portfolio	1,080,646		1,086,035	
Adjusted Write Off Ratio	Adjusted Value of Loans Written Off	73,516	**6.8%**	280,257	**17.2%**
	Gross Loan Portfolio	1,080,646		1,086,035	
Risk Coverage Ratio	Loan Loss Reserve	-	**0.0%**	-	**0.0%**
	Portfolio at Risk > 90 Days	266,031		241,073	
Outreach					
Number of Clients	Total Number of Clients at End of Period		**1,225**	-	**1,170**
Annual Growth in Number of Clients*			**7.1%**		**33.3%**
Percentage of Female Clients	Total Active Female Clients	1,225	**100.0%**	1,170	**100.0%**
	Total Active Clients	1,225		1,170	
Growth in Gross Loans Outstanding*			**-0.7%**		**63.5%**
Average Outstanding Loan Balance	Gross Loan Portfolio	1,080,646	**882.16**	1,086,035	**928.24**
	Number of Active Borrowers	1,225		1,170	
Average Value of Loan Disbursed	Value of Loans Disbursed	683,000	**512.38**	853,200	**465.47**
	Number of Loans Disbursed	1,333		1,833	
Average Outstanding Loan Balance (USD)			**$882.16**		**$928.24**
Average Value of Loans Disbursed (USD)			**$512.38**		**$465.47**

Financial Indicators
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	Previous Period Ending:	31-Dec-02
Annualization Factor:	0.667	Annualization Factor:	1
Exchange Rate:	1.00	Exchange Rate:	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Financial Viability					
Net Financial Margin*	Total Financial Revenue - Total Financial Expense	128,057	13.1%	191,487	12.3%
	Average Total Assets	1,463,957		1,554,783	
Adjusted Net Financial Margin*	Adjusted (Financial Revenue - Financial Expense)	127,807	16.8%	191,237	13.5%
	Average Adjusted Assets	1,140,140		1,413,608	
Operating Margin*	Net Operating Income	(93,336)	-9.6%	(89,519)	-5.8%
	Average Total Assets	1,463,957		1,554,783	
Adjusted Operating Margin*	Adjusted Net Operating Income	(458,871)	-47.0%	(375,225)	-24.1%
	Average Assets	1,463,957		1,554,783	
Profit Margin	Net Operating Income	(93,336)	-72.9%	(89,519)	-46.7%
	Operating Revenue	128,057		191,591	
Operational Self-Sufficiency	Total Operating Income	128,057	57.8%	191,591	68.2%
	Financial and Operating Costs (+) Loan Loss Provision Expense	221,393		281,110	
Financial Self-Sufficiency	Total Operating Income	128,057	21.8%	191,591	33.8%
	Financial and Operating Costs(+) Provision (+) Financial Adjustments	586,928		566,816	
Return on Assets*	Net Operating Income	(93,336)	-9.6%	(89,519)	-5.8%
	Average Assets	1,463,957		1,554,783	
Adjusted Return on Assets*	Adjusted Net Operating Income	(458,871)	-60.4%	(375,225)	-26.5%
	Adjusted Average Assets	1,140,140		1,413,608	
Return on Equity*	Net Operating Income	(93,336)	-11.4%	(89,519)	-6.7%
	Average Equity	1,224,659		1,346,015	
Adjusted Return on Equity*	Adjusted Net Operating Income	(458,871)	-76.4%	(375,225)	-31.1%
	Adjusted Average Equity	900,842		1,204,840	
Asset/Liability Management					
Portfolio Yield*	Adjusted Financial Revenue from Loan Portfolio	127,744	17.7%	189,149	21.6%
	Average Gross Loan Portfolio	1,083,341		875,112	
Effective Interest Rate with Respect to Competitors	Effective Interest Rate Charged by MFI	38.0%	152.0%	38.0%	152.0%
	Average Effective Interest Rate of Major Competitors	25.0%		25.0%	
Current Ratio	Short-term Assets	1,010,545	#DIV/0!	1,101,330	42.75
	Short-term Liabilities	-		25,760	
Funding Expense Ratio*	Interest and Fee Expense on Funding Liabilities	-	0.0%	-	0.0%
	Average Gross Loan Portfolio	1,083,341		875,112	
Cost of Funds Ratio*	Interest and Fee Expense on Funding Liabilities	-	0.0%	-	0.0%
	Average Funding Liabilities	50,000		50,000	
Debt to Equity Ratio	Funding Liabilities	50,000	0.04	50,000	0.04
	Average Equity	1,224,659		1,346,015	

Adjustments to Financial Statements
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

1 Adjustment to Loan Loss Reserve and Provision Expense

	Provision Rate	Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
Current Loan Portfolio	1%	780,416	XXX	780,416	810,012	XXX	810,012
Loan Portfolio overdue 1-30 days	10%	11,050	XXX	11,050	71,475	XXX	71,475
Loan Portfolio overdue 31-60 days	25%	46,043	XXX	46,043	84,656	XXX	84,656
Loan Portfolio overdue 61-90 days	50%	50,622	XXX	50,622	37,248	XXX	37,248
Loan Portfolio overdue 91-180 days	75%	79,974	XXX	79,974	55,030	XXX	55,030
Loan Portfolio overdue over 180 days	100%	112,541	XXX	112,541	27,615	XXX	27,615
Loan Portfolio overdue over 365 days	100%	XXX	73,516	(73,516)	XXX	158,428	(158,428)
Total Gross Portfolio		1,080,646	XXX	1,007,130	1,086,035	XXX	927,607
Adjustment to Gross Portfolio				(73,516)			(158,428)
(Loan Loss Reserve)		-	XXX	-	-	XXX	-
Adjustment to Reserve		XXX	(291,768)	(291,768)	XXX	(123,923)	(123,923)
Total Net Portfolio		1,080,646	XXX	641,846	1,086,035	XXX	645,256

		Required Reserve			Required Reserve		
Current Loan Portfolio	1%	(7,804)			(8,100)		
Loan Portfolio overdue 1-30 days	10%	(1,105)			(7,147)		
Loan Portfolio overdue 31-60 days	25%	(11,511)			(21,164)		
Loan Portfolio overdue 61-90 days	50%	(25,311)			(18,624)		
Loan Portfolio overdue 91-180 days	75%	(59,981)			(41,272)		
Loan Portfolio overdue over 180 days	100%	(112,541)			(27,615)		
Loan Portfolio overdue over 365 days	100%	73,516			158,428		
Required Loan Loss Reserve		(218,252)			(123,923)		
Actual Loan Loss Reserve		-			-		
Adjustment to Loan Loss Reserve		(291,768)			(123,923)		
Adjustment to Provision Expense		(365,284)			(282,351)		

Adjustments to Financial Statements
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

2 Adjustment for Interest Accrued on Past Due Loans

Financial Revenue accrued on Loans 31-90 Days Past Due		-			
Financial Revenue Accrued on Loans > 90 days past due		-			
Adjustment for Interest Accrued on past due loans		-			-

3 Subsidized Cost of Funds Adjustment

Description of Subsidized Liability not included in Concessionary Borrowings		Average Outstanding Balance for Period	Actual Rate		Average Outstanding Balance for Period	Actual Rate
CRS Dev Cap		50,000.00	0.00%			
	Total	50,000.00			-	

Short Term Concessional Borrowings		-			-
Long Term Concessional Borrowings		50,000			50,000
Other Subsidizied Liabilities		50,000			-
Market Interest Rate		0.5%			0.5%
Market Interest and Fee Expense		250			250
Actual Interest and Fee Expense on Concessional Borrowing		-			-
Subsidized cost of funds Adjustment		250			250

Adjustments to Financial Statements
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

4 Adjustment for Inflation

Average Equity		1,224,659			1,346,015
(Average Fixed Assets)		(60,697)			(65,074)
(Average Hard Currency Financial Assets)		(1,339,237)			(1,177,431)
Inflation Rate		3.0%			3.0%
Recommeded Adjustment for Inflation		(5,256)			3,105
Actual Inflation Adjustment		-			-
Adjustment for Inflation		-			3,105

5 Adjustment for In-Kind Donations

Personnel					
A					
B					
C					
D					
E					
F					
Total Adjustment for Personnel		-			-
Other					
Fixed Assets					
Depreciation Rate					
Fixed Assets		-			-
Other Expenses					
A					
B					
C					
D					
E					
F					
G					
Sub-total Other Expenses		-			-
Total Adjustment for In-Kind Donations of Fixed Assets and Equipment		-			-

Adjustments to Financial Statements
Organization: ASALA
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

6 Adjustment for Loan Capital Donations and Other Not Reported in Income Statement

Description of Grant or Donation		Value of Subsidy			Value of Subsidy
A					
B		-			-
C		-			-
D		-			-
E		-			-
F		-			-
G		-			-
		-			-
		-			-
	Total	-			-

7 Total Scope of Adjustments

	USD	Local		USD	Local
Income	-$365,534	(365,534)		-$285,706	(285,706)
Assets/Liabilities	-$365,284	(365,284)		-$282,351	(282,351)

Assumptions Used in Calculating Quantitative Indicators
Organization: FATEN
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1.00	**Exchange Rate:**	1.00

No.		Formula					
1	Exchange Rate (End of Period)	USD = XX Local Currency		1.00			1.00
2	Inflation Rate	Annual rate of inflation		3.0%			3.0%
3	Market Deposit Rate	Paid by commercial banks on demand deposits		0.0%			0.0%
4	Market Commerical Bank Rate	90-day time deposit or other rate		0.5%			0.5%
5	Effective Interest Rate of MFI			38.0%			38.0%
6	Average Effective Interest Rate of Competition	This should be provided by the MFI and/or a third party		25.0%			25.0%
7	Average Assets	In the case of single-purpose institutions, use average total assets. In the case of multipurpose institutions, use average performing assets.		5,518,674			5,296,618
		Sum of total assets at end of year one and end of year two	11,037,348			10,593,236	
		2	2			2	
8	Adjusted Average Assets			5,548,593			5,322,114
		Sum of adjusted total assets at end of year one and end of year two	11,097,186			10,644,228	
		2	2			2	
9	Average Equity			4,961,173			4,088,756
		Sum of total equity at end of year one and end of year two	9,922,346			8,177,512	
		2	2			2	
10	Adjusted Average Equity			4,991,092			4,830,610
		Sum of adjusted total equity at end of year one and end of year two	9,982,184			9,661,221	
		2	2			2	
11	Number of Active Clients (End of Period)	Number of active clients at end of year		1,950			1,467
12	Number of Active Clients (Beginning of Period)	Number of active clients at beginning of year		1,467			4,291
13	Number of Active Female Clients	Number of active female clients at end of year 2, provided by portfolio report or other institution report.		1,929			1,462
14	Number of Active Borrowers (End of Period)	Number of active borrowers at end of year		1,950			1,467
15	Number of Active Borrowers (Beginning of Period)	Number of active clients at end of year		1,467			4,291
16	Number of Staff (End of Period)	Number of all full time and full time equivalent employees		75			79
17	Number of Loan Officers (End of Period)	Number of loan officers		35			38
18	Value of Loans Disbursed	Sum of the value of all loans disbursed		1,229,456			1,081,126
19	Number of Loans Disbursed	Total number of loans disbursed		1,988			2,487
20	Value of Payments Past Due	Value of all payments past-due one or more days		48,304			91,710
21	Value of restructured or rescheduled portfolio	Value of loan balances of restructured loans that have payments 1-180 days past due as per portfolio reports. The analyst should be sure NOT to include any restructured portfolio over 180 days past due.		-			-
22	Gross Loan Portfolio (Beginning of Period)			549,397			1,453,481
23	Average Gross Loan Portfolio	Current Period Gross Loan Portfolio + Previous Period Gross Loans Outstanding	1,460,596	730,298		2,002,878	1,001,439
		2	2			2	

Adjusted Income and Expense Statement
Organization: FATEN
Currency: U.S. Dollar

Period Ending:	30-Aug-03	Previous Period Ending:	31-Dec-02
Number of Mont	8	Number of Months:	12
Exchange Rate:	1.00	Exchange Rate:	1.00

Currency: USD

		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	Financial Income and Expense						
1	*Interest on Loan Portfolio*	*118,920*	-	*118,920*	*332,965*	-	*332,965*
2	*Fees and Commissions on Loan Portfolio*	*12,556*	XXX	*12,556*	*38,962*	XXX	*38,962*
3	Financial Revenue from Loan Portfolio	131,476	XXX	131,476	371,927	XXX	371,927
4	Financial Revenue from Other Financial Assets	*30,855*	XXX	30,855	*51,355*	XXX	51,355
	Financial Revenue	162,331		162,331	423,282		423,282
5	*Interest and Fee Expense on Deposits*	-	XXX	-	-	XXX	-
6	*Interest and Fee Expense on Commercial Borrowings*	-	XXX	-	-	XXX	-
7	*Interest and Fee Expense on Concessional Borrowings*	-	XXX	-	-	XXX	-
8	Financial Expense on Liabilities	-	XXX	-	-	XXX	-
9	Net Inflation Adjustment Expense	-	-	-	-	-	-
10	Subsidized Cost-of-Funds Adjustment Expense	XXX	-	-	XXX	-	-
11	Other Financial Expenses	-	XXX	-	-	XXX	-
	Financial Expense	-	XXX	-	-	XXX	-
12	NET FINANCIAL INCOME	162,331		162,331	423,282		423,282
13	Other Revenue related to Financial Services	1,405	XXX	1,405	-	XXX	-
14	*(Loan Loss Provision Expense)*	*42,426*	*8,846*	*51,272*	*(246,859)*	*50,992*	*(195,867)*
15	*Recovery on Loans Written-off*	*100,687*	*XXX*	*100,687*	72,468	-	72,468
16	Net Loan Loss Provision Expense	143,113	*XXX*	151,959	(174,391)	*XXX*	(123,399)
	Operating Expenses						
17	Personnel Expense	443,599	*XXX*	*443,599*	647,932	*XXX*	*647,932*
18	*Rent and Utilities*	36,982	*XXX*	*36,982*	*63,507*	*XXX*	*63,507*
19	*Transportation*	30,292	*XXX*	*30,292*	*43,651*	*XXX*	*43,651*
20	*Office Supplies*	*12,708*	*XXX*	*12,708*	*12,158*	*XXX*	*12,158*
21	*Depreciation and Amortization*	*38,529*	*XXX*	*38,529*	*56,820*	*XXX*	*56,820*
22	*Other Administrative Expenses*	*37,381*	*XXX*	*37,381*	*60,483*	*XXX*	*60,483*
23	Administrative Expense	155,892	XXX	155,892	236,619	XXX	236,619
24	Adjustment for In-Kind Personnel Subsidy	XXX	-	-	XXX	-	-
25	Adjustment for In-Kind Donations of Administrative or Fixed Asset Subsidies	XXX	-	-	XXX	-	-
26	Operating Expense	599,491	XXX	599,491	884,551	XXX	884,551
27	NET OPERATING INCOME	(292,642)	XXX	(283,796)	(635,660)	XXX	(584,668)
	Non-Operating Income and Expenses						
28	*Non-operating Revenue*	*1,925*	*XXX*	*1,925*	*29,125*	*XXX*	*29,125*
29	*(Non-operating Expense)*	-	*XXX*	-	-	*XXX*	-
30	Net Non-Operating Income	1,925	XXX	1,925	29,125	XXX	29,125
31	NET INCOME BEFORE TAXES AND DONATIONS	(290,717)	XXX	(281,871)	(606,535)	XXX	(555,543)
32	Donations to Subsidize Financial Services	332,269	-	332,269	*877,103*	-	877,103
33	(Taxes)	-	XXX	-	-	XXX	-
34	NET INCOME(LOSS) AFTER TAXES AND DONATIONS	41,552	XXX	50,398	270,568	XXX	321,560

Adjusted Balance Sheet
Organization: FATEN
Currency: U.S. Dollar

Period Ending: 30-Aug-03		Previous Period En	31-Dec-02
Number of Months	8	Number of Months:	12
Exchange Rate:	1.00	Exchange Rate:	1.00

Currency: USD

No.		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	ASSETS						
	Short Term Assets						
1	Cash and Due from Banks	201,631	XXX	201,631	9,129	XXX	9,129
2	Reserves in Central Bank	-	XXX	-	-	XXX	-
3	Short Term Financial Assets	3,514,116	XXX	3,514,116	4,666,374	XXX	4,666,374
4	Short Term Gross Loan Portfolio	544,519	-	544,519	421,427	-	421,427
5	(Short Term Loan Loss Reserve)	(79,403)	8,846	(70,557)	(121,830)	50,992	(70,838)
6	Short Term Net Loan Portfolio	465,116	XXX	473,962	299,597	XXX	350,589
7	Interest receivable	-	-	-	-	-	-
8	Short Term Accounts Receivable Associated/Affiliated companies	47,196	XXX	47,196	2,276	XXX	2,276
9	Other Accounts Receivable and Short Term Assets	44,697	XXX	44,697	21,297	XXX	21,297
10	Subtotal Short Term Assets	4,272,855	XXX	4,281,691	4,419,673	XXX	4,469,665
	Long Term Assets			-			-
11	Long Term Gross Loan Portfolio	366,679	XXX	366,679	127,970	XXX	127,970
12	(Long-Term Loan Loss Reserve)	-	-	-	-	-	-
13	Long Term Net Loan Portfolio	366,679		366,679	127,970		127,970
14	Long Term Financial Assets	482,848	XXX	482,848	435,428	XXX	435,428
15	Long Term Accounts Receivable Associated/Affiliated companies	-	XXX	-	-	XXX	-
	Fixed Assets						
16	Tangible Fixed Assets	683,794	XXX	683,794	669,007	XXX	669,007
17	(Depreciation of Tangible Fixed Assets)	(229,267)	XXX	(229,267)	(190,738)	XXX	(190,738)
18	Net Tangible Fixed Assets	454,526	XXX	454,526	478,269	XXX	478,269
19	Intangible Fixed Assets	-	XXX	-	-	XXX	-
20	(Depreciation of Intangible Fixed Assets)	-	XXX	-	-	XXX	-
21	Net Intangible Fixed Assets	-	XXX	-	-	XXX	-
22	Net Fixed Assets	454,526	XXX	454,526	478,269	XXX	478,269
23	Other Long Term Assets	-	XXX	-	-	XXX	-
24	Subtotal Long-term Assets	1,304,053	XXX	1,304,053	1,041,667	XXX	1,041,667
25	TOTAL ASSETS	5,577,008		5,585,854	5,460,340		5,511,332
	LIABILITIES						
	Current Liabilities						
26	Compulsory Savings	30,982	XXX	30,982	28,260	XXX	28,260
27	Voluntary Savings	-	XXX	-	-	XXX	-
28	Total Demand Deposits	30,982	XXX	30,982	28,260	XXX	28,260
29	Short Term Time Deposits	-	XXX	-	-	XXX	-
30	Bank Overdrafts	-	XXX	-	-	XXX	-
31	Short Term Commercial Borrowings	-	XXX	-	-	XXX	-
32	Short Term Concessional Borrowings	-	XXX	-	-	XXX	-
33	Short Term Borrowings	-	XXX	-	-	XXX	-
34	Interest Payable	-	XXX	-	-	XXX	-
35	Short Term Accounts Payables Associated/Affiliated companies	1	XXX	1	27,609	XXX	27,609
36	Other Short Term Liabilities	81,229	XXX	81,229	28,332	XXX	28,332
37	Subtotal Short Term Liabilities	112,212	XXX	112,212	84,201	XXX	84,201
	Long-Term Liabilities						
38	Long Term Time Deposits	-	XXX	-	-	XXX	-
39	Long Term Commercial Borrowings	-	XXX	-	-	XXX	-
40	Long Term Concessional Borrowings	-	XXX	-	-	XXX	-
41	Long Term Borrowing for Mortgage of Property or Equipment	-	XXX	-	-	XXX	-
42	Deferred Revenue	-	XXX	-	-	XXX	-
43	Long Term Accounts Payables Associated/Affiliated companies	-	XXX	-	-	XXX	-
44	Other Long Term Liabilities	482,848	XXX	482,848	435,741	XXX	435,741
45	Subtotal Long-Term Liabilities	482,848	XXX	482,848	435,741	XXX	435,741
46	TOTAL LIABILITIES	595,060	XXX	595,060	519,942	XXX	519,942
	EQUITY						
47	Paid-in Capital	4,080	-	4,080	4,080		4,080
48	Donated Equity	6,645,849	-	6,645,849	6,313,582	-	6,313,582
49	Reserves	-	-	-	-	-	-
50	Adjustments	-	-	-	-	-	-
51	Retained Earnings Prior Periods	(1,377,264)	-	(1,377,264)	(770,729)	-	(770,729)
52	Retained Earnings Current Period	(290,717)	8,846	(281,871)	(606,535)	50,992	(555,543)
53	Other Equity Accounts	-	-	-	-	-	-
	Foreign Currency Adjustment			-			
54	TOTAL EQUITY	4,981,948	XXX	4,990,794	4,940,398	XXX	4,991,390
55	TOTAL LIABILITIES AND EQUITY	5,577,008	XXX	5,585,854	5,460,340	XXX	5,511,332

Financial Indicators
Organization: FATEN
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Annualization Factor:	0.667	**Annualization Factor:**	1
Exchange Rate:	1.00	**Exchange Rate:**	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Financial Viability					
Net Financial Margin*	Total Financial Revenue - Total Financial Expense	162,331	4.4%	423,282	8.0%
	Average Total Assets	5,518,674		5,296,618	
Adjusted Net Financial Margin*	Adjusted (Financial Revenue - Financial Expense)	162,331	4.4%	423,282	8.0%
	Average Adjusted Assets	5,548,593		5,322,114	
Operating Margin*	Net Operating Income	(292,642)	-8.0%	(635,660)	-12.0%
	Average Total Assets	5,518,674		5,296,618	
Adjusted Operating Margin*	Adjusted Net Operating Income	(283,796)	-7.7%	(584,668)	-11.0%
	Average Assets	5,518,674		5,296,618	
Profit Margin	Net Operating Income	(292,642)	-178.7%	(635,660)	-150.2%
	Operating Revenue	163,737		423,282	
Operational Self-Sufficiency	Total Operating Income	163,737	35.9%	423,282	40.0%
	Financial and Operating Costs (+) Loan Loss Provision Expense	456,378		1,058,942	
Financial Self-Sufficiency	Total Operating Income	163,737	36.6%	423,282	42.0%
	Financial and Operating Costs(+) Provision (+) Financial Adjustments	447,532		1,007,950	
Return on Assets*	Net Operating Income	(292,642)	-8.0%	(635,660)	-12.0%
	Average Assets	5,518,674		5,296,618	
Adjusted Return on Assets*	Adjusted Net Operating Income	(283,796)	-7.7%	(584,668)	-11.0%
	Adjusted Average Assets	5,548,593		5,322,114	
Return on Equity*	Net Operating Income	(292,642)	-8.8%	(635,660)	-15.5%
	Average Equity	4,961,173		4,088,756	
Adjusted Return on Equity*	Adjusted Net Operating Income	(283,796)	-8.5%	(584,668)	-12.1%
	Adjusted Average Equity	4,991,092		4,830,610	
Asset/Liability Management					
Portfolio Yield*	Adjusted Financial Revenue from Loan Portfolio	131,476	27.0%	371,927	37.1%
	Average Gross Loan Portfolio	730,298		1,001,439	
Effective Interest Rate with Respect to Competitors	Effective Interest Rate Charged by MFI	38.0%	152.0%	38.0%	152.0%
	Average Effective Interest Rate of Major Competitors	25.0%		25.0%	
Current Ratio	Short-term Assets	4,272,955	38.08	4,418,673	52.48
	Short-term Liabilities	112,212		84,201	
Funding Expense Ratio*	Interest and Fee Expense on Funding Liabilities	-	0.0%	-	0.0%
	Average Gross Loan Portfolio	730,298		1,001,439	
Cost of Funds Ratio*	Interest and Fee Expense on Funding Liabilities	-	0.0%	-	0.0%
	Average Funding Liabilities	29,621		28,260	
Debt to Equity Ratio	Funding Liabilities	30,982	0.01	28,260	0.01
	Average Equity	4,961,173		4,088,756	

Financial Indicators
Organization: FATEN
Currency: U.S. Dollar

	Period Ending:	30-Aug-03	Previous Period Ending:	31-Dec-02
	Annualization Factor:	0.667	Annualization Factor:	1
	Exchange Rate:	1.00	Exchange Rate:	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Efficiency/Productivity					
Loan Officer Productivity	Number of Borrowers	1,950	55.7	1,467	38.6
	Number of Credit Officers	35		38	
Personnel Productivity	Number of Clients	1,950	26.0	1,467	18.6
	Number of Staff	75		79	
Operating Expense Ratio*	Operating expense	599,491	16.3%	884,551	16.7%
	Average Assets	5,518,674		5,296,618	
Cost per Client*	Operating Expense	599,491	$526.33	884,551	$307.24
	Average Total Clients	1,709		2,879	
Costs per Loan	Operating Expenses	599,491	$0.49	884,551	$0.82
	Total Value of Loans Disbursed	1,229,456		1,081,126	
Portfolio Quality					
Areas Rate	Value of Payments Past Due 1 or More Days	48,304	5.3%	91,710	16.7%
	Gross Loan Portfolio	911,198		549,397	
Portfolio at Risk > 90 Days	Value of Loan Balances for Loans with Past-due Payments	69,644	7.6%	67,591	12.3%
	Gross Loan Portfolio	911,198		549,397	
Adjusted Write Off Ratio	Adjusted Value of Loans Written Off	(100,686)	-11.0%	174,390	21.2%
	Gross Loan Portfolio	911,198		549,397	
Risk Coverage Ratio	Loan Loss Reserve	79,403	114.0%	121,830	180.2%
	Portfolio at Risk > 90 Days	69,644		67,591	
Outreach					
Number of Clients	Total Number of Clients at End of Period		1,950	-	1,467
Annual Growth in Number of Clients*			49.4%		-65.8%
Percentage of Female Clients	Total Active Female Clients	1,929	98.9%	1,462	99.7%
	Total Active Clients	1,950		1,467	
Growth in Gross Loans Outstanding*			98.8%		-62.2%
Average Outstanding Loan Balance	Gross Loan Portfolio	911,198	467.28	549,397	374.50
	Number of Active Borrowers	1,950		1,467	
Average Value of Loan Disbursed	Value of Loans Disbursed	1,229,456	618.44	1,081,126	434.71
	Number of Loans Disbursed	1,988		2,487	
Average Outstanding Loan Balance (USD)			$467.28		$374.50
Average Value of Loans Disbursed (USD)			$618.44		$434.71

Adjustments to Financial Statements
Organization: FATEN
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

1 Adjustment to Loan Loss Reserve and Provision Expense

	Provision Rate	Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
Current Loan Portfolio	1%	831,598	XXX	831,598	409,343	XXX	409,343
Loan Portfolio overdue 1-30 days	10%	7,006	XXX	7,006	45,246	XXX	45,246
Loan Portfolio overdue 31-60 days	25%	2,951	XXX	2,951	8,891	XXX	8,891
Loan Portfolio overdue 61-90 days	50%	-	XXX	-	18,326	XXX	18,326
Loan Portfolio overdue 91-180 days	75%	35,365	XXX	35,365	67,028	XXX	67,028
Loan Portfolio overdue over 180 days	100%	34,279	XXX	34,279	563	XXX	563
Loan Portfolio overdue over 365 days	100%	XXX		-	XXX		-
Total Gross Portfolio		911,198	XXX	911,198	549,397	XXX	549,397
Adjustment to Gross Portfolio				-			-
(Loan Loss Reserve)		(79,403)	XXX	(79,403)	(121,830)	XXX	(121,830)
Adjustment to Reserve		XXX	8,846	8,846	XXX	50,992	50,992
Total Net Portfolio		831,795	XXX	840,641	427,567	XXX	478,559

		Required Reserve			Required Reserve		
Current Loan Portfolio	1%	(8,316)			(4,093)		
Loan Portfolio overdue 1-30 days	10%	(701)			(4,525)		
Loan Portfolio overdue 31-60 days	25%	(738)			(2,223)		
Loan Portfolio overdue 61-90 days	50%	-			(9,163)		
Loan Portfolio overdue 91-180 days	75%	(26,524)			(50,271)		
Loan Portfolio overdue over 180 days	100%	(34,279)			(563)		
Loan Portfolio overdue over 365 days	100%	-			-		
Required Loan Loss Reserve		(70,557)			(70,838)		
Actual Loan Loss Reserve		(79,403)			(121,830)		
Adjustment to Loan Loss Reserve		8,846			50,992		
Adjustment to Provision Expense		8,846			50,992		

Adjustments to Financial Statements
Organization: FATEN
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

2 Adjustment for Interest Accrued on Past Due Loans

Financial Revenue accrued on Loans 31-90 Days Past Due		-			
Financial Revenue Accrued on Loans > 90 days past due		-			
Adjustment for Interest Accrued on past due loans		-			-

3 Subsidized Cost of Funds Adjustment

Description of Subsidized Liability not included in Concessionary Borrowings		Average Outstanding Balance for Period	Actual Rate		Average Outstanding Balance for Period	Actual Rate
	Total	-			-	

Short Term Concessional Borrowings		-			-
Long Term Concessional Borrowings		-			-
Other Subsidizied Liabilities		-			-
Market Interest Rate		0.5%			0.5%
Market Interest and Fee Expense		-			-
Actual Interest and Fee Expense on Concessional Borrowing		-			-
Subsidized cost of funds Adjustment		-			-

Adjustments to Financial Statements
Organization: FATEN
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

4 Adjustment for Inflation

Average Equity		4,961,173			4,940,398
(Average Fixed Assets)		(466,398)			(478,269)
(Average Hard Currency Financial Assets)		(4,530,542)			(5,087,813)
Inflation Rate		3.0%			3.0%
Recommeded Adjustment for Inflation		(1,073)			(18,771)
Actual Inflation Adjustment		-			-
Adjustment for Inflation		-			-

5 Adjustment for In-Kind Donations

Personnel					
A					
B					
C					
D					
E					
F					
Total Adjustment for Personnel		-			-
Other					
Fixed Assets					
Depreciation Rate					
Fixed Assets		-			-
Other Expenses					
A					
B					
C					
D					
E					
F					
G					
Sub-total Other Expenses		-			-
Total Adjustment for In-Kind Donations of Fixed Assets and Equipment		-			-

Adjustments to Financial Statements
Organization: FATEN
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

6 Adjustment for Loan Capital Donations and Other Not Reported in Income Statement

Description of Grant or Donation		Value of Subsidy			Value of Subsidy
A					
B		-			-
C		-			-
D		-			-
E		-			-
F		-			-
G		-			-
		-			-
		-			-
	Total	-			-

7 Total Scope of Adjustments

	USD	Local		USD	Local
Income	$8,846	8,846		$50,992	50,992
Assets/Liabilities	$8,846	8,846		$50,992	50,992

Annex E Financial Analysis Spreadsheets of the Merged Institution

Assumptions Used in Calculating Quantitative Indicators
Organization: Merged Institution
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1.00	**Exchange Rate:**	1.00

No.		Formula					
1	Exchange Rate (End of Period)	USD = XX Local Currency		1.00			1.00
2	Inflation Rate	Annual rate of inflation		3.0%			3.0%
3	Market Deposit Rate	Paid by commercial banks on demand deposits		0.0%			0.0%
4	Market Commerical Bank Rate	90-day time deposit or other rate		0.5%			0.5%
5	Effective Interest Rate of MFI						
6	Average Effective Interest Rate of Competition	This should be provided by the MFI and/or a third party		25.0%			25.0%
7	Average Assets	In the case of single-purpose institutions, use average total assets. In the case of multipurpose institutions, use average performing assets.		9,183,692			8,852,847
		Sum of total assets at end of year one and end of year two	18,367,384			17,705,694	
		2	2			2	
8	Adjusted Average Assets			8,421,922			8,459,973
		Sum of adjusted total assets at end of year one and end of year two	16,843,843			16,919,945	
		2	2			2	
9	Average Equity			8,094,492			7,167,230
		Sum of total equity at end of year one and end of year two	16,188,983			14,334,460	
		2	2			2	
10	Adjusted Average Equity			7,332,721			7,490,714
		Sum of adjusted total equity at end of year one and end of year two	14,665,442			14,981,428	
		2	2			2	
11	Number of Active Clients (End of Period)	Number of active clients at end of year		3,600			2,921
12	Number of Active Clients (Beginning of Period)	Number of active clients at beginning of year		2,921			4,586
13	Number of Active Female Clients	Number of active female clients at end of year 2, provided by portfolio report or other institution report.		3,165			2,639
14	Number of Active Borrowers (End of Period)	Number of active borrowers at end of year		3,600			2,921
15	Number of Active Borrowers (Beginning of Period)	Number of active clients at end of year		2,921			5,464
16	Number of Staff (End of Period)	Number of all full time and full time equivelant employees		105			113
17	Number of Loan Officers (End of Period)	Number of loan officers		48			51
18	Value of Loans Disbursed	Sum of the value of all loans disbursed		2,507,606			2,034,826
19	Number of Loans Disbursed	Total number of loans disbursed		3,492			4,344
20	Value of Payments Past Due	Value of all payments past-due one or more days		487,671			225,785
21	Value of restructured or rescheduled portfolio	Value of loan balances of restructured loans that have payments 1-180 days past due as per portfolio reports. The analyst should be sure NOT to include any restructured portfolio over 180 days past due.		100,204			-
22	Gross Loan Portfolio (Beginning of Period)			2,525,290			3,025,821
23	Average Gross Loan Portfolio	Current Period Gross Loan Portfolio + Previous Period Gross Loans Outstanding	6,112,186	3,056,093		5,551,111	2,775,556
		2	2			2	

Adjusted Income and Expense Statement

Organization: Merged Institution

Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Mon	8	**Number of Months:**	12
Exchange Rate:	1.00	**Exchange Rate:**	1.00

Currency: USD

		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	Financial Income and Expense						
1	*Interest on Loan Portfolio*	*315,314*	-	*315,314*	*577,796*	-	*577,796*
2	*Fees and Commissions on Loan Portfolio*	*26,839*	XXX	*26,839*	*51,339*	XXX	*51,339*
3	Financial Revenue from Loan Portfolio	342,153	XXX	342,153	629,135	XXX	629,135
4	Financial Revenue from Other Financial Assets	*35,700*	XXX	35,700	*63,967*	XXX	63,967
	Financial Revenue	377,854		377,854	693,102		693,102
5	*Interest and Fee Expense on Deposits*	-	XXX	-	-	XXX	-
6	*Interest and Fee Expense on Commercial Borrowings*	-	XXX	-	-	XXX	-
7	*Interest and Fee Expense on Concessional Borrowings*	-	XXX	-	-	XXX	-
8	Financial Expense on Liabilities	-	XXX	-	-	XXX	-
9	Net Inflation Adjustment Expense	-	-	-	-	-	-
10	Subsidized Cost-of-Funds Adjustment Expense	XXX	*250*	250	XXX	*250*	250
11	Other Financial Expenses	-	XXX	-	3,690	XXX	3,690
	Financial Expense	-	XXX	250	3,690	XXX	3,940
12	NET FINANCIAL INCOME	377,854		377,604	689,412		689,162
13	Other Revenue related to Financial Services	1,405	XXX	1,405	104	XXX	104
14	*(Loan Loss Provision Expense)*	*7,002*	*(737,792)*	*(730,790)*	*(248,382)*	*(785,749)*	*(1,034,131)*
15	*Recovery on Loans Written-off*	*107,922*	*XXX*	*107,922*	*72,468*	-	*72,468*
16	Net Loan Loss Provision Expense	114,924	*XXX*	(622,868)	(175,914)	*XXX*	(961,663)
	Operating Expenses						
17	Personnel Expense	671,280	*XXX*	*671,280*	954,416	*XXX*	*954,416*
18	*Rent and Utilities*	*58,756*	*XXX*	*58,756*	*135,008*	*XXX*	*135,008*
19	*Transportation*	*34,353*	*XXX*	*34,353*	*52,324*	*XXX*	*52,324*
20	*Office Supplies*	*23,531*	*XXX*	*23,531*	*31,629*	*XXX*	*31,629*
21	*Depreciation and Amortization*	*63,352*	*XXX*	*63,352*	*89,009*	*XXX*	*89,009*
22	*Other Administrative Expenses*	*70,823*	*XXX*	*70,823*	*111,870*	*XXX*	*111,870*
23	Administrative Expense	250,815	XXX	250,815	419,840	XXX	419,840
24	Adjustment for In-Kind Personnel Subsidy	XXX	*37,760*	37,760	XXX	*38,820*	38,820
25	Adjustment for In-Kind Donations of Administrative or Fixed Asset Subsidies	XXX	*7,500*	7,500	XXX	-	-
26	**Operating Expense**	**922,095**	XXX	**967,355**	**1,374,256**	XXX	**1,413,076**
27	NET OPERATING INCOME	(427,912)	XXX	(1,211,214)	(860,654)	XXX	(1,685,473)
	Non-Operating Income and Expenses						
28	*Non-operating Revenue*	*229,979*	*XXX*	*229,979*	*243,192*	*XXX*	*243,192*
29	*(Non-operating Expense)*	*(200,714)*	*XXX*	*(200,714)*	*(191,611)*	*XXX*	*(191,611)*
30	Net Non-Operating Income	29,266	XXX	29,266	51,581	XXX	51,581
31	NET INCOME BEFORE TAXES AND DONATIONS	(398,647)	XXX	(1,181,949)	(809,072)	XXX	(1,633,891)
32	Donations to Subsidize Financial Services	*462,531*	-	462,531	*910,288*	-	910,288
33	(Taxes)	-	XXX	-	-	XXX	-
34	NET INCOME/(LOSS) AFTER TAXES AND DONATIONS	**63,884**	XXX	(719,418)	**101,216**	XXX	(723,603)

Adjusted Balance Sheet

Organization: Merged Institution

Currency: U.S. Dollar

Period Ending:	30-Aug-03	Previous Period En	31-Dec-02
Number of Months	8	Number of Months:	12
Exchange Rate:	1.00	Exchange Rate:	1.00

Currency: USD

No.		Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
	ASSETS						
	Short Term Assets						
1	Cash and Due from Banks	249,242	XXX	249,242	56,629	XXX	56,629
2	Reserves in Central Bank	-	XXX	-	-	XXX	-
3	Short Term Financial Assets	4,103,569	XXX	4,103,569	5,658,263	XXX	5,658,263
4	Short Term Gross Loan Portfolio	1,723,569	-	1,723,569	1,345,393	(549,669)	795,724
5	(Short Term Loan Loss Reserve)	(93,929)	(262,598)	(356,527)	(129,388)	(236,080)	(365,468)
6	Short Term Net Loan Portfolio	1,629,640	XXX	1,367,042	1,216,005	XXX	430,256
7	Interest receivable	75,391	-	75,391	37,600	-	37,600
8	Short Term Accounts Receivable Associated/Affiliated companies	47,196	XXX	47,196	54,970	XXX	54,970
9	Other Accounts Receivable and Short Term Assets	130,154	XXX	130,154	42,188	XXX	42,188
10	Subtotal Short Term Assets	6,235,211	XXX	5,972,613	7,057,855	XXX	6,272,106
	Long-Term Assets			-			-
11	Long Term Gross Loan Portfolio	1,863,327	(475,194)	1,388,132	1,179,897	XXX	1,179,897
12	(Long-Term Loan Loss Reserve)	(54,205)	-	(54,205)	(25,750)	-	(25,750)
13	Long Term Net Loan Portfolio	1,809,121		1,333,927	1,154,147		1,154,147
14	Long Term Financial Assets	482,848	XXX	482,848	435,428	XXX	435,428
15	Long Term Accounts Receivable Associated/Affiliated companies	-	XXX	-	-	XXX	-
	Fixed Assets						
16	Tangible Fixed Assets	914,895	XXX	914,895	888,049	XXX	888,049
17	(Depreciation of Tangible Fixed Assets)	(335,764)	XXX	(335,764)	(274,406)	XXX	(274,406)
18	Net Tangible Fixed Assets	579,131	XXX	579,131	613,643	XXX	613,643
19	Intangible Fixed Assets	-	XXX	-	-	XXX	-
20	(Depreciation of Intangible Fixed Assets)	-	XXX	-	-	XXX	-
21	Net Intangible Fixed Assets	-	XXX	-	-	XXX	-
22	Net Fixed Assets	579,131	XXX	579,131	613,643	XXX	613,643
23	Other Long Term Assets	-	XXX	-	-	XXX	-
24	Subtotal Long-term Assets	2,871,100	XXX	2,395,906	2,203,218	XXX	2,203,218
25	TOTAL ASSETS	9,106,311		8,368,519	9,261,073		8,475,324
	LIABILITIES						
	Current Liabilities						
26	Compulsory Savings	30,962	XXX	30,962	28,260	XXX	28,260
27	Voluntary Savings	-	XXX	-	-	XXX	-
28	Total Demand Deposits	30,962	XXX	30,962	28,260	XXX	28,260
29	Short Term Time Deposits	-	XXX	-	-	XXX	-
30	Bank Overdrafts	-	XXX	-	-	XXX	-
31	Short Term Commercial Borrowings	-	XXX	-	-	XXX	-
32	Short Term Concessional Borrowings	-	XXX	-	-	XXX	-
33	Short Term Borrowings	-	XXX	-	-	XXX	-
34	Interest Payable	-	XXX	-	-	XXX	-
35	Short Term Accounts Payables Associated/Affiliated companies	-	XXX	-	53,369	XXX	53,369
36	Other Short Term Liabilities	92,706	XXX	92,706	44,163	XXX	44,163
37	Subtotal Short Term Liabilities	123,668	XXX	123,668	125,792	XXX	125,792
	Long-Term Liabilities						
38	Long Term Time Deposits	-	XXX	-	-	XXX	-
39	Long Term Commercial Borrowings	-	XXX	-	-	XXX	-
40	Long Term Concessional Borrowings	50,000	XXX	50,000	50,000	XXX	50,000
41	Long Term Borrowing for Mortgage of Property or Equipment	-	XXX	-	-	XXX	-
42	Deferred Revenue	45,629	XXX	45,629	268,377	XXX	268,377
43	Long Term Accounts Payables Associated/Affiliated companies	50,137	XXX	50,137	60,667	XXX	60,667
44	Other Long Term Liabilities	745,600	XXX	745,600	657,908	XXX	657,908
45	Subtotal Long-Term Liabilities	891,766	XXX	891,766	1,037,152	XXX	1,037,152
46	TOTAL LIABILITIES	1,015,456	XXX	1,015,456	1,162,944	XXX	1,162,944
	EQUITY						
47	Paid-in Capital	4,080	-	4,080	4,080		4,080
48	Donated Equity	9,461,324	-	9,461,324	9,069,951	-	9,069,951
49	Reserves	-	-	-	-	-	-
50	Adjustments	-	45,510	45,510	-	39,070	39,070
51	Retained Earnings Prior Periods	(975,902)	-	(975,902)	(166,830)	-	(166,830)
52	Retained Earnings Current Period	(398,647)	(763,352)	(1,161,999)	(809,072)	(824,819)	(1,633,891)
53	Other Equity Accounts	-	-	-	-	-	-
	Foreign Currency Adjustment			-			
54	TOTAL EQUITY	8,090,854	XXX	7,353,062	8,098,129	XXX	7,312,389
55	TOTAL LIABILITIES AND EQUITY	9,106,311	XXX	8,368,519	9,261,073	XXX	8,475,324

Financial Indicators
Organization: Merged Institution
Currency: U.S. Dollar

Period Ending:	30-Aug-03	Previous Period Ending:	31-Dec-02
Annualization Factor:	0.667	Annualization Factor:	1
Exchange Rate:	1.00	Exchange Rate:	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Financial Viability					
Net Financial Margin*	Total Financial Revenue - Total Financial Expense	377,854	6.2%	689,412	7.8%
	Average Total Assets	9,183,692		8,852,847	
Adjusted Net Financial Margin*	Adjusted (Financial Revenue - Financial Expense)	377,604	6.7%	689,162	8.1%
	Average Adjusted Assets	8,421,922		8,459,973	
Operating Margin*	Net Operating Income	(427,912)	-7.0%	(860,654)	-9.7%
	Average Total Assets	9,183,692		8,852,847	
Adjusted Operating Margin*	Adjusted Net Operating Income	(1,211,214)	-19.8%	(1,685,473)	-19.0%
	Average Assets	9,183,692		8,852,847	
Profit Margin	Net Operating Income	(427,912)	-112.8%	(860,654)	-124.2%
	Operating Revenue	379,259		693,206	
Operational Self-Sufficiency	Total Operating Income	379,259	47.0%	693,206	44.6%
	Financial and Operating Costs (+) Loan Loss Provision Expense	807,171		1,553,860	
Financial Self-Sufficiency	Total Operating Income	379,259	23.8%	693,206	29.1%
	Financial and Operating Costs(+) Provision (+) Financial Adjustments	1,590,473		2,378,679	
Return on Assets*	Net Operating Income	(427,912)	-7.0%	(860,654)	-9.7%
	Average Assets	9,183,692		8,852,847	
Adjusted Return on Assets*	Adjusted Net Operating Income	(1,211,214)	-21.6%	(1,685,473)	-19.9%
	Adjusted Average Assets	8,421,922		8,459,973	
Return on Equity*	Net Operating Income	(427,912)	-7.9%	(860,654)	-12.0%
	Average Equity	8,094,492		7,167,230	
Adjusted Return on Equity*	Adjusted Net Operating Income	(1,211,214)	-24.8%	(1,685,473)	-22.5%
	Adjusted Average Equity	7,332,721		7,490,714	
Asset/Liability Management					
Portfolio Yield*	Adjusted Financial Revenue from Loan Portfolio	342,153	16.8%	629,135	22.7%
	Average Gross Loan Portfolio	3,056,093		2,775,556	
Effective Interest Rate with Respect to Competitors	Effective Interest Rate Charged by MFI	0.0%	0.0%	0.0%	0.0%
	Average Effective Interest Rate of Major Competitors	25.0%		25.0%	
Current Ratio	Short-term Assets	6,235,211	50.41	7,057,855	56.11
	Short-term Liabilities	123,690		125,792	
Funding Expense Ratio*	Interest and Fee Expense on Funding Liabilities	-	0.0%	-	0.0%
	Average Gross Loan Portfolio	3,056,093		2,775,556	
Cost of Funds Ratio*	Interest and Fee Expense on Funding Liabilities	-	0.0%	-	0.0%
	Average Funding Liabilities	79,621		78,260	
Debt to Equity Ratio	Funding Liabilities	80,982	0.01	78,260	0.01
	Average Equity	8,094,492		7,167,230	

Financial Indicators
Organization: Merged Institution
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Annualization Factor:	0.667	**Annualization Factor:**	1
Exchange Rate:	1.00	**Exchange Rate:**	1.00

*Indicators are calculated on annualized basis

	FORMULA	CALCULATION	INDICATOR	CALCULATION	INDICATOR
Efficiency/Productivity					
Loan Officer Productivity	Number of Borrowers / Number of Credit Officers	3,600 / 48	75.0	2,921 / 51	57.3
Personnel Productivity	Number of Clients / Number of Staff	3,600 / 105	34.3	2,921 / 113	25.8
Operating Expense Ratio*	Operating expense / Average Assets	922,095 / 9,183,892	15.1%	1,374,256 / 8,852,847	15.5%
Cost per Client*	Operating Expense / Average Total Clients	922,095 / 3,261	$424.21	1,374,256 / 3,754	$366.13
Costs per Loan	Operating Expenses / Total Value of Loans Disbursed	922,095 / 2,907,606	$0.32	1,374,256 / 2,034,826	$0.68
Portfolio Quality					
Areas Rate	Value of Payments Past Due 1 or More Days / Gross Loan Portfolio	487,671 / 3,111,701	15.7%	225,785 / 1,975,621	11.4%
Portfolio at Risk > 90 Days	Value of Loan Balances for Loans with Past-due Payments / Gross Loan Portfolio	826,942 / 3,586,896	23.1%	883,237 / 2,525,290	35.0%
Adjusted Write Off Ratio	Adjusted Value of Loans Written Off / Gross Loan Portfolio	395,729 / 3,586,896	11.0%	718,024 / 2,525,290	19.0%
Risk Coverage Ratio	Loan Loss Reserve / Portfolio at Risk > 90 Days	93,929 / 826,942	11.4%	129,388 / 883,237	14.6%
Outreach					
Number of Clients	Total Number of Clients at End of Period		3,600	-	2,921
Annual Growth in Number of Clients*			34.9%		-36.3%
Percentage of Female Clients	Total Active Female Clients / Total Active Clients	3,165 / 3,600	87.9%	2,639 / 2,921	90.3%
Growth in Gross Loans Outstanding*			63.1%		-16.5%
Average Outstanding Loan Balance	Gross Loan Portfolio / Number of Active Borrowers	3,586,896 / 3,600	996.36	2,525,290 / 2,921	864.53
Average Value of Loan Disbursed	Value of Loans Disbursed / Number of Loans Disbursed	2,907,606 / 3,492	832.65	2,034,826 / 4,344	468.42
Average Outstanding Loan Balance (USD)			$996.36		$864.53
Average Value of Loans Disbursed (USD)			$832.65		$468.42

Adjustments to Financial Statements
Organization: Merged Institution
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

1 Adjustment to Loan Loss Reserve and Provision Expense

	Provision Rate	Unadjusted	Adjustments	Adjusted	Unadjusted	Adjustments	Adjusted
Current Loan Portfolio	1%	3,035,874	XXX	3,035,874	1,865,883	XXX	1,865,883
Loan Portfolio overdue 1-30 days	10%	18,056	XXX	18,056	116,720	XXX	116,720
Loan Portfolio overdue 31-60 days	25%	80,579	XXX	80,579	127,615	XXX	127,615
Loan Portfolio overdue 61-90 days	50%	100,640	XXX	100,640	81,503	XXX	81,503
Loan Portfolio overdue 91-180 days	75%	174,576	XXX	174,576	181,345	XXX	181,345
Loan Portfolio overdue over 180 days	100%	177,171	XXX	177,171	152,223	XXX	152,223
Loan Portfolio overdue over 365 days	100%	XXX	475,194	(475,194)	XXX	549,669	(549,669)
Total Gross Portfolio		3,586,896	XXX	3,111,701	2,525,290	XXX	1,975,621
Adjustment to Gross Portfolio				(475,194)			(549,669)
(Loan Loss Reserve)		(148,134)	XXX	(148,134)	(155,138)	XXX	(155,138)
Adjustment to Reserve		XXX	(262,598)	(262,598)	XXX	(236,080)	(236,080)
Total Net Portfolio		3,438,761	XXX	2,225,775	2,370,152	XXX	1,034,734

		Required Reserve			Required Reserve		
Current Loan Portfolio	1%	(30,359)			(18,659)		
Loan Portfolio overdue 1-30 days	10%	(1,806)			(11,672)		
Loan Portfolio overdue 31-60 days	25%	(20,145)			(31,904)		
Loan Portfolio overdue 61-90 days	50%	(50,320)			(40,752)		
Loan Portfolio overdue 91-180 days	75%	(130,932)			(136,009)		
Loan Portfolio overdue over 180 days	100%	(177,171)			(152,223)		
Loan Portfolio overdue over 365 days	100%	475,194			549,669		
Required Loan Loss Reserve		(410,732)			(391,218)		
Actual Loan Loss Reserve		(148,134)			(155,138)		
Adjustment to Loan Loss Reserve		(262,598)			(236,080)		
Adjustment to Provision Expense		(737,792)			(785,749)		

Adjustments to Financial Statements

Organization: Merged Institution

Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

2 Adjustment for Interest Accrued on Past Due Loans

Financial Revenue accrued on Loans 31-90 Days Past Due		-			-
Financial Revenue Accrued on Loans > 90 days past due		-			-
Adjustment for Interest Accrued on past due loans		-			-

3 Subsidized Cost of Funds Adjustment

Description of Subsidized Liability not included in Concessionary Borrowings		Average Outstanding Balance for Period	Actual Rate		Average Outstanding Balance for Period	Actual Rate
		50,000	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
		-	-		-	
	Total	50,000.00			-	

Short Term Concessional Borrowings		-			-
Long Term Concessional Borrowings		50,000			50,000
Other Subsidizied Liabilities		50,000			-
Market Interest Rate		0.5%			0.5%
Market Interest and Fee Expense		250			250
Actual Interest and Fee Expense on Concessional Borrowing		-			-
Subsidized cost of funds Adjustment		250			250

Adjustments to Financial Statements
Organization: Merged Institution
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

4 Adjustment for Inflation

Average Equity		8,094,492			8,098,129
(Average Fixed Assets)		(596,387)			(613,643)
(Average Hard Currency Financial Assets)		(7,933,019)			(8,425,819)
Inflation Rate		3.0%			3.0%
Recommeded Adjustment for Inflation		(13,047)			(28,240)
Actual Inflation Adjustment		-			-
Adjustment for Inflation		-			-

5 Adjustment for In-Kind Donations

Personnel					
A		-			-
B		6,280			-
C		15,480			23,220
D		5,200			-
E		8,000			12,000
F		2,800			3,600
Total Adjustment for Personnel		37,760			38,820
Other					
Fixed Assets		-			-
Depreciation Rate		-			-
Fixed Assets		-			-
Other Expenses					
A		6,667			-
B		833			-
C		-			-
D		-			-
E		-			-
F		-			-
G		-			-
Sub-total Other Expenses		7,500			-
Total Adjustment for In-Kind Donations of Fixed Assets and Equipment		7,500			-

Adjustments to Financial Statements

Organization: Merged Institution
Currency: U.S. Dollar

Period Ending:	30-Aug-03	**Previous Period Ending:**	31-Dec-02
Number of Months:	8	**Number of Months:**	12
Exchange Rate:	1	**Exchange Rate:**	1

6 Adjustment for Loan Capital Donations and Other Not Reported in Income Statement

Description of Grant or Donation		Value of Subsidy			Value of Subsidy
A					
B		-			-
C		-			-
D		-			-
E		-			-
F		-			-
G		-			-
		-			-
		-			-
	Total	-			-

7 Total Scope of Adjustments

	USD	Local		USD	Local
Income	-$745,542	(745,542)		-$785,999	(785,999)
Assets/Liabilities	-$737,792	(737,792)		-$785,749	(785,749)