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# SME STRATEGY AND BUSINESS PLAN

An Interim Report for Bank C

25 March 2008

This publication was produced for review by the United States Agency for International Development. It was prepared Kevin O'Brien, BearingPoint, Inc.

# **SME STRATEGY AND BUSINESS PLAN**

AN INTERIM REPORT FOR BANK C

SUSTAINABLE ACHIEVEMENT OF BUSINESS EXPANSION AND  
QUALITY (SABEQ)

CONTRACT NUMBER: 278-C-00-06-00332-00

BEARINGPOINT, INC.

USAID/ OFFICE ECONOMIC GROWTH (EG)

APRIL 03, 2008

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## **DISCLAIMER:**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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# ACKNOWLEDGEMENT

We gratefully acknowledge the direction received from Mr. [REDACTED] Managing Director and CEO and Mr. [REDACTED], Deputy CEO. We also acknowledge the support received from Ms. [REDACTED], Senior Manager and Ms. [REDACTED], Head of Marketing and Product Development. Finally, we recognize the assistance received from other members of the management team.

# EXECUTIVE SUMMARY

## **Background, Meetings and Report**

Following meetings with nine banks, [REDACTED] Bank (the Bank) was one of three banks in Jordan selected for consultancy work under the SABEQ Program. Several meetings were held at the Bank. This Report covers the Bank's SME Strategy and Business Plan (the SME Plan), the Bank's Credit Policies and an Interim Strategy proposed by the Advisor. This Report is subject to SABEQ's non-disclosure and confidentiality letter shown in APPENDIX A.

## **SME Plan**

The Advisor reviewed the Bank's SME Plan, which is a well-conceived and informative document. This Report contains suggestions for revisions before presentation at senior executive levels including those made in APPENDIX C. The Bank has assembled an impressive team of officers and the Advisor is confident in their abilities to implement the SME Plan.

### *Next Steps & Recommendation:*

- Revise slides and narrative for presentation of SME Plan at the board level and receive approval
- Consider including a recommendation for an Interim Strategy
- Commence implementation of SME Plan

## **SME Interim Strategy**

The Advisor recommends consideration of an Interim Strategy to keep existing clients from leaving the Bank during implementation of the SME Plan. If approved, the Interim Strategy would test one or two short term loan products on a pilot basis and would cap total exposure. A revised credit process and policy would be designed to process these loan applications efficiently using a new scoring process. Training would precede testing and rollout. Results and performance would be carefully observed, tracked and reported to management on a regular basis.

### *Next Steps & Recommendation:*

- Assign Bank team to design the pilot loan program for existing clients
- Establish length of pilot period and exposure ceilings
- Revise credit process and scoring for loan applications
- Rollout pilot loan products
- Carefully observe results, performance and recommend adjustments

## **SME Credit Policy**

Approval of the SME Plan will include a revision of the existing Credit Policy and Guidelines Manual (the Manual). This process will take time and a concerted effort. The SME Plan is not approved so the advisor is not well-positioned to critique the Manual. However, as requested by the Bank's management, the Advisor made observations on some areas of the Manual including the SME definition, role of SME officers, credit process and scoring model, and loan authority.

Moreover, the experience gained from implementation of the Interim Strategy would greatly assist those working on a revised Manual.

### *Next Steps & Recommendation:*

- Form a group from the Holding Company and Bank to begin work on a revised Manual
- Set goals, timeframes and deliverables
- Review the Bank team approach for revisions under the pilot program (previous section)
- Consider decentralized loan authority at lower levels
- Recommendations to senior management should be based in part on 3 – 6 months of performance of pilot program
- Present recommendations to senior management.

## **Future Advisor Role**

The Advisor welcomes the opportunity to provide further support to the Bank. If approved by SABEQ, the Advisor is willing to assist the Bank in drafting terms of reference for other outside advisors such as other management or technology consultants.

# BACKGROUND AND SOW

## Introduction

The Credit Advisor (the Advisor) worked in Jordan between February 24 and March 13. His Scope of Work (SOW) was assigned under the USAID funded Sustainable Achievement of Business Expansion and Quality Program (SABEQ). This report (the Report) is one of the deliverables required under the SOW.

## Expected Results from the Consultancy

Banks in Jordan will have a greater understanding of SME product development and SME risk mitigation strategies, which can lead to increased SME lending.

Individual banks, particularly those establishing SME lending divisions, will have their specific needs addressed.

## Specific Tasks and Schedule

Lead panel discussion at a BDC sponsored Conference on SME product development

Make presentation at the Conference on SME risk mitigation strategies

Meet with all banks that have expressed interest in SABEQ individual consultancies (two meetings for each bank)

Propose a work plan with concrete goals for each bank and expectations for following up with information related to the consulting areas

Analyze information from each bank and do preparatory work for follow-on visit.

## Meetings and Issues

The Advisor met with nine banks as shown below. Follow-on consultancy work was considered based on preliminary phone conversations, introductory meetings, the level of management commitment and the matching of identified needs with near term goals. These considerations and ratings are summarized in the table below.

<b>Bank</b>	<b>Prelim Response</b>	<b>Senior Management</b>	<b>Identified Need</b>	<b>Near Term Goals</b>
1. Bank	Medium	VP Level	No	Unknown
2. Bank A	Strong	GM Level	Yes	Yes
3. Bank B	Strong	Local Manager	Yes	Yes
4. Bank	Strong	Deputy GM Level	Unknown	Unknown
5. Bank	Medium	Mid Level	No	Unknown
6. Bank C	Strong	Deputy GM/CCO	Yes	Yes
7. Bank	Strong	Deputy GM	Various	Unknown
8. Bank	Medium	Mid Level Manager	Unknown	Unknown
9. Bank	Strong	Mid Level	Various	Unknown

<b>Bank</b>	<b>Total assets (yr end 2006 – Mill JDs)</b>	<b>Loan to deposit ratio<sup>1</sup></b>	<b>SME Portfolio (direct loans – Mill JDs)/Number of clients.</b>
Bank A	████████	95%	████████
Bank B	████	%	/
Bank C	████	%	/

████ Bank was one of three banks selected for follow-on work and is referred to as "Bank A" in the above tables and as the "Bank" in the rest of this Report.

The Bank is a respected institution with growing financial means. An introductory meeting was held with the Bank's CEO and Deputy CEO and two follow-up meetings were held with the Deputy CEO, the Senior Manager, the Head of Marketing and Product Development and several other managers. The CEO has deep banking experience at senior levels with a large European bank. The Deputy CEO is an experienced project lender with diverse financial sector experience. Both the Senior Manager and Head of Marketing provided detailed answers to questions and were highly professional throughout the consultancy. It should be noted that the Advisor has work closely with five banks in Jordan and none have been more transparent and forthright with information.

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<sup>1</sup> Simple ratio of net loans shown on balance sheet to customer deposits

The Bank is serious about the SME market and appears prepared to invest sufficient resources to realize its objectives. More importantly, the Bank will hire one or more consultants in the process that will provide expert guidance. This Bank is somewhat unique in that it has an active, dedicated team working to draft and implement a SME Strategic Plan (the SME Plan). This Report will focus on the SME Plan, an interim strategy and the current Credit Policy and is subject to SABEQ's non-disclosure and confidentiality letter shown in APPENDIX A. Details of meetings and discussions with the Bank are found in APPENDIX B.

# SME PLAN

The Advisor has reviewed the SME Plan and his comments are shown in APPENDIX C. Overall, the SME Plan is well conceived and informative. The following table is meant to show how the SME Plan compares with the basic components and related purposes of similar plans. The far right hand column should be read in conjunction with APPENDIX C.

<b>Component</b>	<b>Purpose</b>	<b>ABC SME Plan</b>
Executive Summary	Gives a synopsis of the plan and summarizes highlights	Addressed. However, synopsis and highlights need work.
Vision/Mission	Presents a picture of the present state of the Bank's SME business, ideas of what it should be and what it will look like, and the goals and objectives on how to get there	Addressed in Sections 2, parts of 3 and 7. The writer could consider a separate Section on Vision/Mission that takes key parts from these Sections.
SME Banking Unit	Offers basic information about the Bank's proposed banking unit: its structure, management, staffing and strategic partners	Addressed in Section 8
Product/Service Strategy	Reviews current credit and banking products and what makes them competitive and valuable (and vice versa) to SME clients. Propose changes. Also covers future research and development plans for new products and services	Addressed to some extent in Section 7.2. The writer recognizes more work is needed in this area. Perhaps the SME Plan should include the Bank's desire to transform large OD usage to structured working capital loans.
Market Analysis	Defines the market, its demographics and the realities of target SME clients, competitors' products and services, and the business risks	Addressed in detail in Section 5 (with Annexes). Excellent competitor analysis in Section 6.
Marketing Plan	Presents sales strategy and means of communication including advertising, promotion and public relations	Addressed in Section 7.8. It appears a detailed marketing strategy will come later.
Financial Plan	Analyzes the business unit's capital requirements and risk-adjusted profit potential; presented in a spreadsheet format over several years	Addressed in Section 9.
Supporting Documents	Studies and other information that amplify key parts of the strategic plan	Annexes are provided.

# INTERIM SME STRATEGY

## INTRODUCTION

The Bank realizes that formidable competition exists for the SME business and more banks are expected to enter the market. Moreover, the Bank seems to be fighting a losing battle for SME business based on the Advisor's discussions with two branch managers (see APPENDIX B). The Advisor was given no empirical data but experienced branch managers generally know their business and are often correct. Why? Because they handle clients, loan applications and the scramble for new business every work day. If these two managers are right, and their experience is representative of trends in other branches, the question must be asked: what should the Bank do until a SME Plan is approved and implemented? There are three basic options.

### OPTION 1 – NO CHANGE

Wait until the SME Plan is approved and implemented. Keep the current SME credit process/policies in place in the near term but increase the focus on existing SME clients. Consider reduced pricing where appropriate for SME customers along with more marketing and recruitment of support staff.

**Advantages:** No near term changes to existing SME credit process/policies is a conservative approach consistent with past practice. This option will be perceived as less of a threat and is likely more attractive internally. Reduced pricing and increased advertising and support staff may allow the Bank to retain some SME loan clients. SME loans represent a small part of the portfolio so the Bank risks losing insignificant income.

**Disadvantages:** Without near term changes to existing credit process/policies, the Bank will continue to lose SME business opportunities (new and existing) to more aggressive competitors. More marketing and support staff is not likely to matter. Better pricing is of little comfort when new loan applications are denied 90% of the time<sup>2</sup>.

### OPTION 2 – MAJOR CHANGE

Recommend radical changes to the SME credit process/policies before the SME Plan is implemented.

**Advantages:** The Bank could aggressively pursue SME business in the near term, and compete on a more level "playing field".

**Disadvantages:** Client service and credit quality may suffer until other pieces of the SME Plan are in place. For these and other reasons, this option is likely unacceptable to senior management.

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<sup>2</sup> Denial rate estimated by one Branch Manager

### OPTION 3 – COMBINATION

Consider an interim strategy that will combine parts of Option 1 and Option 2.

One example: Keep the existing credit process/policies for most loan applications until the SME Plan is implemented. Develop one or two short term loan products for the Bank's existing clients for delivery after credit process/policies are revised for these products. Consider a pilot program to observe results and track performance.

Amount – relatively modest amount, e.g. up to [REDACTED] JDs

Tenors – short term up to 180 days with 180 day renewal

Purpose – finance inventory or accounts receivable

Eligibility – minimum of one year relationship with the Bank

General credit process/procedures – do not change some collateral and process requirements

Paperwork – consider ways to reduce

Credit scoring – re-engineer to better suit the SME applicant and the market

Turnaround – goal should be 5 days or less from date of completed loan application

Ceiling on Exposure – set total credit limit for all exposure under the pilot program.

Advantages: Testing and roll out of one or two competitive loan products in the near term will allow the Bank to:

- Maintain and perhaps increase business with existing clients
- Gain valuable experience with a revised credit process for SME lending; lessons learned could apply to revision of the credit process overall
- Answer questions about the SME Plan better addressed with experience
- Introduce credit discipline, e.g. replace large overdraft exposures with more structured working capital loans.

Disadvantages: Higher costs are inevitable during the pilot program:

- The Bank will need to process SME loan applications using a revised credit process and the existing process, depending on eligibility under the pilot program. Two processes cost more than one
- Higher NPLs may occur near term, until the pilot program is assessed for adjustments
- Different training is essential for credit officers, branch managers and support staff.

Another disadvantage is that most of the changes to the existing credit scoring model will be based on subjective credit judgment. The Bank is unable to draw on a good data base from its SME loan files or from regional sources.

# REVIEW: SMALL BUSINESS CREDIT POLICY / GUIDELINES

## INTRODUCTION

The Advisor reviewed the Bank's Small Business – Credit Policy and Guidelines Manual (the Manual) consisting of 53 pages of narrative and 15 pages of appendices<sup>3</sup>. The Advisor was informed that the Manual was prepared at the Holding Company level. Its stated purpose is to "define the parameters, procedures and methods by which the Bank extends credit" and its objective is to "maintain a high standard of quality on risks taken". The Manual covers the:

- Definition of the Bank's credit risk philosophy
- Minimum standards for extending credit or accepting risk
- Credit analysis and evaluation techniques
- Internal approval authorities, and
- Monitoring of portfolio quality and management of debt recovery.

The Manual is thorough and can not be changed without approval at the Holding Company level<sup>4</sup>. The Advisor is not in a position to critique this document but was asked for comments given the Bank's proposed strategy for the SME market. Clearly, recommending wholesale changes to the Manual is premature until a final SME Plan is approved.

### General Comments

The original date of the Manual is not shown but a revision date is shown as "30/6/2004". Should management approve the SME Plan, a major revision of the Manual would follow. The goal would be to balance the need for prudent credit policies and procedures against the need to process volume loan applications efficiently given informational limitations dealing with SME clients.

### Comments on Sections of the Manual

#### *Introduction - Defining "Small" and "Micro" Business:*

The Manual suggests parameters for micro and small business. The SME Plan eliminates consideration of micro businesses. Therefore, the Bank would need to

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<sup>3</sup> Some Appendices were not included in the Advisor's package

<sup>4</sup> An amendment or supplement to existing policy must be signed by the Chief Credit Officer and the Manual is reviewed at least annually by the Credit Committees with the Head Office Credit Department in [REDACTED]

house micro loans in another department, e.g. the Retail Department, or outsource these loan relationships by establishing strategic partnerships with one or more microfinance lending institutions.

The definition for SME clients should have minimum and maximum levels using the desired criterion; turnover, total equity and number of employees are used in the Manual. A separate Bank unit or strategic partner would handle loan requests from clients that do not meet minimum levels.

#### *Functions/Responsibilities*

Sub-sections 1 and 2 states that approval is required at the Head Office Small Business Credit Committee, Bahrain should the Bank elect to proceed with a variation of Option 3 as shown in the Interim Strategy section of this Report.

Section 6 recites responsibilities for Small Business Account Officers/Credit Officers that would change considerably under the SME Plan. Ideally, the Field Officers identified in the SME Plan would act as marketing officers with a focus on generating new business, and play little if any role in collecting past due loans.

#### *Policy Guidelines*

Sub-section 4: Use of Proceeds. The Advisor assumes the Bank makes direct disbursement to the supplier for inventory and equipment financing. This assures that use of loan proceeds is consistent with the loan request.

#### *Credit Process*

As part of the SME Plan, the Advisor recommends a Bank team work be created to simplify the credit process and consider changes in scoring loan applications. These changes could be based on predictive data taken from SME loan files and on the collective judgment of SME experts in the Bank. Likely candidates for the Bank team would include one or two experienced Branch Managers, the Chief Credit Officer and one or two Small Business Account/Credit Officers. The Bank may decide to initiate this process with a narrow focus on a variation of Option 3 (see Interim Strategy section in this Report).

### Credit Process Recommendations

<b>SME ITEM</b>	<b>NO CHANGE</b>	<b>CHANGE TO</b>	<b>ELIMINATE</b>	<b>REASONING</b>
Application Form				
Personal Financial Statement				
Interview Checklist				

Scoring Non-financial Factors  {Criteria} {Scoring} {Weight}				
Scoring Financial Factors  {Criteria} {Scoring} {Weight}				
Spreadsheet				
Product Risk Categories and Limit Setting				
Collateral Net Working Capital test Loan to Collateral Ratios				
Other				

The Bank team may wish to consider credit scoring issues that evolved from Bank meetings and later following analysis by the Advisor:

- Non-financial criterion should include average deposit balances kept at the Bank. Reasoning: this information provides an indication of cash flow and may be indicative of sales and expenses.
- Non-financial criterion may include (at a lower score/weight) average deposit balances kept at another Bank as evidenced by verified bank statements. Reasoning: same.
- Should trade references from Bank clients carry a higher score/weight than those from non-Bank clients? Reasoning: Bank clients are less likely to exaggerate.
- Should the overall weighting of 40% non-financial and 60% financial be changed? Reasoning: Meaningful information likely comes more from non-financial sources.

Sub-section 5.1 lays out a rational approach to scoring loan applications. Minimum non-financial scores are mandatory before the Bank invests time and money in financial analysis that leads to financial scoring.

### *Authority Levels*

The Advisor's copy did not include the names of officers and authority levels. The page was blank.

For volume SME loan operations, banks will often rely on credit scoring and decentralized loan approval to respond promptly to client requests. Typically, smaller loan requests that meet the bank's credit criterion will require one or two signatures (one at the management level). Approval of loan exceptions will normally require a higher approval level. A Loan Committee will meet periodically (monthly, weekly or biweekly) depending on the activity to review loan approvals at lower levels, to decide on exceptions and to approve medium size and larger loan applications. It is not unusual for all loan approvals to be reviewed by an Executive Committee or another designated body of the Board of Directors.

# CONCLUSIONS & RECOMMENDATIONS

## **SME Plan**

A sizable SME sector and a competitive market are forcing Jordanian banks to seriously reconsider their SME practices. Banks understand the need to offer useful loan products to SMEs and process loan applications efficiently, or risk losing market share. These are reasonable conclusions based on extensive research with the banking sector.

■ Bank knows it can not maintain the status quo. Current SME direct loan exposure is extremely low (less than .1% of total loans) and non-performing loan (NPL) levels are only about .03% of the corporate portfolio. Management feels both indices reflect an overly conservative approach to the SME market and that growth is unlikely unless changes are made. Indeed, the Bank risks losing existing clients. The Bank's SME Plan is most timely. Moreover, it is well conceived and marks a significant step forward.

The Bank's CEO is a highly experienced banker and leader. He has assembled an impressive team of officers to develop and implement the SME Plan. They are motivated and knowledgeable. The Advisor is confident in their ability to implement the SME Plan assuming sufficient resources are deployed.

### *Next Steps & Recommendation:*

- Revise slides and narrative for presentation of SME Plan
- Consider including recommendation of an Interim Strategy
- Make changes after presentation
- Revise roadmap
- Obtain sign-off by Bank and Holding Company executives
- Plan implementation

## **SME Interim Strategy**

Approval and implementation of the SME Plan will take time. The Bank should consider an interim strategy to keep existing clients from moving their business to competitor banks. The Bank and its staff worked hard to attract good clients, and it risks losing them while a new SME Plan is under consideration.

If approved, Option 3 of the Interim Strategy would test one or two short term loan products on a pilot basis and would cap total exposure. A revised credit process and policy would be designed to process these loan applications efficiently using a new scoring process. Training would precede testing and rollout. Results and performance would be carefully observed, tracked and reported to management on a regular basis.

*Next Steps & Recommendation:*

- Assign Bank team to design the pilot loan program for existing clients
- Establish length of pilot period and exposure ceilings
- Perform a thorough risk analysis
- Revise credit process and scoring for loan applications
- Create MIS and reports (may require outside advisor)
- Test before rollout
- Develop Marketing and PR campaign
- Rollout pilot loan products
- Carefully observe results, performance and recommend adjustments

**SME Credit Policy and Guidelines**

Approval of the SME Plan will include a revision of the Credit Policy and Guidelines Manual (Manual). This process will take time and probably a concerted, coordinated effort among credit officers at the Bank and the Holding Company. Although challenging, this process must begin soon after the SME Plan is approved. It's likely that an outside consultant would assist the Bank with this process.

Until a SME Plan is approved, the Advisor is hesitant to make recommendations to the existing Manual. However, as requested by the Bank's management, some observations were made in the Report regarding sections of the Manual that included the SME definition, role of SME officers, credit process and scoring model, and loan authority. Certain issues were raised about the scoring model such as consideration of average deposit balances, differentiating trade references received from Bank clients and the overall weighting of 40% to 60% for non-financial and financial criterion, respectively. This weighting may prove problematic given quality of financial information received from most SME loan applicants.

Option 1 of the Interim Strategy calls for retention of the existing Manual for processing all loan applications until a new Manual is formally approved. Option 3 is similar in approach but suggests the Bank consider a different way to process new loan applications from existing clients under a pilot loan program using a revised credit process (see previous section). The experience gained from Option 3 of the Interim Strategy (or a variation thereof) and the work of the Bank team, would greatly assist those working on a new Manual. This Report suggests a methodology for the Bank team as it considers recommendations to revise the Manual for the pilot loan program.

*Next Steps & Recommendation:*

- Form a group to begin work; set goals, timeframes and deliverables
- Include relevant parts of SME Plan in the group's deliverables
- Draft scope or work or terms of reference for outside advisor
- Consider how to simplify paperwork and scoring process

- Review how the Bank team approached changes to the Manual for pilot program
- Consider how changes will affect current MIS, IT and management reporting
- Consider decentralized loan authority at lower levels
- Recommendations to senior management should be based in part on 3 – 6 months of performance of pilot program
- Present recommendations to senior management.

# APPENDIX A

## NON DISCLOSURE LETTER

{SABEQ Letterhead}

March 3, 2008

██████ Bank  
Mr. ██████████, Managing Director & CEO

Subject: Non-Disclosure Statement, Undertaking and Reports

Dear Sir,

USAID through the Sustainable Achievement of Business Expansion and Quality program ("SABEQ") is undertaking a broad economic development initiative including recommendations to enhance access to finance by small to medium size enterprises ("SMEs"). Kevin O'Brien ("Advisor") from SABEQ is now in Jordan and part of his assignment is to research financing strategies and provide recommendations to target and service SMEs.

The Advisor has begun work ("Advisory Services") with you and your colleagues at ████████ Bank (the "Bank"). We want to thank you for your cooperation and assure you that any information received by SABEQ or its Advisor during this assignment will be held in strictest confidence. In that regard the following undertaking ("Undertaking") relates to the prospective disclosure of information pertaining to the Bank, and the Bank's wishes to protect this information:

1. Confidential Information. In order to facilitate Advisory Services, the Bank, SABEQ and the Advisor acknowledge it may be necessary for Bank to disclose confidential information. Such information may be oral, written, provided as a soft copy or in some other form, and may include Bank information regarding its customers, hardware, software, network, costs and pricing, marketing techniques, finances, systems, studies, plans, projects and any other information the Bank deems appropriate (collectively "Information").
2. Non-Disclosure to Third Parties. SABEQ shall not intentionally disclose the Information to any other person or entity except as authorized by the Bank.
3. Publicity. No statements concerning the Advisory Services shall be made to the media without the written consent of SABEQ and the Bank.

4. Ownership and Use of Information. Information delivered by the Bank shall be and remain the property of Bank, and such Information, if written, and any copies thereof, shall be returned to Bank when the Advisory Services are completed or upon written request.
5. Employee Access and Control of Information. It is understood that from time to time the Advisor may need to discuss the details of Information with SABEQ employees in order to support, evaluate, and/or advance the Advisor's work.
6. Exceptions. The statements made herein shall not apply to: (a) information which is now in or hereafter enters the public domain; (b) information known to SABEQ prior to the time of disclosure by Bank or independently developed by SABEQ's representatives without access to the Information; or (c) information disclosed in good faith to SABEQ by a third person legally entitled to disclose the same.

In due course Mr. O'Brien will provide findings on his analysis in a written report. Please understand that this report will be shared only with you and USAID, but with the name of the bank and other key identifying information removed from the USAID copy.

If you have any questions, please call me at 06/550-3050 ext. 162 or email me at [glenn.tasky@bearingpoint.com](mailto:glenn.tasky@bearingpoint.com) . Thank you again for your cooperation.

Sincerely,

Glenn Tasky  
Component Leader  
Financial Services Component  
SABEQ

# APPENDIX B

## SABEQ MEETING REPORT

<b>Stakeholder:</b> █████ Bank (3 meetings)		
<b>Meeting Date and Location:</b> February 27, March 5 and March 10, 2008 @ bank's location		
Attendees	Title	Contact Number
<b>BANK:</b>		
Mr. █████, Managing Director/CEO		
Mr. █████, Deputy CEO		
Ms. Nour Jarrar, Senior Manager/ Group Liaison / Head Office		
Ms. █████, Head of Marketing and Product Development/ Retail Banking Division		
█████ Manager, Credit Manager – Credit Department		
█████, Acting Assistant CEO, Corporate Banking		
█████, (formerly worked █████)		
█████ █████, Branch Managers		
<b>SABEQ:</b>		
Kevin O'Brien (all meetings) Asma Abu Taleb (first meeting)	Deputy Component Leader SME Credit Advisor	SABEQ office SABEQ office

### Purpose of meeting

- 1<sup>st</sup> Meeting – Introductory session to assess general needs. Follow-up with non-disclosure letter acceptable to bank and SABEQ
- 2<sup>nd</sup> Meeting – Review SME Strategy and outline work plan
- 3<sup>rd</sup> Meeting – Review credit policies and scoring process, interview two branch managers on SME loan demand and financing gaps at bank and discuss next steps

## **Background**

- [REDACTED] Bank Jordan (the Bank) is a subsidiary of [REDACTED] (the Holding Company) whose major shareholders are [REDACTED], [REDACTED] Investment Authority.
- The Bank operates under credit policies approved by the Holding Company.
- Bank senior management is relatively new; CEO came in 2006 and after spending nearly 30 years at responsible positions within BNP Paribas, and Deputy CEO is younger and therefore less experienced, but has a diverse financial background including two years with the IFC in Washington, D.C.
- The Bank's total assets at 12/31/2006 were [REDACTED] JDs with total credit facilities (net) of [REDACTED] JDs and total capital of [REDACTED] JDs. It wishes to grow at a faster pace and has targeted the SME market as a primary means to meet this objective.
- A more detailed NDL was negotiated with the Bank than that normally used with other banks.

## **Challenges**

The Bank faces a competitive market with many banks going after SME business. Current credit policies were designed for the corporate market and its conservative approach only adds to the Bank's competitive disadvantages.

## **Action Plan**

The Bank realizes it must:

- Sell its Board of Directors on a SME strategic plan that incorporates a less conservative approach in meeting the borrowing needs for its SME clients,
- Invest in resources required to carry out the strategic plan
- Re-engineer its scoring model and change its credit policies to better suit market reality in Jordan. This may include the prudent use of subjective credit judgment in the near term to compensate for lack of data<sup>5</sup>,
- Prepare for NPLs that are likely to surpass historical levels, and prepare for higher loss levels. Setting higher loan loss reserves now would allow the bank to absorb losses until SME products are refined and credit models are validated,
- Make necessary adjustments to its products, scoring model and policies on a periodic basis.

## **CURRENT / FUTURE NEEDS**

- Conference call with the Advisor in McLean after reviewing his report

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<sup>5</sup> Scoring models are data driven and the Bank is operating with less SME credit experience than many of its competitors

## **Documents Reviewed**

- SME Slide Presentation
- SME Strategic Plan
- Credit Policy
- Moody's Rating System – Corporate and SME
- ABC 2007 annual report and interim reports provided by investor services.

## **Notes of meeting**

Timing for SME consultancy is ideal. The Bank has drafted a SME strategy, is very forthright with its information and appears anxious to move ahead.

### ***Products:***

The Bank wants to convert a large part of its unstructured OD lending facilities into more structured SME loan products such as working capital loans to support inventory and accounts receivable {include aging report in report}. Initial target sectors may include light manufacturing, pharmaceutical and professional groups.

### ***Collateral Considerations:***

General vs. clean vs. partial collateral; use of post dated checks  
assignment of contract proceeds

{Review Credit Policy/Guidelines LTV for immovable and movable collateral}

### ***Delivery Channels:***

11 branches in Amman (East and West {good retail opportunities}),

Irbid (focus area for SABEQ)

Aqaba, and

Zarqa (industrial zone with Pepsi plant and Refinery)

Only 2 or 3 branches now have corporate accounts outside Amman. ■■■ main branch in Amman houses most of the corporate business.

{Does it make sense to use deposit relationship information and knowledge of branch manager as main part of scoring criteria for small SME loans until more data and better method is created?}

**Interview with two branch managers:**

- Challenges:
  - a) Branch A  
Branch profile: longstanding branch location with experienced manager  
Client profile: most SMEs have banked there for at least 10 yrs; many are retailers that sell product to the government, e.g. appliances, hardware, furniture  
Loan process: SME and branch manager complete loan application and denial rate estimated at 90% because of low credit score and less than adequate gtee  
Threat: SME deposit customers are moving business to banks that respond better to SME loan requests, e.g. Cairo Amman Bank.
  - b) Branch B  
Branch profile: new branch location aggressively seeking new business; branch manager has corporate banking experience  
Client profile: TBD  
Loan process: expect denial rate to run similar to Branch A for same reasons  
Threat: SME deposit customers will not open accounts with [REDACTED] and will favor banks that respond better to SME loan requests, e.g. [REDACTED] Bank.
- Conclusion:  
If these two branches represent similar trends at other branches [REDACTED] will continue to lose business to competitors absent major changes to the current loan process.

**Training:**

Previous training sponsored by the [REDACTED] (Lebanon) on trade finance was highly regarded (may want to consider same group for SME Sales, Service, Underwriting, Finance, etc.)

May be cultural issues using train the trainer programs in the near term. Senior management feels this obstacle must be overcome.

**IT / MIS:**

Oracle Base Core System > Cobol

Kndle/ Open file format

The Advisor will arrange an introduction of BearingPoint's Financial Services expert.

**Credit Process:**

Credit Scoring (same one for corporate and SME) – developed by Holding Company

Moody's Rating – detailed analysis (two different models for corporate and SME)

Advisor to review Credit Policy and Moody Ratings and comment in his report.

# APPENDIX C

## COMMENTS: SME STRATEGY / BUSINESS PLAN

### General Comments:

These comments relate to the [REDACTED] Bank Jordan SME Strategy and Business Plan (the SME Plan) that numbers twelve pages and includes three Annexes. Overall, the SME Plan is a well conceived and informative. As stated in the Advisor's Report, nearly all critical components are addressed. Thus, these comments are intended as constructive suggestions before the SME Plan is distributed to the Bank's senior executives.

The SME Plan would benefit from a final edit. Several English grammar errors were observed but only one was corrected below.

During his meetings, the Advisor observed a slide presentation covering the SME Plan's subject matter, but did not receive a copy of the slides. The Advisor stands ready to review the slides if the Bank so desires. Apparently, the presentation is in excess of 25 slides and the Advisor suggested that this be reduced to around 10 slides for any high level presentation. Estimating 2 – 3 minutes per slide for discussion and questions means a total presentation of around 25 minutes, which is a reasonable time limit for a senior executive presentation.

### Specific Comments:

In the absence of a Word Document, the Advisor will present comments as follows:

<b>Section No. / Title</b>	<b>Comment</b>
1. Executive Summary	Sentence is too long. Consider breaking it up into smaller sentences and using bullets. Also consider taking 5 or 6 key points from the SME Plan and summarize them in this section. The writer was making a similar change to the slide presentation so similar wording may exist. Remember – there will be board members that will read the summary and skim over the rest. Arguable, the Executive Summary is the most important section.
3. [REDACTED] Today	No Annex A was provided, but is considered non-essential. Consider breaking into sections such as: SME Definition, Credit Process, Client Financial Information (and lack thereof), Portfolio (SME and Retail), Usage, NPLs/Interest in Suspension, and Profitability. Consider including SME related

	deposit base, normally a strong funding contributor.
<b>4. SWOT Analysis Strengths:</b>	
a) well defined products	I had the opposite impression. In fact, it seems SMEs are forced to use products designed for corporate users. It also seems the Bank wants to transform large OD usage into well defined SME loan products.
b) higher usage	Consider adding "yet lower NPLs".
<b>Weaknesses:</b>	
a) need to revise SME definition	Consider adding this weakness unless the writer feels it is covered under "undefined target segments".
<b>Opportunities:</b>	
a) targeted segments and products aligned	Consider adding that, once aligned, the Bank can better compete in the market.
b) creative solutions	Consider inserting as 4 <sup>th</sup> bullet "to enhance the credit process and compensate for lack of financial information".
c) revise SME definition to better match the market	Consider adding unless writer feels it is already covered.
<b>5. Jordanian Market</b>	<p>First full paragraph, line six on page 5 – consider replacing "incepted" with "instituted".</p> <p>Annex B is too long. Consider using summarized tables that don't exceed two pages.</p> <p>Annex C requires study by readers used to reading a "bottom line". Consider ways to summarize this data. One suggestion is to break down the sectors according to definitions proposed in the SME Plan, e.g. assets, equity and employees.<sup>6</sup> Consider including summary information in the last paragraph under Section 5 of the SME Plan. This would give the reader more information on the potential market.<sup>7</sup></p>
<b>7. Key Area Changes</b>	
<b>7.1 SME Roadmap</b>	
a) Setup & framework	Question: does this include a new SME definition? It's included as a goal on page 1. Please send new definition that will be proposed and see footnote below. Since the SME Plan excludes "micro entities" (7.2), the definition should include minimum and

<sup>6</sup> Apparently, the Central Bank of Jordan has proposed a revised SME definition for loan and capital purposes that is broader than the previous definition. The Bank may elect to consider using the same one.

<sup>7</sup> The Bank will likely develop a marketing strategy that will target locations and specific sectors.

	maximum ranges.
b) New product profiles	Consider inserting as new fourth bullet.
7.2 Customer/Products	See previous comment – did not see this in Roadmap. Believe this is the first time the reader sees that “retail outlets, self-employed professionals and light manufacturing” may be targeted sectors.  Consider proposing new SME definitions and targeted sectors up front under Goals and Objectives and consider including in Executive Summary.
7.7 Performance Management	Suggest including SME related deposits.
8. Organization Structure	
8.3.1 SME Head	Consider this an early recruiting priority; put as separate line in Roadmap. Question: will there be credit authority until approval of new credit policy?
8.3.3 SME Credit/PD & Marketing	Comment: combined function not on the org chart. Normally, it’s difficult to find one person with equally strong credit and marketing skills.
8.3.5 Field Officers	Comment: last bullet requires “follow-up on overdues”. Consider limited collection responsibilities if the primary duty is to generate new business.
8.4 Relationship with branches	Comment: last bullet is logical but growth of SME related deposits should be tracked against a baseline as one indicator of the SME Plan’s success.
9. Financial Projections	Reminder: After implementation, the Bank should track actual labor costs to process one application from start to finish. This will form a baseline against which to make adjustments and compare against future performance.
Assumptions: credit and field officers	Consider phasing in positions by quarter according to growth in loan portfolio and the need to assume related responsibilities. This should have a positive impact on costs, profit and return.