

## Microfund for Women Jordan – March 2004

Rating scales and formulas may be found on the following page.

### Global Rating

**A-**  
**Trend: Stable**

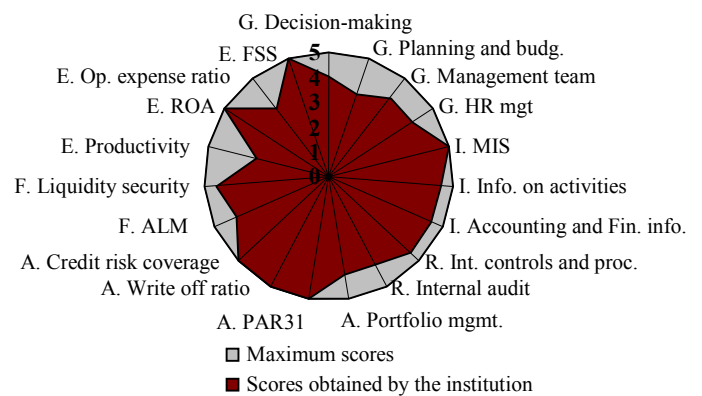
Microfund For Women (MFW) began operations in 1996 under the name Jordanian Women's Development Society, to take over a Save The Children program started in 1994. MFW registered as a non-profit Limited Liability Company (LLC) with the Ministry of Industry and Trade in October 1999 and since then has become an associate member of Women's World Banking (WWB). The staff has been entirely local for several years. MFW offers working capital loans to groups and individuals of women and, since 2004, men for a total of approximately 11,000 active borrowers in March 2004.

### Rating Plus Summary

**Environment** Unregulated, good infrastructure  
**Maturity** **Mature:** 7 years  
**Scale** **Medium:** Portfolio of 3.1 million USD  
**Target market** **Low-end:** Avg. out. loan 19% of GNP per capita

### Area Scores

**G**overnance and decision making **b**  
**I**nformation management and systems **a**  
**R**isk Management **a**  
**A**ctivities: products and services **a**  
**F**inancing and liquidity **a**  
**E**fficiency and profitability **a**



	2001	2002	2003		2001	2002	2003
<b>ACTIVITIES</b>				<b>PERFORMANCE</b>			
Number of employees	59	61	70	Staff productivity	98	126	140
Total assets (K USD)	2,174	2,845	3,679	ROA	2.4%	7.3%	14.1%
(K JOD)	1,552	2,032	2,614	AROA	(4.5)%	0.8%	9.0%
Outstanding loans (K USD)	1,571	2,019	3,084	ROE	2.4%	7.9%	16.7%
Active borrowers	5,780	7,698	9,776	AROE	(4.6)%	0.8%	10.7%
Active loans	6,504	8,656	10,586	Portfolio yield	43.8%	44.1%	43.3%
Annual effective interest rate	See notes (a)			Operating expense ratio	39.5%	33.3%	25.0%
PAR <sub>31days</sub>	0.1%	0.0%	0.2%	Operational self sufficiency	110.0%	129.3%	163.8%
Risk coverage ratio	Over 500%	Over 500%	Over 500%	Financial self sufficiency	83.4%	102.4%	133.0%
Write-off ratio	0.0%	0.3%	0.1%	<b>FINANCING</b>			
<b>GROWTH</b>				Commercial loans / Assets	0.0%	12.3%	15.9%
Portfolio growth	122.0%	28.5%	52.0%	Leverage	0.01	0.16	0.21
Asset growth (b)	16.2%	30.9%	28.7%	<b>Exchange Rate USD/JOD</b>	0.7138	0.7141	0.7106

- (a) As of December 2003, the effective annual interest rate, taking into account interest payments and fees, is between approximately 37% and 39% for the group and individual loan products. The effective annual interest rate for the seasonal loan, which is only a few months in duration, is between 52% and 56%.
- (b) Growth figures for December 31, 2001 are based on data from September 30, 2000, thereby creating a 15-month period.

## Rating Scale

Area Rating	Global Rating	Explanation
a	A+	<b>Excellent</b> The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
	A	
	A-	
b	B+	<b>Good</b> Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
	B	
	B-	
c	C+	<b>Minimum required</b> Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
	C	
	C-	
d	D	<b>Insufficient</b> Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term and even short-term risks for operations.
e	E	<b>Immediate risk of default or very insufficient</b> There are immediate or underlying risks for operations or an unacceptable under performance.

## Rating Plus: MicroBanking Bulletin categories for MENA (Middle East North Africa)

Scale	Target Clientele	Maturity
(Outstanding portfolio USD)	(Avg. out. loan / GNP per capita)	(Years of operation)
Large: > 8 million	Low-end: < 20% OR avg. out. loan ≤ 150 USD	New: 1 to 3 years
Medium: 2 to 8 million	Broad: 20% to 149%	Young: 4 to 7 years
Small: < 2 million	High-end: 150% to 249%	Mature: over 7 years
	Small Business: 250 %	

## Ratio Formulas

Personnel productivity	Active borrowers / Total personnel (end of period)
Loan officer productivity	Active borrowers / Total Loan Officers (end of period)
Return on assets	ROA: Net operating income before donations / Average assets
Adjusted return on assets	AROA: Adjusted net operating income before donations / Average assets
Return on equity	ROE: Net operating income before donations / Average equity
Adjusted return on equity	AROE: Adjusted net operating income before donations / Average equity
Leverage	Debt (savings + debts) / equity (end of period)
Portfolio yield	Portfolio revenue / 13-month average gross outstanding portfolio
Operating expense ratio	Operating expense / 13-month average gross outstanding portfolio
Funding expense ratio	Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
Cost of funds ratio	Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
Loan loss expense ratio	Net loan loss expense / 13-month average gross outstanding portfolio
Adjustment expense ratio	Total adjustments / 13-month average gross outstanding portfolio
Net portfolio as a % of assets	Net outstanding portfolio / total assets (end of period)
Operational self-sufficiency	Revenue from operations / (Financial expense + Loan loss expense + Operating expense)
Financial self-sufficiency	Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
Risk coverage ratio	Loan loss reserves / Portfolio at risk (31-365 days)
Write-off ratio	Loans written off / 13-month average gross outstanding portfolio

# Executive Summary

The microfinance environment in Jordan is characterized by both market rate and subsidized credit providers, the latter having a significantly higher percentage of the outstanding loan portfolio to microentrepreneurs. The four market oriented MFIs were created in the mid-to-late 1990's starting with MFW and now serve almost 17,000 clients for an outstanding portfolio of almost 9.7 million JOD. Subsidized credit providers include the Development and Employment Fund and Industrial Development Bank and it is expected in the future a new government created Bank for Financing Small Projects. A 2002 market study estimates the effective demand for microcredit to be approximately 86 million JOD, concentrated in urban areas and registered businesses, for approximately 69,000 registered businesses and the same number of unregistered businesses. USAID has played a key role in supporting the microfinance sector, notably the four market oriented MFIs, through the Achievement of Market-Friendly Initiatives and Results (AMIR) program managed by Chemonics International initially started in 1998 and renewed in 2002.

Microfund For Women (MFW) began operations in 1996 under the name Jordanian Women's Development Society, to take over a Save The Children program started in 1994. MFW registered as a non-profit Limited Liability Company (LLC) with the Ministry of Industry and Trade in October 1999 and since then has become a Women's World Banking (WWB) associate member. The staff has been entirely local for several years. MFW offers working capital loans to groups and individuals of women and, since 2004, men for a total of approximately 11,000 active borrowers in March 2004.

## **MFW received a final rating of A- with a Stable trend.**

### **Governance and decision making** received the rating **b:**

- ❑ MFW's Board, changed in March 2003, serves its role as a strategic advisor and will carefully review any proposals from management before making a decision. The Board has not yet formalized its operating procedures nor clarified the legal ambiguities regarding owner liability.
- ❑ A one-year business plan includes projections for expansion within the existing office network that could be attainable but require strong progress in the development of the individual loan product. Given the limited size of the Jordan microfinance market and the downward pressure on profitability, MFW needs a longer-term business plan.
- ❑ The solid management team members, all with relevant backgrounds, have been with MFW for over two years. Areas for further skill development include market research and product development, to be addressed by a new position under recruitment. The goal to develop a middle management team will require significant investment.
- ❑ Human resource management is professional and MFW maintains a work culture and incentive policies that emphasize performance evaluation. Nevertheless, MFW has consistently high staff turnover, due notably to departures of new recruits during the probation period and the challenge of keeping young female loan officers once they have family obligations.

### **Information management and systems** received the rating **a:**

- ❑ The MIS is easy to use for staff, has sufficient security, and includes a customized Oracle-based integrated accounting and loan tracking software linked across offices through a Virtual Private Network (VPN).
- ❑ MFW has accurate and real-time (or maximum one-day delay for repayment data) portfolio data to serve all necessary needs.

- ❑ The monthly financial statements complemented by appropriate financial analysis ensure accurate and updated information on the financial health of the institution.

**Risk analysis** received the rating **a**:

- ❑ The internal control system provides appropriate layers of control for credit risk, purchasing, etc. The separation of duties in loan processing, including the outsourcing of cash handling to partner banks with pre-printed repayment slips, serves to limit fraud risks.
- ❑ An internal audit position, created end of 2003, reports to the Board and includes both traditional audit functions as well as value-added consulting on operations. The Internal Auditor has only just begun but has made a promising start for quality internal audit.

**Activities: Products and Services** received the rating **a**:

- ❑ MFW has an appropriate system for client selection, portfolio monitoring, and delinquency management. Staff is very experienced with the group and seasonal loan products that have been in place for years. The individual loan product, under its current form since end of 2002, is still being implemented in the remaining branches and the new staff for this product as well as the Area Supervisors require additional training to be fully operational.
- ❑ The PAR31 at 0.2% and write-off ratio at 0.1% at end 2003 are both remarkably low and have been for several years despite regional instabilities. Loan loss provisions cover over 100% of the PAR31, ensuring more than sufficient credit risk coverage for such risks.

**Funding and Liquidity** received the rating **a**:

- ❑ MFW's funding base, almost exclusively donor equity from USAID until 2001, has grown to include 21% liabilities and 17% retained earnings end of 2003. To finance future growth, MFW has secured several new lending sources that will meet needs through the coming year and perhaps beyond and achieve greater leverage with regards to equity. There are no major risks (currency, maturity, rate) with regards to asset liability management.
- ❑ MFW guarantees the physical security of its liquidity by using a partner bank for all disbursements and repayments. Yearly cash flow projections broken out by month serve to identify periods of need. Although typically MFW does not have liquidity problems, there are no available overdraft facilities to meet any possible short-term cash flow shortages.

**Efficiency and Profitability** received the rating **a**:

- ❑ Over the last several years MFW has become operationally and financially self-sustainable (163.8% and 133.0% respectively) with a very strong Return on Assets of 14.1%. Although it is expected that MFW will continue to remain financially strong, it may not reach the same level in the future.
- ❑ Despite strong profitability, MFW's staff productivity could be significantly improved. At the end of 2003, the group loan officers had on average 313 clients while the individual loan officers had on average only 55 clients. The newness of both the individual loan product and the personnel in these positions contributes to this low productivity.

**Overall summary:**

- ❑ **Key strengths:** MFW's key strengths include a very positive reputation in the community for serving women, a well-mastered group lending methodology and a comprehensive individual credit methodology that results in strong portfolio performance, solid financial performance, albeit with productivity lower than it could be, a very effective MIS, and sufficient internal controls.
- ❑ **Areas for improvement:** MFW has opportunities to improve by formalizing the Board functioning through internal rules and committees, developing a longer-term business

plan, ensuring access to funds for potential short-term liquidity needs, building up the team of trained individual loan officers and their supervisors, and increasing productivity to be more efficient.

- **Principal risks:** The principal risks include the expansion of the individual loan product, notably to men, where there is competition from other providers, the possible development of new products such as microinsurance or other non-business loan products, downward pressure on profitability with interest rate cuts, and a legal structure that is not specifically adapted to microfinance activities.

**Funding needs:**

- During the 2004 business plan period, MFW is seeking to expand its portfolio by 1.4 million USD.
- Planet Rating believes that MFW is a profitable institution with solid operations and therefore should be considered for commercial rate debt.

**The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.**

# Changes Since the November 2001 Rating

The 2001 rating for MFW was between a B- and B rating under the current scale<sup>1</sup>. The major changes since that rating are described below.

The rating for **G** has remained the same at **b**:

- ❑ The ownership of MFW has changed with shares being purchased by a new Chairman and Save the Children, although the ambiguity with regards to the liability of owners remains.
- ❑ MFW's new owners constituted a new Board in March 2003, expanded from 3 to 7 members, which includes an active group of core members who more critically reviews management's work.
- ❑ The management team, almost entirely new to MFW at the time of the last rating and highly dependent on the General Manager, has grown more autonomous in its functions over the past two to three years.

The rating for **I** improved from **b** to **a** :

- ❑ MFW now has a customized Oracle-based integrated accounting/loan tracking software.
- ❑ Computing infrastructure has improved to include a Virtual Private Network linking all branches and headquarters, completed end of 2003, along with additional security measures.

The rating for **R** improved from **b** to **a**:

- ❑ End of 2003, MFW added the position of Internal Auditor and recruited a candidate experienced in both internal and external audit.
- ❑ The orientation of this position goes beyond the traditional audit to include value-added internal consulting.

The rating for **A** has remained the same at **a**:

- ❑ With the support of WWB, MFW has changed considerably its approach to individual lending from an extension of the group lending product to a distinct individual loan product with more complete credit analysis. Some individual loan officers are still learning this new approach implemented in 2003.
- ❑ MFW has doubled the portfolio size between year-end 2001 and year-end 2003.
- ❑ With MFW adding more upmarket clients, including registered business that are almost exclusively men, and with some competitors reaching more downmarket, MFW will now be in more direct competition for certain clients.

The rating for **F** has improved from **d** to **a**<sup>2</sup>:

- ❑ MFW has diversified its funding sources to attract local and international investors, including different loans from Citibank, Jordan through a USAID/AMIR Guarantee Facility, a loan with Blue Orchard and a loan with Société Générale (early 2004).
- ❑ In addition, a loan from the governmental Development Employment Fund of 1 million JOD (expected to be in the first half of year 2004) will ensure sufficient funding for portfolio growth over the next 12 months. In addition there are other identified sources for financing that MFW could pursue when needed.

The rating for **E** improved from **d** to **a**:

- ❑ Only on the verge of operational and financial self-sufficiency in 2001, MFW has grown to be both operationally and financially self-sufficient with a healthy margin.
- ❑ The operating expense ratio has decreased dramatically with economies of scale, from 40% to 25%.

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<sup>1</sup> The GIRAFE method was changed in January 2003. The rating corresponding to G4 is a B- or B in the new rating scale.

<sup>2</sup> The change in the rating criteria for the F factor in the new method is significant.

# Rating Plus

*The GIRAFE rating evaluates the sustainability of an institution. However, it is difficult for an institution that is young, in a challenging environment, or targeting hard-to-serve populations to achieve this level of sustainability. Rating Plus serves to clarify the institution's context.*

**Environment** Microfund For Women works in one of the better business environment in the region in terms of macroeconomic stability, trade access, and regulatory climate. Moreover, excellent direct telecommunications services are available throughout the country at international standards.

	Dec. 2001	Dec. 2002	Dec. 2003
Exchange rate: 1 USD = X JOD	0.714	0.714	0.711
Inflation	0.7%	1.8%	3.5%

Source: oanda.com for exchange rates, Inflation data from World Data Indicators, World Bank

Jordan is classified as a middle income developing country with 2001 per capita income of 1,750 USD. Without significant natural resources, Jordan relies primarily on human capital for development. From the early 1970s to 2001, Jordan's population grew from about 1.8 million to 5.0 million, with the rate of growth decreasing to 2.8 percent, primarily attributable to a decrease in the fertility rate as the average number of births per woman dropped from 7.5 to 3.6.

Jordan's gross national income per capita decreased from 1,990 USD in 1980-85 to 1,750 USD in 2001. Its annual growth has reached 4.2% in 2001 (2.5% of average annual growth in 80-90, 4.8% in 90-01). With a current unemployment rate of 15% (25% unofficial) and a labor force that is growing at 4% a year, creating additional new jobs for young job seekers is imperative. The country ranks 90 (out of 175 countries) in the UNDP 2003 Human Development Report and the population below the national poverty line is estimated around 12%.

Despite advances in women's development through improvements in education and public health services, female empowerment and inclusion remain a challenge. Although women's participation in the formal labor force grew from 15% in 1980 to 24% in 1999, it still remains low.

The war in Iraq has strongly disturbed Jordan's economy, as the principal trade partner of Jordan during the last years was Iraq, in spite of the embargo. The European Commission has announced that it will grant without delay a financial assistance of 210 million Euros to Jordan and Egypt in order to moderate the negative economic effects of the war in Iraq. This financial assistance will be added to the 100 million Euros of humanitarian aid already granted by the European Commission.

**Maturity and Scale** MFW has been providing group loans since 1996, 1994 under Save the Children, making it a mature institution for its MBB peer group. However, the individual loans are still relatively new, decentralization is in process, and the Board was almost entirely renewed in 2003. Therefore, for several aspects of operations and governance, MFW is still in the growing stages.

**Target Clientele** MFW has consistently served a low-end clientele over the last few years. As the individual loan product expands, the average outstanding loan per GNP per capita is expected to increase.

- ❑ It has exclusively targeted women since the beginning and in 2004 has begun lending to men for no more than 20% of clients, although currently there are only 30 male clients.
- ❑ Clients are all in highly urban areas, easily accessible for MFW staff at low cost, although some are illiterate or live in refugee camps.

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# Acronyms



AMC	Ahli Microfinancing Company
AMIR	Access to Microfinance and Improved Implementation of Policy Reform (USAID sponsored program managed by Chemonics Int.)
DEF	Development and Employment Fund (of Jordan)
EIR	Effective interest rate
EU	European Union
HR	Human Resources
GNP	Gross National Product
GM	General Manager
HR	Human resources
IFAD	International Fund for Agricultural Development
JMCC	Jordan Micro Credit Company
JOD	Jordanian dinar
KfW	German Development Bank
LLC	Limited Liability Company
LO	Loan officer
MAJ	Microfinance Association of Jordan
MBB	MicroBanking Bulletin
MEMCC	Middle East Microcredit Company
MFW	Microfund for Women
MIS	Management Information System
MFC	Microfinance Center for Central and Eastern Europe and the Newly Independent States
MFI	Microfinance institution
PAR	Portfolio at risk
ROA	Return on assets
ROE	Return on equity
SC	Save the Children
SME	Small and medium sized enterprise
USAID	United States Agency for International Development
USD	United States Dollar
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
VPN	Virtual Private Network
WWB	Women's World Banking

# Microfinance Environment

## Microfinance Providers

### *Four market oriented MFIs*

Both market oriented and subsidized credit providers characterize the microfinance sector in Jordan. The adjacent table lists the four MFIs participating in the USAID/AMIR program (see program description below). They all began operations in the mid-to-late 1990s. As of March

MFI	Active clients	Outstanding portfolio (JOD)	Avg. out. Loan per client (JOD)
AMC	1,143	2,213,410	1,936
JMCC	2,757	1,848,655	671
MEMCC	2,259	3,097,847	1,371
MFW	10,720	2,504,074	234
<b>Total</b>	<b>16,879</b>	<b>9,663,986</b>	

Source: Data provided as of March 31, 2004 by the MFIs.

2004, these four providers were serving 16,879 clients for an outstanding portfolio of almost 9.7 million JOD. The UNRWA has also begun working in Jordan with Palestinian refugees and has a strong track record in the region. The strong banking sector has been increasingly making accessible consumer loans to those with a salary.

### *Portfolio of subsidized credit providers dwarfs that of market rate providers*

The portfolio of the four market oriented providers listed above with a first quarter 2004 portfolio of almost 9.7 million JOD, is dwarfed by other subsidized local providers that a 2001 study estimated to have a portfolio size of 64 million JOD, albeit this figure includes many loans long overdue and never written off.<sup>3</sup> These providers include the Development and Employment Fund (DEF), funded by the Jordanian government, KfW, and the EU with a vocation of providing microfinance for poverty alleviation, as well as the Industrial Development Bank, a private bank in operation for several decades authorized under special laws that has a mixed public/private sector Board. Funding for agriculture is managed more closely by government organizations such as the Agricultural Credit Corporation. A myriad of other smaller government and quasi-government players also exist.

### *Estimates of effective demand of 86 million JOD, mainly in urban areas to registered business*

A local demand study in 2002 estimated the demand for microcredit at 220 million. The more realistic calculation of effective demand, based on ability to pay, is 86 million JOD, 37% or 32 million JOD is for non-registered business and 86% or 74 million JOD is in urban areas. This demand is based on an estimate of 69,000 registered businesses and an equal number of non-registered businesses.<sup>4</sup>

### *New government-sponsored bank expected to provide subsidized credit*

A government initiative, the National Bank for Financing Small Projects, also known as the “Bank for the Poor”, is underway and expected to provide subsidized credit. Although the products and pricing have not yet been defined for this program, many microfinance actors are concerned about the potential impact of this institution on the supply of microcredit. When initially passed, the authorizing law for the bank provided numerous tax exemptions and advantages not accorded to other MFIs, however since March 30, 2004 the tax exemption status has been extended to all MFIs.

### *USAID funded AMIR program a leading supporter of the microfinance sector*

USAID has played a leading role in supporting the sustainable microfinance environment in Jordan, having created the Achievement of Market-Friendly Initiatives and Results (AMIR) program managed by Chemonics International. This multi-faceted program supports microfinance and other services for small business by providing financing, technical assistance, and advocacy as well as engages in broader economic development activities. The initial program, started in 1998 and renewed in 2002, continues to provide technical assistance and

<sup>3</sup> “Microfinance/Microenterprise Assessment” April 2001. Graham Perrett.

<sup>4</sup> “Update Credit Demand Survey: Final Report” October 2002. AMIR program funded by U.S. Agency for International Development, Deliverable for MEI Component Task No. 316.2.2 Contract No. 278-C-00-02-00210-00.

advocacy for MFIs and BDS providers via its microenterprise component among other projects. The approved budget for the program over the years has totalled 70 million USD, with approximately 10 million USD allocated specifically to microentrepreneur support. Other bilateral and multilateral organizations have been active in the sector, including IFAD that has also provided funding for NGOs and government providers in Jordan for agricultural loans.

*Advocacy continues  
to remove policy  
constraints*

**Legal and regulatory environment**

Although publicly microfinance is a concept that receives government support, Jordan's regulatory environment does not explicitly recognize the microfinance sector. This lack of formality, along with other environmental issues, leads to policy constraints within which local MFIs must operate, notably the inability to collect savings. USAID/AMIR and others are working to address these issues. Among those constraints enumerated in a local study, the most significant are:<sup>5</sup>

- ❑ A legal structure that is not specific to lending activities, the non-profit limited liability company;
- ❑ An ambiguous sales tax law until official tax exemption of all MFIs on March 30, 2004 via the authorizing law for the National Bank for Financing Small Projects. The potential for retroactive liabilities for MFIs must be clarified;
- ❑ Other microcredit providers that offer loans at subsidized rates;
- ❑ An enforcement of claims that could be stronger; and
- ❑ The lack of a Credit Bureau. Since the study, the law necessary to authorize the licensing of companies that could serve as a Credit Bureau has already passed and the Central Bank is expected to allow licensing in the coming months.

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<sup>5</sup> "MFI Policy Constraint Review: Final Report" June 2003. AMIR program funded by U.S. Agency for International Development, Deliverable for MEI Component Task No. 319.1 Contract No. 278-C-00-02-00210-00.

# Institutional Presentation

**Mission** “Microfund for Women aims to harness the productive capacity of women microentrepreneurs in Jordan by providing them with sustainable financial services.”

MFW’s objectives are therefore to provide sustainable financial services to underprivileged women microentrepreneurs as well as contribute to their empowerment in decision-making and the economic status of their families through credit.

**Legal form, supervision** As a non-profit Limited Liability Company (LLC), MFW is not subject to any supervision. The authorizing body, the Ministry of Industry and Trade, requires very minimal paperwork.

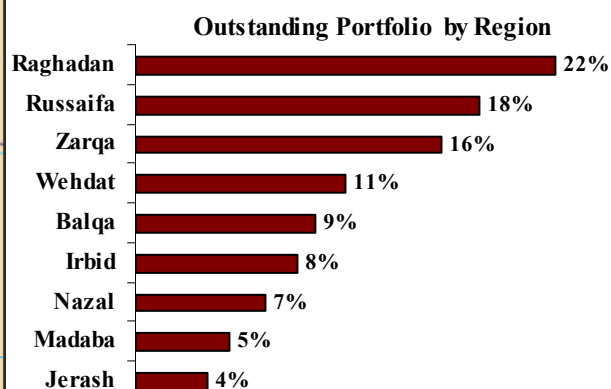
**Networks** MFW is a member of the MFI association in Jordan, albeit the association is not very active, and is one of the founding members of the recently created Microfinance Network of Arab Countries, Sanabel. MFW is also an associate member with Women’s World Banking, (WWB) and a member of the Save the Children network.

**Ownership** As a non-profit LLC, MFW has two shareholders who may not receive dividends. In the case of liquidation, all MFW assets are given to a similar MFI or NGO that has the same objectives. In the past there were seven “shareholders,” although they never actually purchased their shares, composed of prominent community members. Of those seven, three were elected to the Board. They all withdrew, as they were not interested in continuing their involvement with MFW for personal reasons and given their uncertainty regarding the legal liabilities of ownership.

In April 2003, two new shareholders were introduced, the new Chairman for 60% and Save the Children for 40% for a total of 33,000 JOD. MFW asked SC to be a shareholder to ensure preservation of mission. One Board member remains from the prior Board, who helped MFW select the Chairman who in turn selected the other predominantly business oriented Board members.

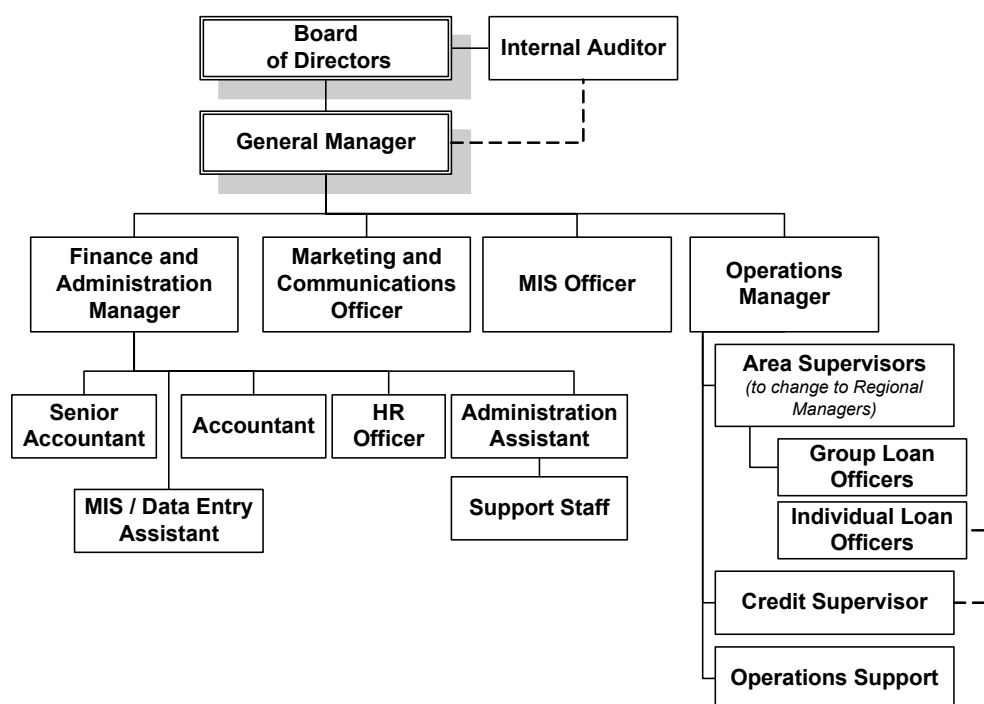
Board of Directors	Position	Since	Profession
Mr. Ghiath Sukhtian	Chairman	April 2003	Businessman
Mr. Mohammed Al Hassan	Vice Chairman	March 1999	Marketing
Ms. Nadine Khouri	Member	April 2003	Economist
Ms. Muna Sukhtian	Member	April 2003	Strategic Planning Advisor
Ms. Nedjma Koval	Member	April 2003	Economist/ Development
Ms. Suhair Al Ali	Member	April 2003	General Manager, Citibank, Jordan
Ms. Rana Olwan	Member	April 2003	Finance (Save the Children)

## Team and structure



MFW has a head office in Amman and 9 offices serving major cities in Northern and Central Jordan. Each office has an Area Supervisor to perform administrative duties and supervise loan officers. Data is entered into the MIS at the office level in an Oracle-based loan tracking system linked across offices via a Virtual Private Network. Thus far, individual loan approval and individual loan supervision is performed from headquarters. Group loans are approved in the local offices. All disbursements and repayments are made through a partner bank, the Housing Bank for Trade and Finance.

MFW is in the process of changing this organizational structure to change the nature of the Area Supervisor to that of a Regional Manager (please refer to the later section on Management Team), to add the position of Office Administrator at each branch, and to recruit a Market Research Officer.



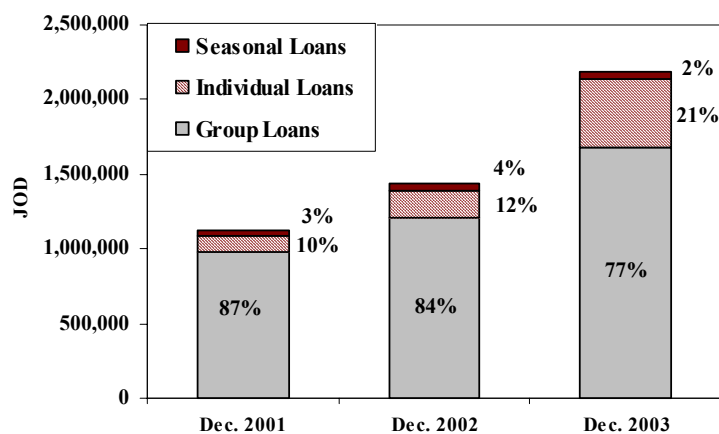
Human Resources	2001	2002	2003
Number of employees	59	61	70
% Loan officers	56%	59%	67%
Turnover (exits/ period average staff)	37%	18%	31%

Please refer to the later section on Human Resource Management for further explanation of the turnover rates.

### Loan Products

MFW offers group loans and individual loans in two forms. The individual loan initially began as a product designed for graduating group loan members. As the product was not adapted to market needs, it is being phased out. The new individual loan has been implemented in several branches, starting with a pilot branch in the fall 2002, and will be implemented in the final three branches this year. In addition to these products, MFW offers seasonal loans such as Ramadan, Adha, Spring, Back to School and Dairy loans. These loans are given during specified periods when the client's business requires additional working capital. The products have changed over time to accommodate client requests, such as monthly repayments, declining administrative fees by cycle, and an overall reduction in interest rates. MFW commissioned a product development study for microinsurance and is considering this and additional loan products for the future.

### Outstanding Portfolio by Product



	Group Loans	Individual Loans	Seasonal Loans
Creation Date	1996	1999	1999
Client type (rural, urban, etc.)	Urban	Urban	Urban
Collateral requirements and other conditions	Group guarantee	2 Guarantors	Group guarantee
Repayment Schedule	bi-weekly and monthly	monthly	monthly
Nominal annualized interest rate (first loan)	21% flat	21.6% flat	24% flat
Additional Fees (JOD)	5	5	1 to 5 (varies by type)
Loan size range (JOD)	200-500	500-2000	100-500
Average loan size (JOD)	320	1,000	170
Loan term range	28 weeks / 8 months	1-18 months	3-8 months

**External audits and reporting** MFW has had its financial statements audited for many years, and since 2002 by KPMG. KPMG was already familiar with MFW via a management audit required by USAID and has audited major banks but does not have prior microfinance-specific auditing experience. The auditors have all certified the accounts without reserve. MFW reports on a monthly basis to USAID/AMIR and to creditors i.e Citibank. MFW provides quarterly documents for informational purposes to the Ministry Planning. As a member of the WWB, Save the Children, and Sanabel networks, MFW provides performance data annually. MFW also reports on an annual Basis to the MBB/MIX Market.

# Governance and Decision Making

## Decision making

### *Management-team led process with active Board involvement*

#### **Decision-making process**

The current decision-making process is managed by the management team but actively supervised by the Board of Directors. MFW management develops the ideas regarding strategy, new products, operational changes, etc. and presents this to the Board of Directors, that in turn will serve as a check when plans are too ambitious or not sufficiently in compliance with the mission. The Board respects the work of management but will analyze independently the information and in some cases modify management's plans. The 2004 business plan, developed by management, was revised by the Board to be less ambitious with regards to new product development and more focused on strengthening existing operations and products. Management's proposal of serving family businesses, and thereby opening lending opportunities to businesses registered to men, was also discussed seriously by the Board to ensure compliance with the mission before being implemented.

MFW has no structural impediments to timely decision making at present since Board members are accessible via email for interim decisions. In some cases the Board may be able to minimize its involvement with certain decisions put before the Board and delegate such decisions to management, such as the signing of small grant agreements.

### *Board only one-year old with a core group very active*

#### **Skills and engagement of governance bodies**

The current Board has been in place for only a year, and with one exception is composed of entirely new members. Prior to the Board's official commencement in March 2003, several of the members were active for a few months in the form of a non-statutory Executive Committee that served like a Board committee but was composed of individuals not officially members of the Board of Directors at the time. The Board members have met on numerous occasions for very specific meetings on particular policy decisions, such as staff benefits, grant agreement signings, etc. although much of this is done by a Board subgroup and often via email communications. The current Board members include a bridge member to provide continuity from the prior Board, four members very actively involved despite in some cases difficult travel schedules, and two members that are rarely if ever present. MFW has requested that an individual more available for meetings replace the Save the Children representative, now working in a neighboring country.

### *Board procedures not yet formalized; Board manual in process*

To ensure the continuity and proper functioning of the Board, MFW will need to formalize several aspects of governance. The current Internal Regulations and Company Acts are simply the standard format for MFW's legal structure as a limited liability company, and require only that the Board meet annually to approve the financial statements, reinvest profits, and handle other administrative matters. A Board manual in draft form, adapted from the USAID/AMIR program Board model, is in process but key issues such as Board member terms and elections, Board responsibilities, and the creation of Committees have not yet been documented.

### *Legal ambiguities regarding owner responsibilities*

Although the ownership of MFW is clear, 40% Save the Children and 60% the Board Chairman, there are some legal ambiguities that should be noted. Per the law for a limited liability company, the owners are liable for the obligations of the entity. However, it is not clear whether the potential liability is proportional to the percent ownership or if liability is limited to the absolute value of the shares purchased by the owners, which is only 33,000 JOD

in total. Furthermore, the Save the Children involvement is not clear but at a minimum was designed to help ensure on-going compliance with MFW's current mission.

*Regular and complete management information*

**Management information**

The management team and Board have access to regular and complete quantitative management information. A cleverly designed one-page summary with detail by branch provides a useful snapshot of key financial and portfolio indicators. The detail behind this report is also available for those with the need for more fine tuned analysis. The annual business plan and annual report provide considerable detail on all aspects of operations and performance. It is expected that this management information will be supplemented further by narrative from the Internal Auditor on MFW's performance on a monthly basis to accompany the financial data.

**Communication of strategic decisions**

All appropriate parties are informed of the strategic decisions taken by management and the Board. Area supervisors meet monthly as a group and they in turn meet monthly with their field staff to provide any necessary updates. All-staff meetings occur once or twice per year.

## Planning

*Board approach to risks more conservative than that of management*

**Risk identification**

MFW's business plan is a thorough document that covers objectives, the market, products, organizational changes, and financing. Not all risks are formally discussed in the document, although MFW management is increasingly concerned about competition and therefore is devoting resources to product development and corporate communications. The organizational changes already underway are designed to increase capacity and sophistication in the field. The Board of Directors' revision of the business plan to focus on strengthening existing products and methods before launching new ones indicates that MFW management may have underestimated the risks related to the finalization of the individual loan product throughout the network and the introduction of new loan products at the same time.

*Annual projections developed at headquarters and tracked closely at all levels*

**Budgeting and projections**

Financial budgeting and operational projections are developed at headquarters through close collaboration between the Operations Manager and the Finance Manager, and reviewed by the General Manager. The team has made projections, although only for one year, broken out monthly. Operational and financial targets are monitored very closely both at headquarters and in the field. The basis for these projections is the breakeven profitability of a loan officer and capacity of existing staff, with adjustments given the perceived growth opportunities by region. The Area Supervisors did propose targets through a workshop with the operations team, but management deemed them overly optimistic and revised downwards for the Business Plan.

*Business Plan for 2004 feasible if staff vigilant to achieve individual loan goals; Need for longer term plan*

**Feasibility of current strategy**

The current business plan for the year 2004 appears feasible with sufficient market demand to support the projections, however the goals for the individual loan product will require strong performance from staff. MFW appears to have secured adequate financing to meet the portfolio growth goals. The biggest challenges will be related to building a sufficiently trained staff for individual loans that can attract and expand significantly the individual loan product, possibly developing new products later in the year, and transitioning Area Supervisors to Regional Managers. MFW does not yet have a longer term plan, which is necessary given the limited, although not yet saturated, potential market.

One-year Business Plan	
Key Aspect	Expected Changes
Services offered and geographic coverage	<input type="checkbox"/> Maintain existing office network <input type="checkbox"/> Possible addition of service area in West Amman for individual loans later in year (loan officers would be housed in HQ) <input type="checkbox"/> Strengthen individual loan product and finalize expansion to all branches <input type="checkbox"/> Consider other non-income generation loans and microinsurance later in year
Operational methods	<input type="checkbox"/> Fully implement strategy of decentralizing MIS handling for client loan applications (hiring Administrative Officer for each branch) <input type="checkbox"/> Change role of Area Supervisor to be less administrative and more planning, training and marketing oriented <input type="checkbox"/> Hire Market Research Officer
Structure and statutes	<input type="checkbox"/> No changes expected to structure and statutes
Supervision	<input type="checkbox"/> No changes expected
Financing	<input type="checkbox"/> Funding to increase portfolio by approximately 1.4 million USD in 2004 to be raised from the Jordanian Development Employment Fund, Blue Orchard, Société Générale, and other sources

Source: Business Plan 2004

## Management Team

*General Manager has built solid management team over last two years*

### Skills and experience of management team

The General Manager has helped build a solid management team that has now been in place for over two years. He is formerly the Finance Manager within a management team whose members have all left MFW to pursue other opportunities. Several of the current members were hired directly to their positions and have prior experience in their respective fields of expertise. The position of Internal Auditor has recently been added to the group. The team includes a General Manager, a Finance Manager, an Operations Manager, and now an Internal Auditor with additional participation of a Communications and Marketing Officer and MIS Officer. To fulfill a gap in market research expertise, MFW is currently recruiting a Market Research Officer. The existing team covers all the necessary skills for current operations with external assistance via consultants and trainings being solicited notably for product development, market research, individual loan development, and more sophisticated financial analysis and ALM management.

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**Executive Director:** Bassem Khanfar has been the General Manager of MFW since August of 2001, and prior to that was the Finance and Administration Manager for MFW and a Finance and Administration Officer for Save the Children. He has almost ten years experience in microfinance mainly in Strategic Planning, Product Development, Financial Analysis and Training.

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### Definition of roles and separation of tasks

The definition of roles among the management team is clear and each has its own appropriate job description. The role and tasks of the Internal Auditor, a position in place for only three months, is still being refined.

*Goal to develop “middle management” will take time*

The greatest upcoming challenges in management roles are those of a “middle management” that MFW would like to develop. The training demands for individual credit methods and planning are significant, which could cause some bottlenecks at headquarters in the interim while the individual loan product expands. Field operations are the charge of the Operations Manager who is assisted by a Credit Supervisor dedicated to overseeing the individual loan

process. The nine branches have Area Supervisors responsible for basic oversight and branch administrative matters. MFW is transitioning the best of such staff to be Regional Managers, who would each oversee two branches, have a more management and strategic role, and take on the credit quality supervision of the individual loan officers. In addition, a planned new position of senior loan officer for both group and individual loans would support the Regional Manager. Branch level Administrative Officers, several of whom are already in training, will handle the administrative matters. While the best Area Supervisors have been retained after a rotation process across regions, their backgrounds are varied, typically not quantitative, and more focused on marketing.

#### **Communication within management team**

There are no impediments to clear communication within the management team.

## **Human Resource Management**

### *Formalized approach to skills management*

#### **Skills management: recruitment, training, and internal promotion**

MFW has a professional approach to skills management with formal job descriptions, recruitment, and staff motivation.

- Position openings are published in the local paper and candidates are pre-selected by the HR officer before being interviewed by the appropriate manager. Potential loan officers spend two days in the field as part of this recruitment process.
- MFW does maintain an annual training plan for internal and external trainings. Loan officers receive one month training in the same or different branch before disbursing loans. Other positions have training as appropriate. For example, the new administrative officers in the branches are spending one month at headquarters learning the MIS and administration prior to being assigned to the branch office.
- Salaries are considered appropriate for Jordan. Financial incentives for staff include an incentive policy for loan officers and area supervisors, which accounted for 35% of their total remuneration in 2003, and the possibility for other staff of a bonus up to one month's salary based on performance evaluation scores. The loan officer incentive system was recently updated and MFW ran historical tests to ensure that the policy would provide similar possible benefits.
- MFW has instituted many additional staff benefits to motivate staff, including: loans to staff at subsidized rates starting in 2003, service awards, mobile phones at reduced rates, health insurance, social security, purchasing plan advantages at stores, and a staff social committee to organize vacation opportunities with minor employer subsidies. MFW is considering a staff savings program akin to a pension plan.

### *Despite reasonable HR policies, staff turnover rates remain relatively high*

MFW has maintained consistently high rates of staff turnover, over 30% during four out of the last five years. MFW attributes this turnover to several factors. When MFW hires staff, they are on the payroll during the probation period and many of these departures occur during probation. For example, excluding those who dropped out during the probation period, the turnover rate for 2003 drops from 31% to 18%. It is also difficult in the region to retain female loan officers who often leave for family obligations. Furthermore, in 2003, a restructuring process to transition from Area Supervisor (one per branch) to Regional Manager (one for every two branches) resulted in an attrition of three of those Area Supervisors. MFW also has an approach to HR that encourages performance, and when staff is not meeting performance expectations they will either leave or be asked to leave. Other staff departures are attributable to a range of issues beyond the control of MFW, such as considerably higher paid employment either at an international organization or abroad. It should be noted that MFW is not the only MFI in Jordan to report challenges with staff retention.

*Long-standing practice of performance evaluation*

**Performance evaluation**

MFW has a long-standing practice of evaluating staff performance. Semi-annual evaluations are performed for all employees and documented in files. The loan officer incentive policy also serves as an on-going form of performance evaluation based on portfolio quality and the number of disbursements to new and repeat clients. MFW is continually looking for areas to improve its evaluation format. In addition, there is a clear policy regarding poor performance, and after three notices an employee may be asked to leave.

*Human resources adequately managed by HR Officer with goal for position to be more strategic*

**Skills of Human Resource Officer**

Human resources are managed adequately within the Finance Department by an HR Officer who oversees the administrative aspects as well as spearheads initiatives to change remuneration, performance evaluation methods, etc. The responsibilities of this position are larger than the tasks currently executed by the Officer and it is expected with time and training that the HR Officer will take on more of the policy aspect of HR management. In the past, Human Resources was a major cost center as separate department with a Director, a Training Officer, and a Personnel Officer. With attrition of that staff and the need to be cost efficient, the remaining Personnel Officer became an HR Officer, has an updated job description, and is now part of the Finance and Administration Department.

# Information Management and Systems

## Management Information System (MIS) and Equipment

### Description

*Tailored and fully integrated MIS*

MFW has a well-developed MIS that is in the process of decentralization to the regions. The integrated system for accounting, payroll, incentives, and loan tracking was developed for the four leading MFIs in Jordan participating in the USAID/AMIR program. The software was written in Oracle and functions on an Oracle engine. The local developer then worked with each MFI for its own adaptations and MFIs have had the opportunity to renew annually a maintenance contract for ongoing modifications.

### Computing Resources

**Access to internet:** 24-hour access at all locations

**Network:** Virtual Private Network for all offices

**Software used:** Loan Tracking System/Accounting developed by Delta Informatics (Jordan); Microsoft Office

The computing infrastructure includes approximately 35 computers and a Virtual Private Network (VPN) with all offices linked via ADSL lines. A VPN creates a secured computing network across computers in different geographic locations based on Internet technology. Computers are equipped with Windows NT software.

### Security

*Appropriate security, for electronic and paper files*

MFW has appropriate security. The main database for loan tracking and accounting is backed up daily (tape overwritten weekly) and biweekly. The tapes are stored in a fireproof safe in the headquarters and occasional CD copies are stored offsite. Individuals are asked to copy files to the network if they are to be backed up, although if they do not do so there is a risk of file loss. The system is protected with Norton Anti-Virus and updated daily. To protect the VPN, MFW has a router with Unix system for a firewall and has a second IP address. Software access requires both Windows NT and database logins, and in some cases it is possible to detect password sharing when done across different computers. Loan contracts and guarantor documents are kept in a large fireproof safe at headquarters.

### Ease of system use

*Loan treatment and accounting easy to execute; goal to decentralize*

The current system has proven easy to use thus far given the integrated nature of loan tracking and accounting systems as well as the centralization of data entry. The user interface and time required for certain queries could be improved but these are more cosmetic changes. MFW has already begun hiring and training administrative officers who would be responsible for the data entry at the branch level. With the new VPN infrastructure, MFW has real-time data accessible to those with approved access. Given the newness of the system in certain offices, staff needs additional time to grow comfortable using it.

### MIS plan and future improvements

*No additional changes expected*

There are no major changes expected to the MIS other than those initiatives already undertaken to decentralize data entry and to continue adding appropriate reports to the existing integrated loan tracking and accounting package. There will of course be ongoing updates to improve the quality of the computer stock.

### Skills of MIS Officer

*Adequate MIS skills*

MFW has an MIS Officer with an appropriate educational and professional background. He is able to satisfy hardware maintenance and make modifications to report configuration, although he may not modify the nature of the database since the source code is protected.

## Information on Activities

<i>Accurate real-time data on loan activities</i>	<b>Information quality</b> MFW has accurate, frequent, and up-to-date information on the loan activities. Active and disbursed loan data is available by loan officer, branch, and consolidated at all times, understanding that repayment data is not integrated into the system until the following day. However, it can be monitored at any time through the network connection with the Bank's database. Additionally, the system is able to track black listed clients, rejected loan applications, the number of times someone serves as a guarantor, data on client businesses, client's loans history, etc. Several offices were doing monthly data statistics manually until a few months ago as the system has only recently been installed in certain locations.
<i>Market information available from USAID/AMIR</i>	MFW has access to overall market data in large part through the USAID/AMIR program, which funded several credit demand studies on the microfinance market and enables web access to data on the total client base of the four participating MFIs. MFW has also worked with Women's World Banking periodically to perform an in-depth industry analysis that is used for business planning and strategy review. To provide regular updates of such market analysis and conduct ongoing demand research, MFW is in the recruitment process for a Market Research Officer.
<i>Increasing analysis of client business data</i>	With the introduction of individual lending, MFW has begun to collect more in-depth financial information on its clients. Data on such client businesses is now being entered into the MIS with sufficient detail to provide rich information. Several reports have been configured in the MIS or are under development to analyze business size, profitability, and growth ratios of client businesses by sector, cycle, and other characteristics. The Operations Manager on a monthly basis then reviews these reports. MFW has performed a segmentation study of the group lending clients at the Zarqa branch aimed to develop detailed client profiles by stage of development of their business activity and MFW plans to perform such analysis on an ongoing basis.
<i>Adequate information dissemination</i>	<b>Information dissemination</b> The information on activities is followed closely by headquarters, Area Supervisors, and the loan officers themselves in the context of their bonus. Monthly operational staff meetings between headquarters and area supervisors provide a forum for communication beyond the quantitative data.

## Financial and Accounting Information

<i>Accurate and up-to date accounting information thanks to MIS and clear procedures</i>	<b>Quality of information</b> MFW has accurate, frequent, and up-to-date accounting information certified by the external auditors. All accounting information is managed at headquarters with loan issuance data now entered at headquarters, and soon in the area offices, and all repayment data imported electronically at headquarters on a daily basis from the bank. There have been no notable problems in receiving the data from the bank. Integration of accounting and loan tracking data greatly reduces the workload for data reconciliation, and the preprinted loan repayment vouchers given to clients reduces potential errors by the bank in crediting client repayments. Formal reconciliation with bank account balances is performed monthly with on-going checks throughout the month.
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*Necessary tools, data,  
and skills for  
appropriate financial  
management*

**Financial management and skills of finance department**

The finance department has all the necessary skills and tools to appropriately monitor the financial performance of MFW. Accounting data and microfinance analysis ratios are available monthly by branch and on a consolidated basis, although the branch-level sustainability calculations do not take into account the full cost of headquarters. The data is available in detail and in summary form in a very clever one-page report. MFW could improve its financial management to include a more formalized approach to asset-liability management.

# Risk Management

## Procedures and Internal Controls

### Quality of procedures to limit risks

#### *Adequate internal control system*

MFW has an adequate internal control system with opportunities for continued improvement. There are written procedures for administration, financial and accounting, and credit and a user's manual for the MIS. These procedures are well understood by staff. A consultant will be hired to assist MFW in rewriting all the manuals to reflect the numerous policy changes since the prior version. The Board manual is under development.

#### *Separation of duties to limit common risks*

MFW separates duties for client selection, approval, and recording of loan transactions to minimize potential fraud risk. All disbursements and repayments are made through partner banks, eliminating cash-handling risk. To limit credit risk, area supervisors approve group loans and a credit committee at headquarters approves all individual loans. Within groups, clients may not be business partners or members of the same family and the early group cycles have a lower maximum loan size. Other administrative policies place limits on purchasing and the headquarters centralizes supply purchases over 20 JOD with three offers required.

#### *Fictive client risk to continue to monitor*

Fictive client risk was the source of an employee fraud several years ago, in 1999, and since then MFW has put in place more procedures to address this risk; notably that the Area Supervisor shall meet each new group and be present at all disbursements. The Area Supervisors are to report to the Operations Manager that they have performed at least two client visits per month per loan officer. Additionally, the Internal Auditor has begun to make regular client visits each month. MFW has an opportunity to coordinate across these levels to ensure that they have achieved the sufficient controls against fictive clients.

### Systematic controls

#### *Poor performance monitored*

Although there are no stated controls for poor performance, it is actively monitored for employees and portfolio performance. Loan officer performance is measured on an on-going basis as part of portfolio management and incentive pay calculations. Human resources policies also encourage identification of poor performance, such as through staff rotations across geographic regions.

## Internal Audit

### Internal audit procedures

#### *Experienced internal auditor hired end 2003*

Starting December 2003, MFW has on-staff a full-time Internal Auditor who reports both to the Board and the General Manager. He was hired with prior experience as both an internal auditor and external auditor. His position being new, a period of adjustment was required for staff to appreciate the role of an auditor. Several aspects of the internal audit procedures and functions are being defined, however the job description and orientation thus far intend for the Internal Auditor to address not only fraud control but also "consulting activity designed to add value and improve the MFW's operations." He therefore is looking for opportunities to improve policies and increase cost effectiveness. Board expectations for his performance and reporting requirements are being developed. Although the Internal Auditor also reports to the Executive Director, his evaluation and salary structure are determined by the Board and his job description requires an audit of headquarters work and the implementation of Board decisions.

In the beginning stages, the auditor has been splitting his time between branch visits (approximately half of his time), accounting verification (approximately one third of his time) and the balance on other matters at headquarters for work on developing the internal control and audit functions, verifying headquarters information such as human resources, and participating in credit committee and management meetings. He typically samples 10 to 15 clients per office during a visit and additionally will visit certain late clients as part of his work with the arrears committee. He has submitted a semi-annual action plan to the Board and the General Manager. It is expected that in 2005 MFW will hire an additional auditor.

#### **Quality of internal audit**

#### *Promising start for quality internal audit function*

The Internal Auditor has been developing his own tools for tracking his audit controls and will develop more formal reporting to satisfy both Board requirements and internal needs. Prior to his arrival, there were no systematic checks on compliance with procedures other than occasional checks from Area Supervisor or personnel from headquarters. As the Internal Auditor and the Board work more closely together, his independence from management will be further strengthened. His participation in the credit and arrears committees facilitates his understanding of the process and potential credit risks.

Thus far the notes he has written include findings and recommendations. Department heads are therefore required to send a memo with their response to the recommendation and the actions taken. These recommendations are related to traditional control and accounting issues as well as more organizational improvement issues, such as the institution of quarterly presentations by middle and senior management. His reporting will involve not only the audit findings and recommendations but also an analysis of MFW's global performance to complement the quantitative data provided to the Board on a monthly basis.

#### **Approach to risk management and internal controls**

The approach to risk management had not been formalized until the creation of the internal audit function. Management staff is conscious of basic principals in internal control and works to ensure that new procedures do not violate such principals.

# Activities: Products and Services

## Portfolio Management

*MFW expanding target market beyond low-income women, increasing but not yet fierce competition*

### **Market, competition, and competitive advantages**

Although in the past the four USAID/AMIR participating MFIs served relatively different market segments based on either geography or target group, they are adopting strategies that put them in more direct competition with each other in northern Jordan. MFW's market presence was focused exclusively on low-income female clients and over the past couple of years has been progressively expanding to include more registered businesses and even men. One other local MFI has begun offering individual loans at amounts equivalent to the group loan amounts offered at MFW. Additionally, banks are now offering consumer loans at lower interest rates than MFIs for those with sufficient salary guarantees. MFW's strong reputation with women will continue to serve it well. The experience with male clients, numbering approximately only 30 at the time of the rating, will be reviewed by the Board and management for the results of this pilot test. To address client concerns as noted in a client drop-out survey, MFW has lowered interest rates, provided more incentives for repeat clients, and offered monthly repayment frequency.

*Appropriate client selection and monitoring to assure strong portfolio quality*

### **Client selection, portfolio monitoring and delinquency management**

MFW has an appropriate system for client selection, portfolio monitoring, and delinquency management, as illustrated by the strong portfolio quality ratios. MFW will need to be most vigilant as it begins lending directly to men and expands its work with individual loans.

- ❑ Before any loan application is considered, the client is verified in the database to ensure he/she is not on a black list and that the loan is not granted prior to completion of any "punishment" periods when the client is not eligible for a loan.
- ❑ The group loan clients must know each other, respect the loan size caps by cycle, and conform to the policy of no greater than a one-cycle difference between group members. Loan officers visit the business but given the small loan sizes do not do a detailed cash flow analysis. There are two basic meetings in addition to the brief home visit, one to fill out the initial forms and discuss policies and the second to define group member roles (the leader and treasurer) and to review the contract orally with all the clients. At the disbursement meeting at the branch, the clients are reminded of the policies.
- ❑ The individual loan clients are selected based on business experience (at least six months in the business), the purpose of the loan, a credit risk assessment, guarantors, and current cash flow both for the business activity to be financed as well as the household. The Credit Supervisor at headquarters approves loans from 500 to 1,000 JOD and the Credit Committee approves loans of amounts greater than 1,000 JOD.
- ❑ Loan officers are expected to visit the individual clients within the week following disbursement but at a minimum must meet the client once during the loan term to ascertain if the loan funds were spent on the business intended. MFW promotes on-going client visits, which may be recorded in the client file, but these are mainly performed for delinquent clients.
- ❑ Given the relative newness of the current individual loan methodology, the Credit Committee spends a considerable amount of time on each case to ensure the quality of the application and to train the loan officers.
- ❑ Loan officers know of client delinquency quickly given that they will pick up copies of the pre-printed repayment slips from the bank at the end of the day or, in the case of an office with experience using the MIS recently installed in the branches, by accessing the common database updated daily via electronic data transfer from the banks.

*Individual loan process still new for staff*

- Late penalties of 3 JOD per day, paid either at the next payment or at the end of the loan term if the client seeks to renew the loan, as well as “punishment periods” restricting client access to a loan renewal for a certain duration, are measures used to discourage delinquency.
- Delinquent cases are referred to court after 21 days to preserve a strong image with regards to delinquency.

#### **Loan officer skills**

#### *Group loan officers sufficiently skilled*

MFW has dedicated loan officers to either the group or individual loan products.<sup>6</sup> Additional positions for senior individual and group loan officers, who will have more marketing, training and supervisory responsibilities, are envisaged for the future. The group loan product has undergone modifications but has the same basic methodological approach for the last several years. The high quality portfolio has proven that the combination of the methodology and the work of the group loan officers is effective.

#### *Individual loan officers, many new, continue to need training*

MFW and the loan officers are still mastering the individual loan methodology. The individual loan product, which began testing in late 2002, has since been introduced in six out of nine branches. Approximately half of the current ten individual loan officers are new and still require additional training. MFW is working internally on training, under the direction of the Operations Manager and the Credit Supervisor for individual loans, and with the WWB team that has visited several times for the training and implementation of the individual loan product. One of the challenges in ensuring sufficient training of individual loan officers is the lack of staff in the field capable of supervising their work. The current Area Supervisors have received trainings but are not yet capable of supervising the technical quality of their work, and in the interim the Credit Supervisor at headquarters bears the burden of trying to monitor the progress of these new loan officers across different branches in addition to her other responsibilities.

#### **Portfolio diversification policies**

#### *No formal diversification policies*

MFW has no formal diversification policies for risk management but does have operational projections by product type. The current portfolio is concentrated in the urban areas of northern Jordan, the most fertile microfinance market. At the end of 2003, the outstanding portfolio was 77 % group loans, 21% individual loans and 2% in seasonal loans.

## **Portfolio at risk**

### **Write-off ratio**

	<b>Dec. 2001</b>	<b>Dec. 2002</b>	<b>Dec. 2003</b>
Number of active borrowers	5,780	7,698	9,776
% Change	58%	33%	27%
Outstanding portfolio (end of period) USD	1,571,479	2,018,871	3,084,116
JOD	1,121,722	1,441,676	2,191,573
% Change	122%	29%	52%
Average outstanding portfolio USD	1,196,038	1,782,385	2,726,712
Average loan at disbursement USD	446	473	552
JOD	318	338	392
% of GNP/capita	29%	31%	33%
Average outstanding loan USD	272	262	315
% of GNP/capita	18%	17%	19%
PAR >31	0.1%	0.0%	0.2%
Write-off ratio (after 180 days)	0.0%	0.3%	0.1%

<sup>6</sup> The old individual loan product being phased out, an extension of the group loan product, is also managed by group loan officers.

**Consistently strong portfolio quality**

MFW has maintained consistently high portfolio quality and a low write-off ratio with both ratios being 0.3% or less over the last three years. MFW is nevertheless concerned about client cross-indebtedness, and therefore engages in informal list exchanges of active clients with one other local MFI. It should be noted that this figure is a very slight underestimate because partial payments, which may occur, are applied pro rata to interest and principal instead of being applied to interest and fees first, while penalty fees accrue separately until paid by the client.

As illustrated below, the group loan product maintains the highest portfolio quality. The seasonal loan product may experience delays in payment under 30 days, 1.1% at Dec. 31 in 2003, a high 17% at Dec. 2002, but the repayments will typically come in within 30 days. The individual loan product has the highest relative PAR31 of all the products. As the individual loan product is introduced in the remaining offices and becomes an increasing percent of the overall portfolio, its impact on portfolio quality will need to be actively monitored.

	Group Loans	Individual Loans	Seasonal Loans
Portfolio outstanding (JOD)	1,682,950	456,906	51,717
Loans outstanding	8,864	749	973 <sup>(a)</sup>
Avg. disbursed loan size (JOD, 2003)	329	890	161
PAR<30 days	0.6%	1.7%	1.1%
PAR31	0.1%	0.6%	0.0%

(a) Most of these loans are granted to existing group loan clients.

**Credit risk coverage**

**Coverage by provisions**

Provisions		2001	2002	2003
Healthy portfolio	0%	Risk coverage ratio 2868%	12643%	1047%
PAR 1-30	25%	Loan loss reserve covers over 100% of loans at risk		
PAR 31 – 60	50%			
PAR 61 – 90	75%			
PAR > 90	100%			
Write off after 180 days				

**Very high credit risk coverage**

MFW has more than sufficient credit risk coverage for loans at risk. The loan loss provision at 3% of the healthy portfolio through end 2002 accounts for this significant coverage. Starting in January 2003, MFW no longer makes a provision for the healthy portfolio.

**Coverage by guarantees**

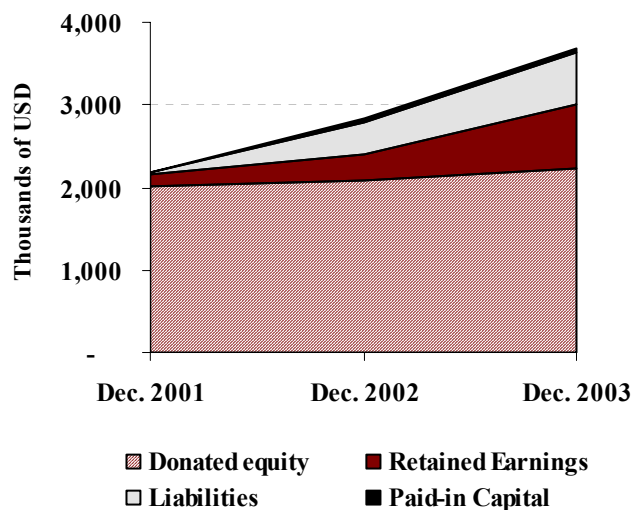
**Group guarantees and promissory notes to dissuade delinquency**

For the group loan product, group members are jointly and severally liable for the obligations of the group. For individual loans, MFW requires two guarantors who must provide a promissory note. There are difficulties executing such guarantees if taken to court given the slowness of the proceedings. Local actors seek to strengthen the laws concerning promissory notes to make this guarantee stronger. A lawyer is hired to manage the cases referred to court, when the loan is delinquent for 21 days. Currently there are approximately 23 cases in court proceedings dating from 2003 and 2004, and approximately 8 cases from 2001 and 2002.

# Funding and Liquidity

## Asset Liability Management and Financing Strategy

Description of capital structure



### *Funding predominantly through equity*

MFW has been financed predominantly by equity but in the coming year plans to finance most of its portfolio growth via loans.

- The donated equity has come predominantly from USAID provided through Save the Children and the USAID/AMIR program for loan capital, fixed assets, and operating subsidies. Rockdale Foundation has also contributed funds to MFW for loan capital and operating expenses and to a lesser extent fixed assets.
- The owners have contributed in total 33,000 JOD in share capital.
- Positive retained earnings have accumulated over the past several years and now contribute 17% of funding sources.
- MFW has two short-term lending sources. MFW has taken four tranches from Citibank under the USAID/AMIR Wholesale Funding Facility that carries a 100% principal guarantee. These loans have been issued at 6.75% in 2004 and 7.25% for tranches issued prior to 2004. The total outstanding on December 31, 2003 is 308,333 JOD. The second loan for 150,000 USD is a one-year Promissory Note from the Dexia Microcredit Fund managed by Blue Orchard Finance SA at USD 6-month LIBOR + 6.5% and due on December 23, 2004.

### *ALM risks simple to manage thus far*

#### Asset/liability management procedures

MFW does not have any major risks regarding asset/liability management procedures, but does hope to improve its own knowledge on the subject. Except for one loan in USD with a minor variable rate component, only 4% of the balance sheet, the other current and anticipated liabilities are in local currency and at fixed rates. Inflation has typically been low but increased in 2003 given geopolitical issues in the region. The portfolio is predominantly short-term, with only approximately 5% of the portfolio in principal installments due beyond 12 months; while over 83% of resources are long term in equity, thereby eliminating maturity mismatches.

*Borrowings from local and international sources expected*

**Financing strategy**

MFW is seeking to finance its portfolio predominantly through local and international lenders. The Development Employment Fund, a Jordanian governmental agency with international funding, will become MFW's largest lender, providing an expected loan of 1 million JOD at 4%. The local Société Générale affiliate has also recently granted a local currency loan for 100,000 JOD that MFW hopes will inspire other local banks to consider lending to it. Citibank, with whom MFW has the 100% guaranteed loan through a USAID/AMIR Wholesale Funding Facility, has not lent funds outside of this Facility. MFW has not been able to optimize its relationship with the Housing Bank, with which MFW has had its accounts for several years, to obtain a loan. On the international level, MFW may be pursuing additional funding from Blue Orchard and is in advanced negotiations with another international fund.

*Possibility of additional grant funds from USAID/AMIR*

Although grant funding for loan capital is not readily available to MFW, the collateral for the USAID/AMIR Funding Facility could become a source of funding. The four participating MFIs must meet a series of performance criteria to "graduate" from the program and withdraw the cash collateral currently used to guarantee their loans through Citibank. MFW expects to graduate by March 2005 and would therefore be eligible for a minimum of 745,000 JOD, the exact amount being contingent on MFW's performance as well as that of the other MFIs.

## **Liquidity Management**

*Physical security of liquidity guaranteed by bank partnership*

**Physical security of liquidity**

MFW has eliminated cash handling risk by working through a partner bank for all disbursements, made by check to the client, and repayments. Therefore MFW staff is not required to handle cash except for minor amounts of petty cash.

*Projections for the year broken out by month*

**Cash flow projections**

MFW projects cash flows on a monthly basis for the year using Microfin. Each month's disbursements and repayments are then updated based on expectations from the branches for that month. Disbursement and repayment days are organized on specific days of the month to more easily monitor cash flow. MFW does not typically have liquidity problems. Given a temporary cash shortage in early 2004, MFW delayed certain operating expenses to ensure sufficient cash to meet loan disbursement needs.

**Prudential norms and security margins**

MFW is not subject to any prudential norms regarding liquidity but seeks never to have cash on hand below 5% - 10% of the portfolio. Between January 2001 and December 2003, MFW only had month-end cash on hand balance below this margin twice.

# Efficiency and Profitability

Ratio	Dec. 2001	Dec. 2002	Dec. 2003	Formula
<b>Productivity</b>				
Staff productivity	98	126	140	Active borrowers / Number of personnel (end of period)
Loan officer productivity	175	214	208	Active borrowers / Number of loan officers (end of period)
<b>Profitability</b>				
ROA	2.4%	7.3%	14.1%	Net operating income before donations / Average assets
Adjusted	(4.5)%	0.8%	9.0%	ROA after adjustments to net income
ROE	2.4%	7.9%	16.7%	Net operating income before donations / Average equity
Adjusted	(4.6)%	0.8%	10.7%	ROE after adjustments to net income
Liabilities/Equity	1.1%	16.0%	20.5%	Total liabilities (savings + borrowings) / equity (end of period)
Portfolio Yield	43.8%	44.1%	43.3%	Portfolio revenue / 13-month average gross outstanding portfolio
Without accrued interest	43.7%	44.0%	43.3%	
Operating expenses				
Over outstanding loans	39.5%	33.3%	25.0%	Operating expense / 13-month average gross outstanding portfolio
Over total assets	23.1%	23.6%	20.8%	Operating expense/ Average assets
Funding expense ratio	0.0%	0.0%	1.4%	Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
Loan Loss Provision expense ratio	1.6%	1.6%	0.1%	Net loan loss expense / 13-month average gross outstanding portfolio
Adjustment expense ratio	13.1%	9.2%	6.1%	Total adjustments / 13-month average gross outstanding portfolio
Outstanding Loan Portfolio / Assets	72.3%	71.0%	83.8%	Net portfolio / Total assets
Operational self-sufficiency	110.0%	129.3%	163.8%	Revenue from operations / (Financial expense + Loan loss expense + Operating expense).
Financial self-sufficiency	83.4%	102.4%	133.0%	Operating self-sufficiency after adjustments to expenses

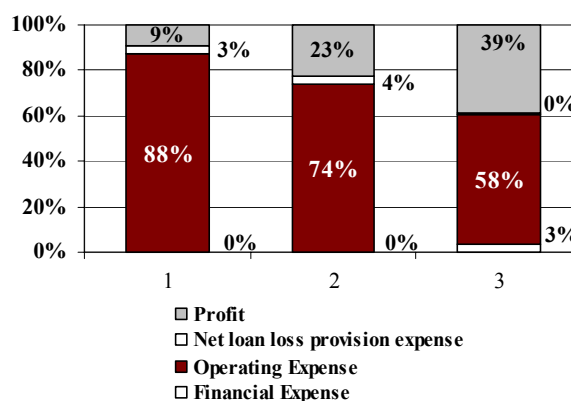
MFW's peer group for the MicroBanking Bulletin #9 of July 2003 includes Alexandria Business Associate (ABA), Dahkalya Businessmen's Association for Community Development (DBACD), and Regional Association for the Development of Enterprises of Egypt (RADE), Al Amana and FONDEP of Morocco, Al Majmoua of Lebanon, FATEN of Palestine and Jordan Microcredit Company (JMCC) of Jordan.

## Operational self-sufficiency

*Increasing operational self-sufficiency given significant increase in profit margin*

MFW has achieved operational sustainability since 2001, with a strong 163.8% in 2003. These results are due to a significant decrease in the operating expense ratio while the portfolio yield has remained relatively constant. The profit margin has therefore grown from 9% to 39% over three years and is considerably higher than both its peers in the MENA region and other MFIs worldwide.

Expenses and Profit as a % of Revenue



## Return on assets (ROA) and Return on equity (ROE)

*ROA and ROE both strong*

The ROA and ROE are both very strong over the last couple of years and significantly higher than those of MFW's MBB peers. Given the very low leverage, only 0.2 in 2003, the ROA and ROE are not significantly different. MFIs in the MENA region are heavily funded by equity and tend to have lower leverage than MFIs in other regions of the world.

*Stable portfolio yield will decline in the future with interest rate cuts*

#### **Portfolio yield and effective interest rate**

MFW's portfolio yield, relatively constant over the last several years, is at 43.3% in 2003. Given interest rate cuts in 2004, this yield is expected to drop considerably by approximately 7 percentage points. The individual loan and group loan products have a relatively similar pricing structure but the seasonal loan does have a higher annual effective interest rate. Given strong profitability and potential pressure from competition in the future, it is expected that the portfolio yield will decline. In 2004, MFW has already lowered interest rates and fees overall in addition to financial incentives in the form of lower interest and fees for clients who renew loans.

*Significant reductions in operating expense ratio over last three years*

#### **Operating expense ratio**

The operating expense ratio has dropped considerably, from 40% in 2001 to 25% in 2003 as the portfolio growth of 95% between end 2001 and end 2003 outpaced the growth in expenses over the same period at 44%. MBB peer comparisons for 2002 data reveal that both personnel and overall operating expenses as a percent of the loan portfolio are higher at MFW than other actors in the region and significantly higher than all MFIs. Within Jordan this ratio is still several percentage points higher than several local competitors. As MFW reaches greater economies of scale, MFW should in the future perform closer to its regional peers reporting to the MBB, who are typically much larger in scale.

- ❑ Salary costs as a percent of all operating costs have remained relatively stable at 66% in 2001, 69% in 2002 and 68% in 2003 despite a year-end increase of 9 employees in 2003.
- ❑ Rent, utilities, and office supplies are just under 10% of operating expenses with telecommunications at 2.9%.
- ❑ Travel and vehicles are not a significant cost center at less than 2%. Depreciation costs for all assets totals 4.3%.
- ❑ Training and promotional expenses are each approximately 2.2% of operating expenses while professional services total only 1.8%.
- ❑ Among the other fees, bank fees for deposits and other transactions total 3.1% of operating expenses. Starting in November 2002, MFW began paying for the transactions that pass through the partner bank for loan disbursements and repayments, which previously were free.

*Funding expense ratio very low but expected to increase*

#### **Funding expense ratio**

Until 2003, MFW had not incurred any costs for funding its activities as the first loan was contracted in December 2002. The ratio in 2003 of 1.4% is still minimal, however this is expected only to rise in the future, as new portfolio funding will be coming predominantly from lenders charging between 4% and 7.5% per annum.

#### **Loan loss provision expense ratio (cost of risk)**

Given the high level of portfolio quality, the loan loss provision expense has remained modest at 1.6% in 2001 and 2002 and only 0.1% in 2003 given the change in provisioning policy January 2003 to not include a provision for the healthy portfolio.

*Financial self-sufficiency achieved after adjustments*

#### **Adjustment expense ratio and financial self-sufficiency**

According to Planet Rating's adjustment methodology, MFW achieved financial self-sufficiency in 2002 at 102% and has improved to 133% in 2003. The standard adjustments were predominantly cost of funds for 74% of adjustment expenses, inflation for 9%, and in-kind donations of training and technical assistance for 17%.

*Resources increasingly invested in productive assets*

#### **Management of non-portfolio productive assets**

MFW has increasingly invested its resources in the portfolio and thereby decreased its investment in non-productive assets. The cash on hand in 2003, at 8%, is a much smaller percent of assets as compared with 22% in 2001 and 26% in 2002. There are currently no

investments and cash in bank accounts receive minimal income. Fixed assets have remained a stable percent of the balance sheet, between 4% and 5% over the last three years and there is no expectation that this will change significantly in the future. Recently added hidden costs are the subsidized loans to employees that comprise 2.8% of total assets in 2003.

*Staff productivity increasing greater than loan officer productivity*

#### **Personnel productivity**

Overall staff productivity has continued to increase over time, at 98 in 2001 to 140 in 2003, while loan officer productivity has declined somewhat with expansion into individual loans, at 175 in 2001, 214 in 2002, and 208 in 2003. Loan officers are becoming an increasingly larger percent of all staff, from 56% in 67% in 2003, helping to improve overall staff productivity ratios despite the lack of increase in loan officer productivity. Expectations for individual loan officers remain low at 150 clients given the newness of the product to MFW. The group loan officer goal is 400. In March 2004, the average number of loans per loan officer for the group product was 313 and the individual loan product only 55, illustrating that the individual loan officers are significantly bringing down the productivity averages given both the difference in caseload expectations, the newness of the product, and the fact that the individual loan officers are new to MFW, most being hired since the end of 2002.

*Profitability outlook positive, although at somewhat lower levels*

#### **Profitability outlook**

MFW's profitability outlook is positive, although the level of profitability is expected to decline in the short-term.

- ❑ A reduction in interest rates charged to clients will bring down the portfolio yield in 2004. Reductions expected for first individual loans are from 21.6% to 18% nominal annual rate, for the group loans from 21% to 18%, and a very modest decrease in the seasonal loan product rate.
- ❑ Funding expenses are expected to increase as MFW seeks to attract additional commercial or semi-commercial rate liabilities.
- ❑ In 2004, operating expenses are estimated to be at over 642,000 JOD, a 33% increase from 2003 notably with the addition of 8 or 9 new Administration Officers at the branch level and 13 new loan officers, although the portfolio growth is expected to exceed this at 46%, leading to a lower operating expense ratio.
- ❑ MFW will continue to benefit from several consulting assignments at below market rates. In 2004 WWB will provide technical assistance on individual lending, client research, policy and legal issues, process mapping, strategy review, and other issues for which MFW will pay for half of the billable days at a subsidized rate.
- ❑ The increasing economies of scale and increases in productivity for the individual loan product will certainly help to preserve profitability.
- ❑ There is one legal case pending against MFW from a former employee regarding employment termination, but this is not a potential liability with material impact on MFW's financial performance.

# Appendices



## Financial Statements and Notes

Microfund for Women Balance Sheet	Notes	JOD			USD			% Change	
		Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2001	Dec. 2002	Dec. 2003	Y2 / Y1	Y3 / Y2
<b>ASSETS</b>		<b>1,551,840</b>	<b>2,031,734</b>	<b>2,614,264</b>	<b>2,174,054</b>	<b>2,845,167</b>	<b>3,678,953</b>	<b>31%</b>	<b>29%</b>
<b>Short Term Assets</b>		<b>1,479,545</b>	<b>1,945,126</b>	<b>2,491,286</b>	<b>2,072,772</b>	<b>2,723,885</b>	<b>3,505,891</b>	<b>31%</b>	<b>28%</b>
Cash and Bank Deposits		341,480	534,122	221,556	478,397	747,965	311,787	56%	(59)%
Net Short Term Financial Assets		-	-	-	-	-	-		
Net Short Term Loan Portfolio		1,086,277	1,389,486	2,138,761	1,521,823	1,945,786	3,009,796	28%	54%
Gross Short Term Loan Portfolio	1	1,121,722	1,441,676	2,191,573	1,571,479	2,018,871	3,084,116	29%	52%
(Loan Loss Reserve)		35,445	52,190	52,812	49,657	73,085	74,320	47%	1%
Interest Receivable		831	1,164	1,563	1,164	1,630	2,200	40%	34%
Other Short Term Assets	2	50,957	20,354	129,406	71,388	28,503	182,108	(60)%	536%
<b>Long term assets</b>		<b>72,295</b>	<b>86,608</b>	<b>122,978</b>	<b>101,282</b>	<b>121,283</b>	<b>173,062</b>	<b>20%</b>	<b>42%</b>
Net Long Term Financial Assets		-	-	-	-	-	-		
Gross Long Term Loan Portfolio	1	-	-	-	-	-	-		
Net Fixed Assets	3	72,295	86,608	122,978	101,282	121,283	173,062	20%	42%
Other Long Term Assets		-	-	-	-	-	-		
<b>LIABILITIES AND EQUITY</b>		<b>1,551,840</b>	<b>2,031,734</b>	<b>2,614,264</b>	<b>2,174,054</b>	<b>2,845,167</b>	<b>3,678,953</b>	<b>31%</b>	<b>29%</b>
<b>Liabilities</b>		<b>16,954</b>	<b>280,390</b>	<b>444,233</b>	<b>23,752</b>	<b>392,648</b>	<b>625,152</b>	<b>1554%</b>	<b>58%</b>
<b>Short term liabilities</b>		<b>16,954</b>	<b>280,390</b>	<b>444,233</b>	<b>23,752</b>	<b>392,648</b>	<b>625,152</b>	<b>1554%</b>	<b>58%</b>
Demand Deposits		-	-	-	-	-	-		
Short Term Deposits		-	-	-	-	-	-		
Short Term Borrowings	4	-	250,000	414,683	-	350,091	583,567		66%
Other Short Term Liabilities		16,954	30,390	29,550	23,752	42,557	41,585	79%	(3)%
<b>Long term liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		
Long Term Deposits		-	-	-	-	-	-		
Long Term Borrowings		-	-	-	-	-	-		
Other Long Term Liabilities		-	-	-	-	-	-		
<b>Equity</b>		<b>1,534,886</b>	<b>1,751,344</b>	<b>2,170,031</b>	<b>2,150,303</b>	<b>2,452,519</b>	<b>3,053,801</b>	<b>14%</b>	<b>24%</b>
Paid-In Capital	5	33,000	33,000	33,000	46,231	46,212	46,440	0%	0%
Donated equity	6	1,406,122	1,459,479	1,550,547	1,969,910	2,043,802	2,182,025	4%	6%
Retained earnings without donations		95,764	225,865	553,484	134,161	316,294	778,897	136%	145%
Current year		34,948	130,101	327,619	48,960	182,189	461,046	272%	152%
Previous year		60,816	95,764	225,865	85,201	134,105	317,851	57%	136%
Reserves	5	-	33,000	33,000	-	46,212	46,440		0%

Microfund for Women Income Statement	Notes	JOD			USD			% Change	
		Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2001	Dec. 2002	Dec. 2003	Y2 / Y1	Y3 / Y2
<b>Financial revenue (a)</b>		<b>384,698</b>	<b>574,193</b>	<b>841,290</b>	<b>538,944</b>	<b>804,079</b>	<b>1,183,915</b>	<b>49%</b>	<b>47%</b>
Revenue from portfolio		373,575	561,222	839,861	523,360	785,915	1,181,904	50%	50%
Interest received on loans		337,952	515,084	742,198	473,454	721,305	1,044,467	52%	44%
Fees and commissions received on loans		33,450	39,790	77,869	46,862	55,720	109,582	19%	96%
Penalty revenue on loans		2,173	6,348	19,794	3,044	8,890	27,855	192%	212%
Revenue from other financial assets	7	11,091	4,169	-	15,539	5,838	-	(62)%	(100)%
Other revenue from financial services	8	32	8,802	1,429	45	12,326	2,011	27406%	(84)%
<b>Financial Expense (b)</b>		<b>-</b>	<b>-</b>	<b>28,050</b>	<b>-</b>	<b>-</b>	<b>39,474</b>		
Interest paid on borrowings	9	-	-	28,050	-	-	39,474		
Interest paid on deposits		-	-	-	-	-	-		
Other expenses related to financial services		-	-	-	-	-	-		
<b>Financial income [c=a-b]</b>		<b>384,698</b>	<b>574,193</b>	<b>813,240</b>	<b>538,944</b>	<b>804,079</b>	<b>1,144,441</b>	<b>49%</b>	<b>42%</b>
<b>Operating expense (d)</b>		<b>337,186</b>	<b>423,752</b>	<b>483,984</b>	<b>472,381</b>	<b>593,407</b>	<b>681,092</b>	<b>26%</b>	<b>14%</b>
Staff expense (includes staff benefits)		222,849	293,599	330,471	312,201	411,145	465,059	32%	13%
Non-staff operating expense (administrative expenses)		114,337	130,153	153,513	160,181	182,262	216,033	14%	18%
Depreciation and amortization		10,851	15,786	20,771	15,202	22,106	29,230	45%	32%
Consulting, auditing and rating		6,643	6,644	8,682	9,306	9,304	12,218	0%	31%
Rent, utilities, office supplies and others		96,844	107,723	124,060	135,673	150,851	174,585	11%	15%
<b>Operational income before provision [e=c-d]</b>		<b>47,512</b>	<b>150,441</b>	<b>329,256</b>	<b>66,562</b>	<b>210,672</b>	<b>463,349</b>	<b>217%</b>	<b>119%</b>
<b>Net Loan Loss provision expense (f)</b>		<b>12,564</b>	<b>20,340</b>	<b>1,637</b>	<b>17,602</b>	<b>28,483</b>	<b>2,304</b>	<b>62%</b>	<b>(92)%</b>
Loan loss provision expense and write off		13,311	20,546	2,235	18,648	28,772	3,145	54%	(89)%
Recovery from Loans written off		747	206	598	1,046	288	842	(72)%	190%
<b>Net operating income before taxes and donations [g=e-f]</b>		<b>34,948</b>	<b>130,101</b>	<b>327,619</b>	<b>48,960</b>	<b>182,189</b>	<b>461,046</b>	<b>272%</b>	<b>152%</b>
Income Taxes (h)		-	-	-	-	-	-		
<b>Net Operating Income Before Donations [i=g-h]</b>		<b>34,948</b>	<b>130,101</b>	<b>327,619</b>	<b>48,960</b>	<b>182,189</b>	<b>461,046</b>	<b>272%</b>	<b>152%</b>
Non-operating revenue (j)		-	-	-	-	-	-		
Non-operating expense (including related taxes) (k)		-	-	-	-	-	-		
<b>Net Income Before Donations [l=i+j-k]</b>		<b>34,948</b>	<b>130,101</b>	<b>327,619</b>	<b>48,960</b>	<b>182,189</b>	<b>461,046</b>	<b>272%</b>	<b>152%</b>
Revenue From Donations (m)	10	153,794	86,357	91,068	215,458	120,931	128,156	(44)%	5%
<b>Net Income</b>		<b>188,742</b>	<b>216,458</b>	<b>418,687</b>	<b>264,418</b>	<b>303,120</b>	<b>589,202</b>	<b>15%</b>	<b>93%</b>

**General notes to financial statements per CGAP Disclosure Guidelines**

1. The financial statements presented include a balance sheet, income statement, and accompanying notes.
2. The financial statements provided include three complete years of data.
3. MFW is not considered a multi-service institution.
4. Portfolio reporting
  - (1) The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated monthly and additional amounts added to the reserve are expensed in the income statement through a separate account. The schedule of provisions by age category is presented in the section Credit Risk Coverage.
  - (2) Loans are written off on a monthly basis when a loan installment is overdue 180 days and legal action has been taken. Such legal action is usually taken early, after a loan installment has been delinquent for over 21 days.
  - (3) MFW accrues interest on late loans at the end of the year until the loan is collected or written off.
5. Portfolio quality
  - (1) Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).
  - (2) MFW does not refinance loans and will not rescheduled loan terms. Prepayments may be applied to the next payment due.
  - (3) Loans to employees are not included in the loan portfolio and have no impact on portfolio quality figures.
6. Donations
  - (1) Revenue from donations is shown separately in the income statement.
  - (2) Please refer to Note 10 for the donations received over the last three years. It should be noted that virtually the entire amount of donated equity has come from Save the Children and USAID.
  - (3) All grant income is passed through the income statement.
  - (4) Please refer to the appendix on Adjustments for details on in-kind donations.
  - (5) These financial statements segregate the equity received from donations from the equity earned from profits based on Planet Rating’s approximations.
7. Details of liabilities
  - (1) MFW has two funding liabilities as of Dec 31, 2003. Please refer to Note 4 of the financial statements.
  - (2) MFW does not collect savings.
8. Other significant Accounting Policies
  - (1) MFW’s accounting is performed on an accrual basis.
  - (2) The depreciation of fixed assets on a straight-line basis using the following schedule in the table.
  - (3) No exchange gains or losses have yet been recorded in the financial statements for MFW.

Asset Class	Useful Life in Years
Fixtures and fittings	10%
Computers	20%
Office equipment and other tools	15%

## Specific notes to the financial statements

These financial statements are based on audited data for years 2002 and 2003. The auditor reclassified certain items in 2002 to better compare with 2003 figures, which we also used for ease of comparison. The 2001 year data is from unaudited statements for comparison purposes as the audited statements ending 12/31/2001 were for a 15-month and not a 12-month period. The external auditors have certified MFW accounts for these years and have made few adjustments from the internally produced financial statements.

### Balance Sheet

1. This amount is the gross portfolio minus write-offs as of Dec 31st of the year. MFW has begun granting loans for final loan terms of 18 months, although the amount of principal due after 12 months is not a significant percentage of the overall portfolio at present.
2. In 2001, 11,946 in prepaid expenses and 32,705 JOD in accounts receivable and 6,306 JOD expected from Save the Children. In 2002, 16,993 JOD in prepaid expenses and 3,361 JOD in accounts receivable. In 2003, 18,812 JOD in prepaid expenses, 36,715 JOD in accounts receivable (mainly an expected grant from USAID/AMIR of approx. 33,000 JOD, and 73,879 JOD in loans to employees). Employee loans were authorized in 2003 and have been disbursed to 27 employees with an average loan size of 3,200 JOD, an average loan term of 34 months and a subsidized interest rate that varies according to seniority.
3. In the latest year, 2003, these fixed assets have a net book value of 37,764 JOD for furniture, 16,655 JOD for tools and equipment, 64,500 JOD for computers, and 4,059 JOD for vehicles.
4. In 2002, from Citibank only. In 2003, 106,350 JOD from Blue Orchard, signed December 2003, payable monthly through December 2004 at 6-month USD LIBOR plus 6.5% and 308,333 JOD from Citibank, payable monthly through December 2004 at 7.25%.
5. These funds have been considered share capital for several years, however the actual contribution of funds to share capital was received from owners in 2002 and a corresponding statutory reserve was created in the same amount.
6. Estimates by Planet Rating of the portion of equity attributable to donations.

### Income Statement

7. Revenue from bank deposits.
8. This amount includes 6,700 JOD in 2002 and 694 JOD in 2003 for training revenue.
9. Interest and fees paid for loan from Citibank.
10. This amount includes donations and grants for operating expenses, fixed assets and loan capital. In 2001, these funds are from: USAID/AMIR in the amount of 97,158 JOD for loan capital, 19,671 JOD for fixed assets, and 18,702 JOD for operating expenses; from Rockdale Foundation 14,000 JOD for loan capital, 2,676 JOD for operating expenses, and 487 JOD for fixed assets; and donations of 1,100 JOD. In 2002, these funds are from: Rockdale Foundation in the amount of 43,471 JOD for loan capital, 9,476 for operating expenses, and 160 JOD for fixed assets; owner contributions for share capital of 33,000 JOD (Save the Children and Mr. Ghiath Sukhtian); and 249 JOD from Save the Children in the form of a donation. In 2003, these funds are from: USAID/AMIR in the amount of 30,278 JOD for fixed assets; and Rockdale Foundation in the amount of 23,355 JOD for loan capital, -39,412 JOD for operating expenses, and 430 JOD for fixed assets. In the audited financial statements, there is an additional 37,045 JOD from Rockdale Foundation for the opening of the Jerash office that was accounted for in 2003.

## Adjustments

MFW Adjustments (JOD)	2001	2002	2003
<b>Adjustment for the cost of funds = A * F - G</b>	<b>100,129</b>	<b>98,463</b>	<b>88,221</b>
A. Funding needs = (b - c)	770,221	1,094,033	1,550,278
b. Avg monthly difference between portfolio and savings	853,732	1,272,801	1,937,601
% savings that may be on lent	0%	0%	0%
c. Equity that used to finance the portfolio= d * e	83,511	178,767	387,323
d. Avg equity, net of donations	98,249	210,315	455,675
e. % of equity that may be on lent	85%	85%	85%
F. Shadow price of borrowings	13.0%	9.0%	7.5%
G. Interest expense on borrowings	-	-	28,050
<b>Adjustment for inflation = (H + I - A - J) * K</b>	<b>4,200</b>	<b>8,453</b>	<b>10,697</b>
H. Avg. equity net of donations	98,249	210,315	455,675
I. Average donated equity	1,329,225	1,432,800	1,505,013
J. Average fixed assets	57,232	79,452	104,793
K. Inflation rate	0.7%	1.8%	3.5%
<b>Adjustment for in-kind donations</b>	<b>7,138</b>	<b>9,640</b>	<b>19,897</b>
Staff and technical assistance	7,138	9,640	19,897
Other	-	-	-
<b>Adjustments for provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>
Loan losses	-	-	-
Other risks	-	-	-
<b>Other adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total adjustments</b>	<b>111,467</b>	<b>116,557</b>	<b>118,814</b>
Net income before donations	34,948	130,101	327,619
<b>Adjusted net income before donations</b>	<b>(76,519)</b>	<b>13,544</b>	<b>208,805</b>

Planet Rating performs the following adjustments for the calculation of financial self-sufficiency:

- ❑ Inflation adjustment: to account for the net effect of inflation on equity and fixed assets;
- ❑ Cost of funds adjustment: to estimate the cost that the institution would have paid if it financed itself at market rates. This adjustment accounts for the cost savings received from donated funds or concessional loans used to finance the portfolio;
- ❑ In-kind donations: to account for the hidden cost of resources received that do not appear on financial statements, such as free consulting services, trainings, or use of property. In the case of MFW, this includes trainings provided by USAID/AMIR and below-cost consulting services provided by WWB; and
- ❑ Loan loss provision adjustment: to standardize loan loss provision adjustments to the international standards similar to those used in the MicroBanking Bulletin. Given MFW's already adequate loan loss reserve policy, no additional expense was made in this case.