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Small and Micro Enterprise Development Project No. 262-0212 Egypt

Midterm Evaluation

GEMINI Technical Report No. 30

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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Small and Micro Enterprise Development Project
No. 262-0212
Egypt

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by

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ACCION International

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The staff of both foundations were generous with their time and insights, as was the technical assistance team from Environmental Quality International (EQI). Special thanks go to Abdel Aziz-Hosni and Sharif Sabri of Egyptian Small Enterprise Development Foundation (ESED) for looking out for my well-being; Syed Hasenein of EQI rushed back from vacation to talk with me, Peter Parr kept good records, and Yasmine Hafez of EQI helped me with numbers. All deserve many thanks.

I have tried to distill a lot of information and ideas into a helpful format for USAID and the two foundations involved in project implementation. I assume responsibility for errors or misinterpretations within the document.

Katherine Stearns
Cairo, Egypt
January 1992

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GLOSSARY

ABA - Alexandria Businessmen's Association

ACDI - Agricultural Cooperative Development International, a U.S.-based PVO.

ASB - Alexandria Small Business Center: The Special Project of the ABA

EQI - Environmental Quality International

ESED - Egyptian Small Enterprise Development Foundation

MoSA - Ministry of Social Affairs

NCBA - National Cooperative Business Association

PVO - Private Voluntary Organization, registered under Law 32.

RSSE - Rural Small-Scale Enterprise Project of the National Bank for Development

SME - Small- and Micro-Scale Enterprise

USAID - United States Agency for International Development

EXECUTIVE SUMMARY

The Small and Micro Enterprise (SME) Project of the U.S. Agency for International Development in Cairo was approved in September 1988. The project established two foundations to provide credit, training, and technical assistance to existing small- and micro-scale enterprises in Alexandria and Cairo. The project was designed to provide, in an efficient way, working capital loans to address a primary constraint of the sector; another goal was to achieve the self-sufficiency of the foundations. Once sound credit organizations were established, the foundations were to extend fixed capital loans and use the "Special Projects" line item of the budget to address other small-enterprise constraints, such as marketing, training, and technical assistance.

USAID project inputs include an $8-million collateral fund for each foundation, funding for start-up, operational expenses until the foundations reach self-sufficiency, and funds for training and technical assistance to the foundations.

The project design has several critical features that facilitate the strong financial development of the foundations.

- The collateral fund is held in dollars; interest is earned in dollars and reinvested into the collateral account. The fund is basically protected from devaluation caused by local inflation or currency devaluation;

- The portfolio funds are obtained through an overdraft account from local banks, on which the foundations pay commercial interest rates. This instills, from the beginning, a sense of financial discipline and the need to charge higher than commercial rates of interest to cover operating costs; and

- USAID pays all operating costs until the foundations reach their break-even point. The foundations understand that self-sufficiency is a critical first goal, and are moving towards it as quickly as possible. While USAID covers their operating costs, their own interest revenues are deposited in the overdraft account, reducing interest payments and contributing to the foundations' self-capitalization.

This midterm evaluation assesses the level of institutional development and financial strength of the two foundations, and the efficiency of services being provided to the small- and micro-scale enterprise sector. Project impact will build on the institutional development achieved during this initial phase, and will be addressed in future evaluations.

THE ALEXANDRIA BUSINESSMEN'S ASSOCIATION

The Alexandria Businessmen's Association (ABA) has developed into a strong microenterprise lending institution after two years of lending. The foundation enjoys a dedicated Board of Directors with representation from prominent Alexandria business leaders, and a very effective Executive Director. Internal policies, procedures, and management systems are well developed. The final nine months of technical assistance will enable ABA to finish computerizing accounting and financial functions, assume the financial management responsibilities required of a large credit organization, and establish at least two physically separate branch offices that will contribute to the development of midlevel management.

ABA's financial situation is solid. It has a strong capital base and has reached operational self-sufficiency after only two years of lending, which is a noteworthy achievement. The portfolio quality is excellent, and the organization has experienced no loan losses.

The credit delivery system of ABA is efficient, with over 6,000 loans disbursed in the first two years. The extension officers (and all staff) receive a monthly monetary incentive based on their productivity, and each one disburses 30-50 loans per month, while attending to 130 active borrowers. Preliminary results from an impact study of ABA borrowers show increases of 10 percent in permanent employment, 35 percent in temporary employment, and 86 percent in production.

THE EGYPTIAN SMALL ENTERPRISE DEVELOPMENT FOUNDATION

Start-up of the Egyptian Small Enterprise Development (ESED) Foundation in Cairo was delayed because of some initial organizational problems and complications in obtaining approvals from the Ministry of Social Affairs. The current Executive Director, hired in April 1991, has proved more effective at working with the Board of Directors than the previous director. The current director is addressing some critical leadership and institutional development issues, and is perceived as putting the organization on the right path towards self-sufficiency and efficient delivery of credit services.

ESED's financial position is solid. After only one full year of lending, it has achieved nearly 50 percent operational self-sufficiency, which is positive. The portfolio has suffered from some delinquency problems, partly because of poor legal follow-up to loans made during the initial months. Legal follow-up has improved recently, as has the effectiveness of newer extension officers at preventing delinquency. Indications are that the portfolio quality is improving.

ESED's credit delivery system has also improved with the arrival of the current Executive Director, and the hiring of new extension officers. The impending implementation of an incentive system and several staff changes should lead to continued improvement productivity and efficiency in the loan delivery process.

ACHIEVEMENTS AND INDICATORS

ABA

- first loans disbursed: 1/90
- [illegible],748 enterprises reached
- Avg. loan size small: LE 5678
- Avg. loan size micro: LE 1365
- % loans to small: 16 percent
- % loans to micro: 84 percent
- LE 12,580,000 disbursed
- LE 4,036,091 outstanding
- 3% past due > 30 days
- < 8% contaminated portfolio
- Op. self-sufficiency: 100%
- Op. cost per loan: LE 142
- Op. cost per LE lent: .07

ESED

- first loans disbursed: 11/90
- 748 enterprises reached
- Avg. loan size small: LE 5524
- Avg. loan size micro: LE 2862
- % loans to small: 35 percent
- % loans to micro: 65 percent
- LE 3,758,000 disbursed
- LE 1,904,222 outstanding
- 12% past due > 30 days
- 17% contaminated portfolio
- Op. self-sufficiency: 47%
- Op. cost per loan: LE 468
- Op. cost per LE lent: .13

LESSONS AND ISSUES TO BE CONSIDERED

Because USAID plans additional support for the small- and micro-scale enterprise sector of Egypt, several lessons and issues should be considered:

- Selection of participating foundations. Effective project implementation requires strong leadership, a private sector approach, and commitment to project goals and methodology;

- Leverage of the collateral fund. The initial Project Paper anticipated two-to-one leverage of the collateral fund by the end of the project. This appears unlikely, and uncertainty within the financial sector makes the possibility of future leverage impossible to predict;

- Focus on manufacturing. Although manufacturing may have the largest potential for direct employment generation, both services and commerce also increase income and lead to job creation directly and indirectly. Lending to services and commerce can also increase the efficiency of the foundations by increasing borrower concentration, and decrease portfolio risk through diversification;

- Technical assistance. Technical assistance has played an important role in project implementation. As additional foundations are initiated, the possibility of coordinating ongoing technical assistance through an association or network should be investigated. A network of foundations could ensure long-term, cost-effective technical assistance, and encourage friendly competition and innovation among the member organizations;

- Reaching women borrowers. Although women have benefited from increased employment opportunities through the project, a low percentage of borrowers are women. If women's enterprises are a priority target group, then loans for services or trade activities and for nonformal enterprises may be called for. Consideration should be given to the recent USAID/Cairo study on women entrepreneurs in Egypt; and

- Long-term financial services for the small- and micro-scale enterprise sector. As USAID/Cairo expands funding to this sector, the pros and cons of working through private foundations versus banks should be carefully studied.

SECTION ONE

INTRODUCTION

EGYPT AND ITS ECONOMY[1]

Unemployment and increasing poverty are two of the most critical problems facing Egypt today. The problems are exacerbated by a rapidly growing population and extremely high population density. Egypt's population is expected to grow from 55 million to 70 million by the year 2000. Currently, 99 percent of the population lives on the 4 percent of the land surrounding the Nile River and its Delta, and on a few oases. Despite its large land mass, Egypt has one of the highest population densities in the world, with some 2,700 inhabitants per square mile.

As 1992 begins, the Egyptian economy is struggling to recover from the impact of world events, while instituting major economic reforms. The 1990 Iraqi invasion of Kuwait and resulting Gulf War brought home an estimated 350,000 workers and their families from Kuwait. In addition to losing US$3 billion in remittances, Egypt also suffered a US$2 billion decrease in tourism revenues and a 16 percent decrease in Suez Canal fees (National Bank for Development).

At the same time, major economic reforms are being carried out with the support of the International Monetary Fund (IMF), the World Bank, U.S. Agency International Development, and other donors. As in other countries, these reforms are geared toward economic liberalization by decreasing or eliminating subsidies, removing interest rate controls, increasing the role of the private sector, and moving towards a more market-driven economy. In addition, credit ceilings have been placed on banks to limit inflationary pressures, contributing to tighter liquidity in the banking system.

SMALL- AND MICRO-SCALE ENTERPRISES IN EGYPT

A considerable portion of the urban population of Egypt works in small- and micro-scale enterprises (SMEs). Studies suggest that up to 40 percent of total industrial employment in Egypt is in SMEs, and that 250,000 manufacturing enterprises employ between one and nine employees (USAID/Cairo, 1988). As Weidemann points out (1991), SMEs play a critical role in times of economic change by providing a buffer for both upward and downward mobility. Through SMEs, the poor earn subsistence incomes and sometimes move up the economic ladder by developing stable businesses. On the downward side, recently unemployed workers often turn to the small enterprise sector to earn a living. Increasing poverty and economic reforms increase the importance of the small enterprise sector for both upward and downward mobility.

The SME project defines small-scale enterprises as those with 6-15 employees, and micro-scale enterprises as those with 1-5 employees. The characteristics of these enterprises in Egypt are like those of similar enterprises in other developing countries. In a recent survey of 323 entrepreneurs from these sectors, Weidemann and Merabat found that:

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[1] Most of the introductory statistics are from Weidemann and Merabat, 1991.

- Asset levels are low, generally below LE 5,000;
- Savings is the most common source of start-up funding;
- Fewer than 10 percent of those interviewed had any kind of bank account or savings account;
- Over 80 percent cited insufficient working capital as the primary constraint to increased production or expansion;
- The majority keep no records of their transactions; and
- Most of the businesses plan to expand.

Contrary to many countries, moneylenders do not appear to be a major source of enterprise credit. Fewer than 5 percent of those interviewed had approached a moneylender in the previous 12 months. Instead, small- and micro-scale entrepreneurs in Egypt tend to get their financing from, in order of importance, suppliers, family, friends, selling jewelry, or rotating savings and credit associations (*gamayas*).

SMALL- AND MICRO-SCALE ENTERPRISE PROGRAMS IN EGYPT

Egypt has numerous projects geared towards the small- and micro-scale enterprise sector, and the number is expanding. The majority of the existing programs have no more than a few hundred active borrowers, and include projects being implemented by:

- Productive Families Society: a private voluntary organization (PVO) closely associated with the Ministry of Social Affairs, and active in several governorates. Teaches garment production and lends at low interest rates to poor participants. More than 10,000 families assisted;
- Plan International: International PVO with primarily social welfare activities. Provides vocational training and disburses a small number of subsidized loans in extremely poor neighborhoods of Cairo;
- Oxfam: International PVO with many welfare projects and two small credit programs in specific communities dedicated to garbage collection and recycling as their primary source of income; and
- Coptic Evangelical Organization for Social Services (CEOSS): One of Egypt's largest community-based, comprehensive development agencies. The Income and Employment Generation Project is being implemented in Minia Governorate, and received USAID support;
- Small Enterprise Loan Program: Subcomponent of the USAID $US12-million Helwan squatter upgrading project, with a loan fund of US$360,000 for existing enterprises; and

- CARE: U.S.-based PVO with several targeted credit initiatives, including one for poor families managed by community development associations in four rural governorates.

One of the largest microenterprise credit program in Egypt, in number of active borrowers, is the Rural Small-Scale Enterprise (RSSE) Project of the National Bank for Development (NBD). It is being carried out with USAID support in two governorates and Ford Foundation support in a third, and with technical assistance from Agricultural Cooperation Development International (ACDI). NBD is currently negotiating with USAID for a large expansion into Cairo (Small Scale Enterprise Credit Project) and eventually hopes to provide credit to microenterprises throughout Egypt. From October 1989 through June 1991, the RSSE project in Sharkiya and Damietta governorates disbursed over 9,000 loans and had an outstanding balance of US$838,712 to over 4,000 borrowers. The program had suffered no loan losses, and past due installments represented less than 5 percent of the outstanding portfolio. In addition, the program had a forced savings component with savings deposits equal to 28 percent of principal outstanding (ACDI, 1991). The program does not yet cover its operational costs with its own income, but expects to soon after it receives funding to increase its portfolio (Siam, personal communication).

The World Bank is also planning activities in the SME credit field in Egypt through the Social Fund. Although the Social Fund has established an office in Egypt and discussed options with those implementing or funding credit programs, the fund has not clearly defined its approach. It is clear that the Social Fund will bring a large amount of capital for SME lending into Egypt, but not clear how, under what conditions, or through what institutions that money will be managed.

SECTION TWO

THE SMALL AND MICRO ENTERPRISE PROJECT: GOALS AND DESIGN

PROJECT GOALS AND OBJECTIVES

The SME project was designed to address two of Egypt's most serious economic problems: high unemployment and growing poverty. The Project Paper outlines the following goals and objectives for the seven-year project:

Project Goal: Expand economic output of the small- and micro-scale (productive) enterprise subsector.

Purpose: Create a system that will provide credit and improved business and technical skills to small- and micro-scale entrepreneurs.

Outputs: Establish two functioning foundations for SMEs in Cairo and Alexandria to provide credit to increase working capital and investments in plant and equipment, to train participants in basic business subjects, and to provide technical assistance to apply modern business concepts and overcome specific problems. An additional output is to identify impediments to SMEs and recommend actions by the Egyptian government, banks, and others.

PROJECT DESIGN AND IMPLEMENTATION

Methodology

The project methodology was to establish two self-sufficient foundations providing efficient credit, training, and technical assistance services to the SME sectors of Cairo and Alexandria. The development of an efficient credit delivery system and the achievement of self-sufficiency were to be the short-term goals of the project; the provision of training and technical assistance was a longer-term goal.

Through a headquarters and branch offices (four per foundation), each foundation would lend to SMEs under the following conditions, which would be adjusted as the foundations gained experience:

Eligible Borrowers: Existing, owner-operated small- (6 to 15 employees) and micro-scale (1 to 5 employees) enterprises in Cairo and Alexandria engaged in some form of manufacturing.

Loan Sizes: LE 1,000-3,000 for micro and LE 5-10,000 for small.

Terms: 9-12 months, with monthly payments of principal and interest. Actual terms are generally from 4 to 12 months.

Purpose: Working capital, machinery, and raw materials.

Cost: Charges to borrowers would be based on the interest rate guidelines of the Central Bank of Egypt, administrative costs, and inflation. Fees would be adjusted as needed to achieve self-sufficiency and preserve the value of the loan fund.

Start-up businesses would not be considered for funding because the riskiness and high failure rate of start-up lending would make it difficult for the foundations to become self-sufficient. The large number of undercapitalized existing businesses contributed to this decision.

The initial project design also called for the use of borrower groups of 10-30 members to co-guarantee loans and apply peer group pressure to encourage on-time repayment. Instead, before project initiation, USAID and the foundations agreed that borrower groups might be unworkable in the Egyptian context, and that loans would be made to individual borrowers.

Loan delivery was designed to be quick, efficient, and low-cost to both the borrower and the foundation. Extension officers would visit potential borrowers to assess their activity and, if appropriate, fill out a simple application form. First loans would be small and processed and disbursed within two weeks. Repeat loans would be based on favorable payment of previous loans, could increase in size and term, and would be disbursed within 48 hours. Follow-up visits by extension officers, at least monthly, would encourage prompt repayment.

After the establishment of efficient credit delivery systems, extension officers would help organize training programs for borrowers and provide technical assistance. They would be supported by a Training and Technical Assistance Manager who would coordinate activities with other providers of training and technical assistance.

Other interesting features of the basic project design include:

- Use of employee incentives to encourage high productivity, especially for the extension officers and managers of branch offices;
- Inclusion of a $500,000 Special Projects fund for each foundation to fund activities that increase the productivity, sales, or profits of SMEs;
- Extensive technical assistance to be provided by a U.S. contractor and a counterpart Egyptian subcontractor for the first three years of project implementation; and
- Use of a collateral fund and an overdraft account (see below).

Collateral Fund

The project design includes several features intended to promote the sustainability of the project and the financial self-sufficiency of the two foundations. The most important of these is that the credit fund is not donated outright, but deposited in a collateral fund. The collateral fund, held in a local bank, guarantees an overdraft account to the foundations that finances the lending portfolios. As the project design developed, the collateral fund was established as a dollar account, with interest earned on the account (in dollars) being invested back into it.

The collateral fund arrangement has two critical implications for the implementing agencies. First, the source of their portfolio funds is an overdraft account that carries a commercial rate of interest.

From the very beginning, the foundations pay a commercial rate of interest for all of their portfolio funds. Second, because the collateral fund is held in dollars and the implementing agencies use an overdraft account, the portfolio is basically protected from devaluation caused by inflation or the devaluation of Egyptian currency.

Another expected advantage of the collateral fund arrangement was a leveraging of the fund. Although banks would initially provide an overdraft account roughly equal to the value of the collateral fund, they were expected to increase their overdraft account to up to two times the collateral amount once the programs proved their creditworthiness.

Project Funding and Agreements

The Project Paper, signed in September 1988, outlined a seven-year project with total funding obligated as follows:

Credit Fund:	$16 million ($8 million per foundation)
Operational Support:	$980,000
Special Projects:	$1,000,000
Technical Assistance:	$1,230,000
Project Management:	$300,000
Evaluations/Audit:	$490,000

Three different Agreements were signed for project implementation, one for each foundation and one for the U.S. firm chosen to provide technical assistance.

1) Technical Assistance Contract No.: 263-0212-C-00-9053-00

Contractor: National Cooperative Business Association (NCBA)
Date of Agreement: April 12, 1989
Initial Total Budget: $999,346

NCBA assigned a Project Director to Cairo for the 30-month period from April 1989 through October 1991. The Project Director was responsible for coordinating all technical assistance to the project. In brief, NCBA's deliverables during the 30-month contract with USAID were to:

- Provide a technical assistance team to each foundation;
- Establish lending institutions (2) in Cairo and Alexandria;
- Develop a comprehensive plan of technical assistance;
- Establish credit delivery systems;
- Establish branch offices;
- Set up loan disbursement systems;
- Establish comprehensive management information systems;
- Implement credit management training; and
- Promote the SME approach.

Of the total budget, $452,946 was designated for subcontracts that were then signed with an Egyptian firm, Environmental Quality International (EQI). The EQI-NCBA contract was from June 1989 through October 1991. EQI housed the NCBA Project Director and provided a resident technical advisor for each foundation. According to the contract with NCBA, EQI would:

- Train the relevant staff of the foundations in portfolio management, loan extension and recovery, accounting, bookkeeping, and reporting;

- Develop detailed policy guidelines, operational plans, manuals, loan forms, and monitoring and reporting systems;

- Assist the foundations in designing a fee structure that will allow the foundations to be self-sustaining and reach financial break-even during the life of the project;

- Define and implement a delivery mechanism for providing technical assistance and training programs directly to the clientele; and

- Develop a computerized accounting and reporting system that will provide management with timely and thorough information on loans extended, repayment performance, projections for subsequent periods, and information on beneficiaries to monitor the socioeconomic impact of the program.

USAID's agreement with NCBA was modified in December 1991 to extend the contract to October 1992 and increase the total budget to $1,441,537. The NCBA Project Director had left Cairo when the original contract expired in October 1991 and would not be replaced. Instead, NCBA extended its contract with EQI and agreed to provide backstop support from Washington and quarterly visits to supervise and support the implementation of that contract. The EQI budget increased to $816,091. The modification specified the areas of technical assistance that would be emphasized during the extension, most of which had been identified by the NCBA Project Director before his departure. (See section on Project Technical Assistance.)

2) Cooperative Agreement No. 263-0212-A-00-9055-00

Recipient: Alexandria Businessmen's Association (ABA)
Date of Agreement: April 15, 1989 to April 15, 1991
Initial Total Budget: LE 5,210,344 and US$ 60,000[2]

This initial agreement was modified five times, with the fifth modification extending the project to September 30, 1993. The budget was increased to LE 2,704,461 and US$ 6,364,000 (see Table 1, p. 17 for budget detail). Because ABA was rapidly approaching self-sufficiency, the modification included a clause stating that utilization of the Office Operational Costs and Equipment line items beyond six months from the effective date of the modification is subject to prior USAID approval. This clause effectively defined a specific date by which ABA should be operationally self-sufficient, and begin paying its own operating costs.

[2] Modifications to the Cooperative Agreement changed the collateral fund from a LE to a US$ account, explaining the large change in the budget between the Agreement and final modification.

3) Cooperative Agreement No. 263-0212-A-00-9064-00

Recipient: Egyptian Small Enterprise Development Foundation
Date of Agreement: July 30, 1989
Initial Total Budget: LE 9,972,000 and US$ 68,500

This agreement was also modified five times, with the final modification extending the project to June 29, 1993. The final budget was LE 3,861,049 and US$ 4,177,952.

Implementing Institutions

The Alexandria Businessmen's Association

The ABA is a membership organization formed by private sector leaders in Alexandria. It existed informally before project initiation, but was formalized in April 1989 to carry out the SME Project. Current membership numbers 250 businessmen involved in export and industry, tourism, agriculture, and other professions. The ABA's mission is to strengthen relations between business and government, create a favorable climate for developing trade and investment, cultivate relations among Egyptian businessmen and with foreign businesses, and improve community services in the Alexandria area. The ABA has an active board of 15 prominent businessmen.

The SME project is the first project of its type that the ABA has assumed. The project is an opportunity for them to serve small businesses in Alexandria, instead of only large ones, and to increase the ABA's presence and influence in Alexandria and Egypt. The ABA selected one of its members as Executive Director of the project, and formed an Executive Committee from the board, including the Board Chairman, to work closely with the director.

Egyptian Small Enterprise Development Foundation

In Cairo, no appropriate existing organization was enthusiastic about taking on the SME project. Consequently, USAID worked with 10 private sector leaders to identify potential board members for the new foundation. The board was formed in late 1988.

The Legal Framework: Societies Law - Law 32/1964

Both ABA and ESED are chartered under Law 32, which governs private voluntary societies of many types and places them under the auspices of the Ministry of Social Affairs (MoSA). The law was passed in 1964. According to a recent study (Integrated Development Consultants, 1991), although the law continues to provide the most appropriate existing legal framework for these types of organizations, it is outdated and problematic, especially for organizations implementing credit programs.

Several specific problem areas within the law affect the operations of both of the implementing foundations, and have implications for future activities in this area. The law has been a particular problem for ESED, as it is more closely under the watchful eye of the MoSA in Cairo.

- Law 32 requires a specific manual form of record-keeping, and the MoSA inspectors insist on simple, manual accounting in order to oversee the foundations. Because of their volume of activity as credit organizations, both foundations are moving towards computerized accounting systems, but will have to maintain manual systems to abide by the law.

- The law maintains that only the chairman of the board or his deputy in combination with the treasurer can sign checks. The number of loan checks written by the foundations each month is large, and timely credit disbursement depends upon the availability of the board members.

- Some provisions of the law imply that the MoSA has extensive control over the organizations, and the vague provisions within the law give considerable power to local inspectors to interpret their level of influence over the organizations.

The report concludes, however, that despite the constraints to operating under Law 32, it is the best vehicle available at this time.

PURPOSE AND METHODOLOGY OF THE EVALUATION

This interim evaluation of the seven-year SME project comes more than 2.5 years after project implementation began, and with 3.5 years until the Project Assistance Completion Date.[3] The evaluation was carried out from January 6 to January 30, 1992. The evaluation is intended to serve as a guide to USAID/Cairo for its future support to the SME sector in Egypt.

The establishment of two self-sufficient foundations providing credit to large numbers of small- and micro-scale entrepreneurs is the critical first phase of this project, and the focus of the first three years of technical assistance. Training and technical assistance to borrowers is expected to become more important once a self-sufficient credit delivery system is in place. Therefore, this initial evaluation focuses on the institutional development and financial self-sufficiency of the two foundations, and on the efficiency of services being provided. Ultimately, the project's impact will depend on the institutional strength, efficiency, and financial soundness of the two foundations established during this first phase. The issue of project impact on borrowers and the SME sector has been left for future evaluations.

For each foundation, the midterm assessment analyzes the following specific areas:

- Institutional Development: leadership, vision, management and decision making, policies and procedures, and management information systems;

- Financial Status and Prospects: USAID support, financial position, self-sufficiency, portfolio quality, and financial management; and

- Services Delivery: efficiency and scope of credit disbursement and recovery, and technical assistance and training activities.

[3] See Appendix A for Scope of Work.

Although technical assistance has played a key role in project implementation, and accounts for 6 percent of project funds obligated, it is not analyzed in detail. Instead, the assessments of the current status of each foundation reflect the contribution of the technical assistance, and identify the areas where technical assistance is still needed.

The list of persons interviewed is included as Appendix B. Other critical sources of information include the reports produced for USAID, the reports produced by the NCBA resident Project Director, financial statements, and management information produced by each foundation.

SECTION THREE

THE SMALL- AND MICRO-SCALE ENTERPRISE PROJECT OF THE ALEXANDRIA BUSINESSMEN'S ASSOCIATION

INSTITUTIONAL DEVELOPMENT

Leadership

The ABA Board of Directors signed the Cooperative Agreement with USAID in May 1989, and soon after agreed upon one of their own members as Executive Director. The project rented half of ABA's own office space, started hiring staff, and quickly obtained the necessary permits from the MoSA. The board's contacts and reputation seem to have facilitated the paperwork with the MoSA as well as negotiations with participating banks. By January 1990, ABA was disbursing loans.

Upon assuming responsibility for the project, the ABA selected a five-person Executive Committee made up of the Chairman of the Board, the Treasurer, two other members, and the Executive Director. This committee meets twice monthly to approve new loans. When the Chairman is out of town, two other committee members sign all of the loan checks.

Although the ABA Executive Committee is involved and supportive of the project, it has delegated authority of the day-to-day management of the project to the Executive Director. They respect his judgement and do not interfere with his management. The Executive Director makes all hiring and firing decisions, and has control over the budget once it has been approved. He is well organized, decisive, and has made sure that each member of the staff knows exactly what their responsibilities are.

Vision

A clear organizational vision entails a deep understanding of the long-term objectives of a project and the strategies to reach them. Effective organizations have a clear vision that is shared at all levels, including the boards of directors, management, and employees.

The ABA board and Executive Director seem to have a thorough understanding of the project's goals and objectives. They identify with the project's design and emphasis on developing a self-sufficient credit institution serving the SME sector. They are confident that they are helping the enterprises they reach with their loans, and this confidence is also evident among the extension officers. From the board through the staff, the organization has a good idea of what it is trying to do and why.

Management and Decision Making

The ABA project has five different departments, each of which has a manager who reports directly to the Executive Director. The departments are:

- Small Business Center: one manager;
- Management Information Systems Department: MIS specialist as manager and two computer operators;
- Legal Department: manager and two additional lawyers to pursue delinquent borrowers;
- Operations Department: manager supervises four branch managers, who supervise 19 extension officers. All four "branches" are currently housed in the headquarters office, although two will be moving to separate offices shortly; and
- Financial/Administration Department: manager supervises 8 accountants, 8 administrative staff, and 3 "contracts" staff who process loan documents.

Decision making within ABA is centralized around the Executive Director, who consults regularly with the EQI resident technical advisor. All managers report to him individually, and he also meets weekly with the entire Operations Department to review the productivity of the extension officers and discuss any problems they might be having in the field. He receives daily repayment reports on the portfolio, and carefully tracks the work of each extension officer, as well as the recovery of delinquent loans by each lawyer.

The organizational structure permits the development of midlevel management through the managers of each department. As the organization grows, and its activity increases, it will be important to begin to involve midlevel management in the decision-making process, and for the Executive Director to delegate more authority. In another year, it will be difficult for him to keep track of the detailed performance of each extension officer, and he will have to trust the management decisions of the branch managers and operations manager. This process of management decentralization will by facilitated by the upcoming opening of two new branch offices, one in another part of the headquarters building, and another in a different part of the city.

Policies and Procedures

The ABA project follows the personnel policies of the government, and raises salaries at the same rate. In addition to basic salaries, however, staff receive monthly monetary incentives based on the productivity of the extension officers. The incentive for each extension officer is based on the number of new loans he disburses in a month, and his repayment rate. The minimum to receive the repayment rate incentive is 97 percent repayment, and the minimum in new loans is 20 (10 for extension officers with less than three months on the job). The incentives for the branch managers and operations manager are based on the global incentives earned by the extension officers (30 percent and 35 percent respectively). The administrative staff receive incentives based on the global repayment rate and their own salary.[4] The lawyers receive incentives based on the amount of payments they recover each month. In addition, there are monthly monetary bonuses for the Extension Officer of the Month and Branch Manager of the Month, also based upon well-defined quantitative measurements.

Management is very pleased with the results of the incentive system, and feel that it has led to high motivation and productivity. Administrative staff is less pleased with it because they feel the incentive they earn bears little relation to their own work. The upcoming revision may improve this situation. The operations staff and lawyers are pleased to have a mechanism for augmenting their salaries, which are very low for private sector jobs, but slightly better than public sector. On the other hand, they do not like having so much of their income dependent on the incentive. The system is very "black and white," as a slight drop in a repayment rate disqualifies the extension officer from any incentive, and can mean a substantial decrease in income compared to a previous month.

ABA has an operations manual that was originally developed by EQI, but has been adapted by the operations manager, some extension officers, and the EQI resident advisor. It is based on the program's experience, and helps guide extension officers in their work. There is also a training manual for extension officers that the operations manager developed out of some of the training sessions received near the beginning of the program.

Internal management and administrative procedures appear clearly defined. Indeed, several staff commented that the high level of organization within ABA contributed to their job satisfaction.

Management Information Systems

The computerized Loan Tracking System (LTS) was developed by EQI. It is an invaluable component of ABA's management, and has had a positive impact on efficiency. The system produces daily repayment reports (with cumulative and daily figures for the current month) for the Executive Director, and disbursement/delinquency reports (by extension officer and age) twice monthly. The extension officers receive reports of all their borrowers by payment due date two or three times each month, and use them to check off borrowers as they pay. Branch managers receive this report for all of the extension officers in their branch. The lawyers also receive delinquency reports that guide them in their recovery activities. In addition, the system is used to produce reports that calculate the incentives due each person. And it is used to print the borrower repayment checks, which, because there are 4-12 with every loan disbursed, saves considerable time.

Just recently, ABA produced its first impact study based on socioeconomic data entered for each borrower at the time of the first loan and then each repeat loan. This computerized information will permit continual monitoring of the borrowers, and facilitate any impact evaluation.

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[4] This rate is currently being revised so that the incentives of administrative staff are based on the number of loans processed instead of the repayment rate. This change makes sense because their work load is more directly related to the number of loans processed than the repayment rate.

ABA is still dependent on the EQI computer programmer to support the MIS, enhance its capabilities, and produce new reports not originally contemplated. The MIS manager within EQI, however, has been working with the system from the very beginning and is well qualified and capable of managing it when the technical assistance contract ends. Furthermore, she is continually looking for ways to use the system to enhance productivity and efficiency, and often develops new formats or reports to facilitate the work of management.

The accounting department uses the accounting package provided by EQI, but also keeps the accounts manually. Although some manual accounting is required by the MoSA, most of the accounting could be done solely by the computer. The system is designed to interface with the LTS system, so that duplicate entries do not have to be made. That interface is not yet being used. Full computerization of the accounting department could reduce the amount of time and personnel needed for daily transactions and permit the accounting staff to assume additional financial management activities instead.

FINANCIAL STATUS OF ABA

USAID's Support and Other Donor Support

Table 1 shows ABA's budget for this project, the amounts disbursed from USAID, and their percentage of the total budget. Approximately 60 percent of the period of the agreement has passed, and ABA has used considerably less than 60 percent of the budget in most categories. Modification 5 of the Cooperative Agreement, which established this budget, also specified that ABA would have to have prior USAID approval to use the operational costs and equipment line items after six months of the modification approval date (November 11, 1991). Although not specified elsewhere, USAID has maintained since project start-up that they will cover operational costs only until the foundation reaches operational self-sufficiency. Modification 5 specifies for the first time a target date for self-sufficiency.

ABA has also received a small grant from a Canadian organization intended to fix several donated vehicles. This donation raises the question of donations from other international organizations for ABA. ABA is being approached by several international donor organizations. Currently, it is negotiating with one donor for operating support for the Alexandria Small Business Center (see Training and Technical Assistance Section). Even if USAID cuts off its operating support, ABA will undoubtedly have other potential sources of funds. It will need to be careful not to let the availability of funds loosen its financial discipline and commitment to self-sufficiency.

TABLE 1

BUDGET AND DISBURSAL — ABA

	1989	1990	1991	TOTAL	Total Budget (to 9/30/93)	% Budget Disbursed
USAID Disbursements (LE)						
Operational Costs	87,384	238,706	322,493	648,583	1,375,155	47%
Equipment	151,645	115,293	(7,797)	259,141	466,504	56%
Training	20,000	(1,579)	45,060	63,481	133,421	48%
Special Projects	0	0	0	0	729,381	0%
TOTAL LE DISBURSED	259,303	352,419	359,756	971,205	2,704,461	36%
USAID Disbursements (IN US $$)						
Collateral Fund		1,310,896	854,539	2,165,435	6,304,000	34%
(interest earned)		56,268	110,107	166,375		
Vehicle		0	0	0	25,000	0%
Int'l Travel/Per Diem	15,253	3,329	10,366	28,859	35,000	82%
TOTAL US$ DISBURSED				2,360,669	6,364,000	37%
Other Grant Income			20,853			

Financial Status

ABA's summarized balance sheet and operational income and expenses are shown in Table 2. The figures for 1991 were constructed using ABA's trial balance for the period, and do not represent official or audited statements. They include the assets and liabilities of the Alexandria Small Business Center (ASB).

As expected, a comparison between years shows solid growth in all categories. It is also worth noting that ABA does maintain a provision for loan losses.

ABA is in a strong liquidity position. The collateral fund is capitalized at over twice the amount of the outstanding overdraft, giving ABA plenty of room for portfolio growth. USAID is still covering operational expenses based on quarterly projections, and ABA has over 1 million pounds in cash and short-term assets, representing 9 percent of total assets.

The "Funds for Activities" liability account is USAID's equity in ABA. When the project terminates, it will become ABA's own equity. From 1990 to 1991, the liability account decreased from 79 percent to 67 percent of total assets. Both figures represent high levels of capital adequacy.

The project design is enabling ABA to strengthen its capital base in several ways. First, ABA has the dollar collateral account, capitalized in excess of current need, earning interest. Second, all of ABA's own revenues are deposited in the overdraft account, thereby decreasing the overdraft account and the amount ABA must pay in interest. Third, ABA is wisely using some of its Operational Expenses line item from USAID (and Special Projects line item) to purchase office space. By purchasing branch office space, ABA's expansion will entail minimal increases in operational costs (primarily salaries, no rent), facilitating self-sufficiency. Also, the purchase of office space for the ASB Center greatly decreases operating costs for the Special Project.

Evidence of this capitalization is that, without including the collateral fund or overdraft account in the calculation, ABA's Funds for Activities account reflects about 93 percent of the value of the total amount received thus far from USAID.

Self-Sufficiency

ABA charges 22 percent annual interest on the original loan amount, and no additional fees. With an average loan term of seven months, and an average loan size of LE 2048, the effective interest rate works out to 3.11 percent per month, or 37.35 percent per year.

The operational income and expense figures in Table 2 show ABA's earned income compared to its operational expenses and finance charges. The expenses of the ASB are considered separately to show the self-sufficiency of the credit activities. The ASB has a special line-item for funding (Special Projects) and its activities are expected to be subsidized for the foreseeable future.

As the figures show, ABA achieved operational self-sufficiency in 1991, earning enough income to cover 100 percent of its operating costs. This is a noteworthy accomplishment after only two years of lending, especially considering that ABA pays 19 percent interest on all of its portfolio funds. Because ABA's actual revenues are used to decrease the overdraft account, however, ABA has not quite achieved complete operational self-sufficiency. Its finance expenses are less than they would be if ABA had to use its own revenues to cover its operating expenses.

In addition, ABA's operations are also subsidized by the technical assistance from EQI, though not to a great extent. Although ABA still receives assistance with the MIS from EQI, the MIS specialist in EQI appears capable of managing the Loan Tracking System. EQI also provides assistance in the financial management area. As the accounting system becomes more automated, EQI's own financial department should have time to carry out this function. The resident advisor from EQI is an important advisor to the Executive Director, and has played a key role in developing the Operations Department. He has, however, been training the operations manager and branch managers so that they train new extension officers and manage all aspects of operations. In sum, although ABA still benefits from the technical assistance, they have a structure already in place that will readily assume those activities, with minimal additional cost, when the technical assistance contract ends.

ABA's spread also indicates that their cost and revenue structures are adequate for complete financial self-sufficiency. The average effective interest rate on ABA's loans is 37.35 percent per year. ABA pays 19 percent for its overdraft account, leaving a spread of over 18 percent. In 1991, ABA's operating expenses divided by the average outstanding portfolio for the year was only 10 percent, well below the 18 percent spread.[5]

[5] Because the average outstanding portfolio includes fees, the costs divided by the portfolio without fees is higher than 12 percent, but still below the spread of 18 percent.

TABLE 2

BALANCE SHEET AND INCOME-EXPENSE: ABA
(in LE)

	12/31/89	12/31/90	12/31/91
ASSETS			
Equip and Furniture (after depreciation)	90,451	138,953	371,074
Real Estate	245,000	290,000	
Cash and short-term assets	145,453	664,423	1,091,921
Collateral Fund (held in dollars)	17,554	3,929,241	6,528,513
Borrower Accounts			
Loans Outstanding (with fees and arrears)		1,563,824	3,954,638
Allowance for uncollectibles		(23,995)	(23,995)
TOTAL ASSETS	253,459	6,517,446	12,212,151
LIABILITIES			
Funds for Activities (USAID funds reflected in assets)	231,733	5,181,608	8,181,529
Excess of Revenues over Expenses		(166,237)	62,968
Supplier, Notes Payable, Other	21,726	118,523	811,544
Outstanding Overdraft		1,383,552	3,156,110
TOTAL LIABILITIES	253,459	6,517,446	12,212,151
OPERATIONAL INCOME AND EXPENSES			
Earned Borrower Fees	0	148,144	638,889
Other	0	1,850	438
Operational Expenses	85,187	169,536	289,845
Finance Charges	152	81,778	347,497
CREDIT OP INCOME - EXPENSES	(85,339)	(101,321)	1,985
CREDIT OP INCOME/OP EXPENSES	0.00%	59.68%	100.31%
ASB OP EXPENSES			4,513
TOTAL OP INCOME - EXPENSES			(2,528)

Detailed financial projections prepared by EQI, which factor in expenses and revenues for an expansion including four new branch offices by September 1993, also indicate that ABA should be able to maintain operational self-sufficiency through this period. These projections are based on total income (including repayments of principal) divided by total disbursements for loans and operational expenses. It would be helpful to have financial projections that keep principal and fees separate, as the two items should be considered separately in ABA's financial management.

Portfolio Quality

As Table 3 shows, ABA's portfolio quality is excellent. There have been no loan losses, and the amount delinquent more than 30 days has maintained itself at about 3 percent from 1990 through 1991. Only 7 percent of the active loans have any payments past due. The total amount disbursed to that 7 percent is equal to 8 percent of the outstanding portfolio, which means that the contaminated portfolio, or balance of loans with payments past due by more than 30 days, is somewhere between 3 percent and 8 percent. There have been no loan losses thus far.

ABA's portfolio is concentrated in several activities. Over 30 percent of the amount disbursed has gone to the garments sector, and 78 percent of the amount disbursed has been for four different activities: garments, shoe/leather, woodwork, and metal. This concentration poses a potential risk to the portfolio as a serious economic downturn in one of these areas could affect the overall portfolio quality.

TABLE 3

PORTFOLIO QUALITY - ABA
(in LE)

	12/31/89	12/31/90	12/31/91
Amount Outstanding	0	1,539,828	4,036,091
Amount Delinquent > 30 Days	48,505	120,529	
% Delinquent > 30 Days		3.15%	2.99%
Balance Delinquent > 30 Days			
% Delinquent > 30 Days			3-8%
Loan Losses	0	0	0

Financial Management

Currently, ABA manages its own accounting and manages the Project's budgets and expenditures. The high number of loan transactions, and the manual accounting system, absorb the time of seven people in accounting activities, leaving little time for financial analysis, which is assisted by EQI. Full computerization of the accounting system, and use of the interface to link the accounting system with the

Loan Tracking System, would reduce the work of the accounting department. Some accounts would still have to be kept manually to meet MoSA regulations, but these could be based on computer-generated reports. Full computerization would give the ABA Finance Department time to do more financial analysis, cash flows, and projections. By the time the technical assistance contract ends, the Finance Department should be assuming these financial management responsibilities.

ABA SERVICES DELIVERY

Goals versus Achievements

Table 4 shows ABA's achievements after 2.5 years of operations, and two years of lending, compared to the project's goals for Years One and Three:

TABLE 4

GOALS VERSUS ACHIEVEMENTS

	12/31/91 (actual)	End of Year One (Projected)	End of Year Three (Projected)
# Branch offices:	0	1	4
# Ext. Officers:	19	7	24
# Enterpr. reached:	3,748	1,295	8,646
Avg. loan size (in LE)			
small:	5,678	5,570	8,750
micro:	1,365	1,375	2,375
Percentage loans			
small:	16%	30%	30%
micro:	84%	70%	70%

Although ABA has not yet established separate branch offices, ABA staff will be moving into two new branch offices within the coming months. One is in the same building as the headquarters office to manage Central Alexandria, and the other is another location that has been purchased by the ABA. In addition, the Operations Department is already functioning with branch-level management. The extension officers are divided into four different branches, each with a branch manager.

The number of enterprises reached is considerably below the project's original targets, primarily because the project's goals were based on a group-lending methodology that was determined to be infeasible. The average loan sizes are within the range specified by the project design, and the percentage of loans to SMEs indicate that ABA is reaching relatively more microenterprises than the project design had anticipated. Although only 16 percent of the number of ABA's loans has gone to small enterprises, 43 percent of the amount disbursed has been to that category of enterprise.

Efficiency

The operations of ABA began efficiently, and have improved, as shown by the efficiency indicators in Table 5:

TABLE 5

PORTFOLIO AND EFFICIENCY INFORMATION - ABA
(in LE)

	1989	1990	1991	Cumulative Total
Amount Disbursed		3,659,750	8,920,250	12,580,000
# Loans Disbursed	0	1,631	4,511	6142
Small Enterprises				15.84%
Micro-Enterprises				84.14%
Avg. Loan Size (small)				5,678
Avg. Loan Size (micro)				1,365
Op. Cost/LE lent		0.07	0.07	0.07
Op. Cost/Amnt. Outst.		0.16	0.16	0.22
Op. Cost/Loan		154	142	159
USAID cost/loan		216	79.75	158
USAID cost/LE lent (only including LE items)		0.10	0.04	0.08
# Active Borrowers (end of year)		1,200	2,816	
Borrowers/Ext. Off.		120	134	

The operational cost (operations costs and finance charges) per loan and per LE lent are low and show high levels of efficiency since program start-up. It is interesting to note the dramatic decrease in USAID's expenditures (total LE expenditures, not US$ expenditures or technical assistance expenditures) per loan and per LE lent from 1990 to 1991. ABA is doing more with less USAID funding.

ABA has been extremely well organized in its implementation and provided incentives based on productivity, which have contributed to its high levels of efficiency.[6] On average, each extension officer handles 134 active borrowers. ABA management feels that the case load should be limited to 120 per extension officer, and is trying to subdivide zones as soon as any extension officer accumulates over 100 active borrowers. Experienced extension officers disburse, on average, well over 30 loans per month (new and repeat), and sometimes as many as 50.

[6] For more details on the incentive system, see the Policies and Procedures section.

The productivity of ABA's extension officers is also related to the organization of their work and the support they receive. Each extension officer has a well-defined geographic zone and does not visit any borrowers in other zones. All new borrowers are visited by the branch or operations manager before a first loan is disbursed. The branch and operations managers also offer field support for any problem cases.

The ABA extension officers spend minimal time dealing with borrowers with repayment problems. When a payment is missed, the extension officer visits the borrower with a written letter expressing concern about the missed payment. If no payment is received, the borrower will receive a letter from an ABA lawyer within a couple of days, warning that legal action will be taken. The lawyer might then visit the borrower as well. At this point, payment becomes the responsibility of the lawyer instead of the extension officer. The extension officer continues visiting the borrower regularly throughout the loan period after the delinquent payment is made.

The lawyers also receive an incentive based on the amount of delinquent payments they collect. About 75 percent of the borrowers pay after their first "friendly" contact from the lawyer, another 22-24 percent pay at some point during the initial legal process, and only 1-2 percent end up going to court. Egypt's laws make it very easy for the ABA to win cases presented in court, and all loans have been recovered after court proceedings.

The productivity of the extension officers is also related to the minimal amount of time they must spend in the office and doing paperwork. The MIS provides them with timely reports on the status of their borrowers, payment due dates, and even indications of whether their performance thus far is sufficient to earn an incentive. Although they must gather the documents and fill out the loan applications, this paperwork is finalized by "contract officers" who manage the internal processing of each loan. Loan disbursal for new borrowers is done in groups, twice monthly, so the extension officers spend only one to one and one-half hours each month disbursing loans.

The extension officers do promote the program among potential borrowers, but make relatively few "cold" visits, as most new borrowers hear about the program from other participants. All new participants receive a certificate of membership to ABA, which helps promote the program. Extension officers are also aided in their promotion efforts by brochures. According to one extension officer, 80 percent of his visits result in a new borrower, indicating that small- and micro-scale entrepreneurs are receptive to the program and loan conditions as presented by the extension officers.

Training and Technical Assistance

To date, ABA provides no training and limited technical assistance to borrowers. The extension officers talk with borrowers on their frequent visits (monthly or more) but rarely spend more than 15 minutes with each borrower on these follow-up visits. Although training and technical assistance are part of the project design, they are to be pursued once the foundations have established an efficient credit delivery service. The Special Projects line item in the budget provides funds for developing training and technical assistance activities.

The ABA has begun to use its Special Projects budget to develop the ASB Center. Premises for the center were purchased one floor below the main offices of the project in 1990. Some of that space is being used by the extension officers, as the existing office space could not accommodate the growth of the program in 1991. In July 1991, ABA hired a Marketing and Exhibitions Director to begin ASB activities. The first activity has been to organize a showroom for the products of a select number of borrowers. The showroom will be officially inaugurated on January 29, 1992.

The plans for the ASB also include a library, to be supplied with catalogues and books of administrative and technical materials, and training sessions to be conducted by a local training institution. In preparation, repeat borrowers have been questioned about what specific areas would be of most interest to them for training and other services.

ABA management recognizes that the ASB will probably serve only a small percentage of their borrowers. But interested borrowers may benefit substantially from the services. Visiting trade delegations will visit the show room, and may produce export contracts for some ABA borrowers. In addition, ABA's contacts with the formal business sector in Alexandria may facilitate the establishment of links between program clients and large businesses in Alexandria. The showroom will also enhance the project's visibility and image in Alexandria.

Thus far, the recurrent costs of the ASB have been kept to a minimum. The premises were purchased, so ABA pays no rent. Only one staff person has been hired. Although the Marketing and Exhibition Director wants to charge fees to borrowers participating in the showroom, ABA management has decided that the initial activities of the ASB will be without charge. After a short time, fees will be established for all activities to cover some of the costs. The costs for the next two years will be subsidized by the Special Project budget, and long-term costs will probably be covered by fees for services and some donor funds.

The activities of the ASB have not diverted ABA from its primary objective of self-sufficiency. The ASB has actually subsidized some of the credit operations by providing office space during a period of expansion of the number of extension officers. ABA management is aware of the danger of the ASB compromising the self-sufficiency and efficiency of the credit operations, and appears determined not to let that happen. The ASB can provide important services to some clients, and greatly increase the visibility of the program in Alexandria and Egypt as a whole. As long as the costs are strictly separated from the credit program, and the center does not interfere with the credit operations, it could prove to be a positive experiment in the provision of training and technical assistance to small entrepreneurs.

Project Impact

ABA has recently begun gathering socioeconomic data with repeat loan applications to track changes in clients' economic situation. By the end of 1991, information was available on 717 borrowers, 84 percent of whom had received two loans, 14 percent of whom had received three loans, and 2 percent of whom had received more than three loans.

According to preliminary results, the number of permanent employees increased 9.5 percent, and temporary employees by 35 percent. Interestingly, more women were employed than men, with a 16 percent increase in permanent jobs held by women (8 percent men), and a 36 percent increase in temporary jobs held by women (33 percent men). Production increased by 86 percent, and the number of clients using cash to buy raw materials instead of supplier credit increased by 54 percent. Although 10 percent of these borrowers had used supplier credit before loans from ABA, less than 1 percent are currently using supplier credit. The number of clients with a bank account increased from 23 percent to 27 percent.

Although there is no control group against which to compare these results, they do indicate a positive impact of ABA loans on borrowers and on employment generation.

SECTION FOUR

THE EGYPTIAN SMALL ENTERPRISE DEVELOPMENT FOUNDATION

INSTITUTIONAL DEVELOPMENT

Leadership

The ESED Foundation in Cairo has had a difficult beginning. The newly formed Board of Directors suffered from organizational problems that delayed project initiation. Further delays were caused by the bureaucratic struggle required to obtain needed authorizations from the Ministry of Social Affairs. The following chronology shows the impact of these delays on the initiation of project activities.

- July 1989: Cooperative Agreement signed with USAID.
- December 1989: ESED has an Executive Director, but has not secured its accounting books from MOSA. A bookkeeper and 4 extension officers have been hired.
- April 1990: First Executive Director formally hired.
- November 1990: ESED finally obtains approval from MoSA. Loan disbursal begins.
- April 1991: Current Executive Director is hired.

USAID officials, the technical assistance team, and foundation staff assert that the foundation did not start working effectively until the current Executive Director assumed control in April 1991. Unfortunately, however, he has been faced with some problematic situations left over from the previous administration. Some initial staffing decisions are still hampering project implementation. Another constraint has been the board's reticence to delegate sufficient authority for the effective management of day-to-day operations, thereby causing delays in decision making and reduced efficiency. The Executive Director has a positive relationship with the board, however, and is making progress at removing these constraints.

Vision

Partly because of its initial leadership problems, ESED has had to struggle with the establishment of a clear organizational vision. Although the ESED staff and board understand the project's methodology and goals, some of them voice concern that the project's services are not ideal for the enterprises being reached. Several extension officers and others question the loan terms in particular, and would like to see the foundation give more emphasis to marketing and other types of assistance.[7]

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[7] This concern raises an interesting and important question, which is whether ESED is reaching the type of enterprises that can best take advantage of its services. This issue is discussed in the section on Services Delivery.

To become a self-sufficient credit institution, ESED must focus all its efforts on delivery of credit services on a cost-recovery basis before considering additional support services. This tension between self-sufficiency and the desire to provide more benefits to borrowers is not unusual among programs of this type. As ESED gains lending experience and increases its understanding of credit's role in the SME sector, a clearer vision of its target group and strategy will emerge.

Management and Decision Making

The organizational structure of ESED is as follows:

Board of Directors

Executive Director
(advised by resident advisor from EQI)

Finance/Admin. Manager	Acting Op Manager	Legal Advisor
Accountant	- 10 Ext. Officers	
Asst. Acc't	- 3 Ext. Officers being trained	
Collector/Cashier		
Computer Operator		

Support services are provided by a secretary and two messengers.

The foundation is currently understaffed. New staff have not been hired because of insufficient office space and delays on the part of the board in selection and hiring. New office space (as well as a branch office) has been located and is being prepared for occupancy. Positions that the Executive Director hopes to fill shortly include 2 accountants, 2 clerks, 1 MIS manager, 1 personnel manager, and an officer manager. The new branch office will be staffed by a branch manager (one of the existing extension officers), 3 extension officers, a lawyer, 2 accountants, and one computer operator. Eventually, it will house 9 extension officers.

The Executive Director has been in office less than one year. He has earned the respect and confidence of the staff, and relies on their input for decision making. He works closely with the resident advisor from EQI, and the Manager of Finance and Administration. The acting operations manager is actually an extension officer who maintains a portfolio and full load of clients, but is temporarily functioning as operations manager as well. The Executive Director meets weekly with all the extension officers to review their portfolios and discuss any problems or issues.

Internal management and decision making within the foundation appear to function satisfactorily, with the exception of the lack of sufficient authority of the Executive Director, as discussed above.

Policies and Procedures

Most of the foundation's policies and procedures were developed with the help of the technical assistance team from NCBA/EQI. In addition, the foundation must follow guidelines established by the Ministry of Social Affairs. The foundation's by-laws include a personnel manual, and there are job descriptions for most positions and a credit policy manual used by the extension officers.

A salary incentive system is being studied by the Executive Director and board to reward high productivity of the extension officers and branch managers. Administrative staff will also participate in the incentive scheme. The incentive system is based on the one already being used in Alexandria. The extension officers hired under the current Executive Director are highly motivated, and deserve the rewards for high productivity that a well-structured incentive program will offer.

The foundation is in a critical stage of institution building, which has implications for salary and personnel policies. As ESED fills the positions of operations manager, management information specialist, and finance manager, care should be taken to select well-qualified staff who can make a strong contribution to the institution. Such staff may require salaries commensurate with those in the private sector. Future institutional strength should not be compromised just to reach self-sufficiency a little sooner.

Management Information System

The Loan Tracking System used by the foundation was developed by EQI and is invaluable to the operation of the foundation. Daily reports are printed for the Executive Director that provide current information on loan disbursements, repayment rates, and delinquency by extension officer. The system produces reports according to loan size, borrower activity, loan term, and numerous other variables depending upon the requests of management.

The system is also extremely useful to the extension officers. They receive a monthly list of all of their borrowers organized by date of payment due. They mark this list daily as payments are received, and are immediately aware of borrowers who do not pay on their due date. They also receive a weekly printout of borrowers who have fallen behind in their payments. For repeat loans, the extension officers receive a printout of the payment history of the borrower showing any delays in payments on previous loans.

The LTS is also capable of printing the borrower installment checks that borrowers must sign for each of their expected amortizations. These checks are currently filled out by hand, a laborious process as each loan entails 6-12 checks depending on the amortization period. It is not clear why the foundation has not yet automated this process.

In addition to the LTS, the foundation has been provided with a computerized accounting system and an interface to connect the accounting system to the LTS. The accounting system is not being fully utilized, however, partly because of the MoSA requirements that accounts be maintained by hand, and partly because the accounting department is behind with its manual records. EQI is currently updating the books and entering the information into the accounting system so that the computerized system can be fully operational. The foundation expects to maintain their books both manually and with the computerized system, a decision which results in double work.

Although the LTS is providing invaluable support to the foundation, the overall management information system is capable of having an even larger impact on the foundation and its efficiency. The system is not yet being used to its full capacity. The lack of a management information specialist may be limiting the rate of use of the system. The computer operator can enter data and produce the standard reports, but he may not have the technical background to fully manage the system without the assistance of EQI. ESED will have to fully manage the system when the technical assistance contract runs out in October, however, and should be preparing itself.

FINANCIAL STATUS OF ESED

USAID Support

Table 6 shows ESED's budget under the latest agreement modification, the amounts disbursed, and their percentage of the total budget. The period reflected represents 60 percent of the Cooperative Agreement (29 of the 48 months have passed).

TABLE 6

BUDGET AND DISBURSEMENTS - ESED

	1990	1991	TOTAL	BUDGET (to 7/93)	% BUDGET DISBURSED
USAID Disbursements (LE)					
Operational Costs	220,708	303,508	524,216	1,847,892	28%
Equipment	155,924	146,191	302,115	533,152	57%
Training	4,000	0	4,000	210,000	2%
Special Projects	0	0	0	1,250,000	0%
TOTAL	380,632	449,699	830,331	3,841,044	22%
USAID Disbursements (US$)					
Collateral Fund	$135,500	$892,342	$1,027,842	$4,109,452	25%
Vehicle	$0	$0	$0	$36,000	0%
Int'l Travel/Per Diem	$0	$0	$0	$32,500	0%
TOTAL	135,500	892,342	1,027,842	4,177,952	25%

ESED's budget is underspent in all categories. Given the delayed start-up of the project, and the time it takes any new organization to reach high levels of operations, this situation is understandable. ESED has sufficient financing available to build a strong institution before the end of the project.

Financial Status

Table 7 shows the foundation's summarized balance sheet and operational income and expenses for 1990 and 1991. No figures were available for 1989. The figures for 1991 were constructed from the foundation's trial balance, and are not official or audited statements.

A comparison between 1990 and 1991 shows an obvious and expected increase in nearly all categories. By the end of 1990, the foundation had barely begun its activities. The year 1991 shows a full year of operations. Neither year shows a provision for loan losses, a situation which should be remedied as soon as possible.

The "Funds for Activities" liability account may be considered as USAID's equity in the foundation. Upon project completion, this account will represent the foundation's own patrimony or equity. If it is considered as the foundation's own capital, then the foundation has a capital-to-assets ratio of 73 percent, which is positive. Factoring out the collateral fund and other dollar donations, ESED has been able to preserve 65 percent of USAID's donations in its capital. This percentage will increase as ESED capitalizes larger amounts of income from interest revenues.

According to the foundation's arrangement with USAID, monthly deposits (based on three-month projections) are made to the foundation for all categories of expenses. USAID provides the foundation with its liquidity, and the foundation just needs to manage its cash flow to avoid short-term liquidity problems. Liquidity for the loan fund is provided by the overdraft account, which can reach up to 95 percent of the value of the collateral fund, which is also capitalized by USAID deposits. Currently, the overdraft account is at only 57 percent of the collateral account, giving the foundation enormous liquidity in the overdraft account.

The project design includes several features that facilitate the development of a very strong financial position for the foundation. First, the collateral fund is held in dollars and earns interest in dollars that are reinvested in it. Second, while USAID covers all of the foundations expenses, the foundation earns income from its loans. This income goes back into the overdraft account, thereby reducing the overdraft account. Interest costs for the overdraft account are consequently reduced, and the earned income builds the foundation's own capital. For this reason, the overdraft account is less than the outstanding balance of loans to borrowers.

Self-Sufficiency

ESED charges interest based on the **original loan amount**, not the declining balance of the loan, but charges no additional fees. Although the nominal monthly rate of interest is 1.83 percent, the effective monthly rate on an average loan of LE 3,800 for seven months is 3.13 percent.

The operational income and expense figures in Table 7 show the foundation's earned income compared to its operational expenses and finance charges. During 1991, the foundation earned enough income on its lending operations to cover nearly 50 percent of its operational expenses. This is an acceptable level of self-sufficiency after one year of operations. The 1991 deficit of LE 241,000 also compares favorably with the projected deficits specified in the Project Paper of LE 275,000 for year one and LE 356,000 for year 3.

TABLE 7

BALANCE SHEET AND INCOME-EXPENSE: ESED
(in LE)

	12/31/90	12/31/91
ASSETS		
Equip and Furniture (after depreciation)	89,496	297,800
Real Estate		83,000
Cash and short-term assets	74,223	122,429
Other assets	167,787	(29,365)
Collateral Fund (held in dollars)	394,526	3,027,203
Borrower Accounts		
Loans Outstanding (with fees and arrears)	245,480	1,782,832
Allowance for uncollectibles	0	0
TOTAL ASSETS	971,512	5,283,898
LIABILITIES		
Funds for Activities (USAID funds reflected in assets)	768,429	3,851,713
Excess of Revenues over Expenses	(46,169)	(287,185)
Supplier, Notes Payable, Other	24,456	7,171
Outstanding Overdraft	224,796	1,712,200
TOTAL LIABILITIES	971,512	5,283,898
OPERATIONAL INCOME AND EXPENSES		
Earned Borrower Fees	0	210,319
Other	5,930	2,850
Operational Expenses	51,089	282,985
Finance Charges	0	171,199
TOTAL OP INCOME - OP EXPENSES	(45,159)	(241,016)
TOTAL OP INCOME/OP EXPENSES	11.61%	46.93%

Two factors complicate the determination of self-sufficiency, however. First, as explained above, the foundation's earned income serves to decrease its finance charges because USAID actually pays all of the expenses. If ESED were using its revenues to pay its expenses, then its finance charges would be higher. Second the amount of technical assistance being received has enabled the foundation to postpone the assumption of several operating costs. Some of the more obvious ones include:

- Management information systems specialist: An EQI specialist works with the computer operator at ESED. Any adaptions or new reports to be generated are done by the EQI person;

- Financial manager: ESED staff manage the project budget and expenditures, and day-to-day accounting of the foundation, but do not have time to do much financial analysis. EQI staff prepare financial projections, assess progress towards self-sufficiency, and carry out financial analysis. These are critical functions that ESED will have to carry out internally; and

- Extension officer training: Extension officers are primarily trained by the resident advisor from EQI. He also provides assistance to the extension officers that will have to be provided by a branch manager or operations manager in the future.

Two "back of the envelope" calculations reveal the challenge that ESED faces in moving towards the goal of self-sufficiency:

1. ESED's effective monthly interest rate is 3.13 percent, or 38 percent annual. The weighted financial costs of ESED's current overdraft accounts is 18 percent (58 percent of the portfolio costs 19.5 percent and 42 percent of the portfolio costs 17 percent). ESED's actual spread is therefore 20 percent. ESED's annual operating costs for 1991, divided by the average outstanding balance of the portfolio for that year is 28 percent.[8] ESED's spread is 20 percent but has to be higher than 28 percent for ESED to cover its operating costs.

2. Another way to look at it is to calculate how many loans outstanding would enable ESED to cover its current costs. Using ESED's current monthly operating costs, they could be operationally self-sufficient with 1,200 loans outstanding. They have 626 loans outstanding, and therefore need to double their productivity to break even.

Portfolio Quality

Table 8 shows ESED's portfolio quality. An amount equal to 12 percent of the outstanding portfolio is past due by more than 30 days. The balance of loans with payments due by more than 30 days, or contaminated portfolio, is 17 percent. Although delinquency represents a serious problem for ESED, comparing these two figures indicates that the problem may be more with older loans than recent loans.

[8] Because the outstanding balance includes fees, the ratio is actually higher than 28 percent.

TABLE 8

PORTFOLIO QUALITY - ESED
(in LE)

	On 5/23/91	On 1/19/92
Amount Outstanding	1,169,578	1,904,222
Amount Delinquent > 30 Days	81,455	226,625
% Delinquent > 30 Days	6.96%	11.90%
Balance Delinquent > 30 Days		316,453
% Delinquent > 30 Days		16.62%
Loan Losses		0

This finding is corroborated by ESED staff. According to staff, there has been a long delay in getting delinquent loans to be legally processed by the legal advisor. The first cases finally went to court in January. Egyptian law can be efficient for processing delinquent borrowers, and with efficient legal work by the foundation, delinquencies should be kept to a minimum. Ineffective and delayed legal action by the foundation, however, can undermine efforts to develop a high-quality portfolio.

A large portion of the delinquency is also attributed to a few of the original extension officers hired on recommendation of several board members. One of them, with only 8 percent of the active portfolio, is responsible for 25 percent of the contaminated portfolio. Three of the 11 current extension officers, with 39 percent of the portfolio, are responsible for 69 percent of the contaminated portfolio.

Another potential risk within ESED's portfolio is the concentration of loans in very few activities. The following chart shows the percentage of the portfolio in each activity as of the end of 1991.

Metal Works:	40 percent
Shoes/Leather:	16 percent
Clothing:	15 percent
Wood Works:	14 percent
Other:	15 percent

Having 40 percent of its portfolio in one activity, and 85 percent of the portfolio in only four activities, is potentially dangerous. If, for example, a large metal products company entered the market with low-cost products, the ESED portfolio would be at considerable risk. It would be wise for ESED to diversify its portfolio to have a wider variety of activities, and less concentration in each activity.

Financial Management

Currently, ESED's financial management is assisted by EQI. ESED does its own basic accounting, and project management, based on budgets and expenditures. It will be critical for ESED to assume more financial management activities (such as cash-flow projections, self-sufficiency projections, and spread analysis) during the last eight months of technical assistance.

SERVICES DELIVERY OF ESED

Goals versus Achievements

ESED had disbursed 987 loans by the end of 1991, with a slight increase in disbursal during the second six-month period (582 compared to 405). Table 9 shows ESED's achievements by the end of 1991 after one year of lending and 2.5 years of project implementation, compared to the goals defined in the Project Paper.

TABLE 9

ESED's ACHIEVEMENTS BY THE END OF 1991

	12/31/91 (actual)	End of Year One (Projected)	End of Year Three (Projected)
# Branch offices:	0	1	4
# Ext. Officers:	11	7	24
# Enterpr. reached:	748	1295	8646
Avg. loan size (in LE)			
small:	5524	5570	8750
micro:	2862	1375	2375
Percentage loans			
small:	35%	30%	30%
micro:	65%	70%	70%

Because of start-up delays, 1991 has been more like a first-year of operation for ESED, rather than a second year. Although ESED does not yet have a branch office operating, it has purchased and equipped a branch office, and expects to be operating from it shortly. The number of businesses reached is far below the first-year goal, but it is a positive achievement for the first year of lending. The difference with the projection can be attributed largely to the decision to work with individual borrowers because group loans appeared infeasible. Using individual loans, the number of enterprises reached will grow much more slowly than projected. The average loan size for small enterprises is within the range of the projected size, while the average for microenterprises is larger. The percentage distribution between small- and micro-scale enterprises is close to the project design.

Efficiency

ESED has not yet reached high levels of operating efficiency. Four new extension officers were hired in September 1991; they were just beginning to work at full capacity by the end of the year, but had not yet built up full-size portfolios. The average number of active borrowers for these extension officers was 30, while the average for the other seven extension officers was 72 active borrowers, and 10-15 loans disbursed per month. Other indicators of efficiency are shown in Table 10.

TABLE 10

PORTFOLIO AND EFFICIENCY INFORMATION - ESED
(in LE)

PORTFOLIO INFORMATION	6 Months 12/90-5/91	6 Months 6/91-12/91	CUMULATIVE
Amount Disbursed	1,491,500	2,266,500	3,758,000
# Loans Disbursed	405	582	987
Small Enterprises			35%
Micro-Enterprises			65%
Avg. Loan Size (small)			5,524
Avg. Loan Size (micro)			2,862
Op. Cost/LE lent			0.13
Op. Cost/Amnt. Outst.			0.24
Op. Cost/Loan			468
USAID Cost/loan			841
USAID Cost/LE lent (LE disbursements only)			0.22
# Active Borrowers (end of period)	367	626	626
Borrowers/Ext. Off.	61	78	78

ESED has room for improvement in operational efficiency. The extension officers should be able to handle at least 100 active borrowers each, and disburse 15-20 loans per month. Indications are that efficiency and productivity are improving as the newer extension officers begin to work at full capacity. Several specific features of current operations, however, could be remedied to increase efficiency even more:

1. Although some of the extension officers have their borrowers in one geographic zone, some have the majority in one zone but a fair proportion in several distant zones as well. If an

extension officer hears about a potential borrower in any zone of the city, he assumes that borrower into his own portfolio, instead of turning the case over to the extension officer serving that particular zone. In a city the size of Cairo, with many of the extension officers using public transportation to move about, it is extremely inefficient for extension officers to have to move from one zone to another. The zones should be as concentrated and well defined as possible, and the officers should attend to borrowers in specified zones.

2 The extension officers generally disburse loans to first-time borrowers individually and in person in the office. Although this is a positive way to reinforce the program's objectives with first-time borrowers, it is inefficient to disburse loans one by one. Instead, group sessions should be held for first-time borrowers. ESED has had insufficient office space to hold group disbursements thus far, but should remedy this as soon as possible, even if it means renting a conference room elsewhere in the building each week for disbursements of new loans.

3. Some of the older extension officers have had to assume considerable responsibilities in addition to their loan portfolios. One is interim operations manager, and at the same time he has the largest active portfolio and one of the highest levels of delinquency. Having both responsibilities, he can do neither job effectively. Another of the older extension officers assumed many of the responsibilities related to buying and furnishing the new branch office. The extension officers cannot reach maximum efficiency if they must also take on numerous other responsibilities.

4. Internal loan processing could be more efficient if the Loan Tracking System were being used more fully. Borrower checks should be printed by the computer, but are still being filled out manually.

Lastly, the extension officers still spend considerable time looking for new borrowers and promoting the program among potential borrowers. Most microenterprise credit programs have found that, after an initial phase, the program is primarily self-promoting, with clients telling potential clients about the program. As mentioned previously, some of the extension officers feel that the loan conditions are not the most appropriate for the businesses they are reaching. Specifically, they suggest that there should be a grace period, the loans should be larger, and that the borrowers should have access to additional services like marketing. Their own feeling that the loan conditions are not appropriate for the businesses they are visiting probably makes it more difficult for them to market the program.

Although the evidence is not conclusive, it is possible that some of the extension officers are looking for a specific type of borrower (a well-capitalized, productive industry that appears to be a good credit risk), which does not exactly fit the prototype that the program was designed to serve. Two of the extension officers mentioned that a substantial number of their borrowers produce products that are exported. For such businesses, and other well-capitalized businesses, small amounts of short-term working capital may not be a major constraint.

It would be beneficial for ESED to reassess its target group. Extension officers that feel confident about the appropriateness of the loan terms for their borrowers, and have less trouble promoting the program, may be able to help those who feel that the loan terms do not coincide with their borrowers' needs. Extension officers could make an increased effort to reach slightly smaller, less-capitalized businesses for which small amounts of short-term working capital are a major constraint. Evidence from other programs shows that reaching smaller businesses does not entail larger risks.

Being less conservative in its borrower selection (but still conservative in initial loan sizes to not assume additional risk), should enable ESED to increase the concentration of its borrowers, and lead to greater efficiency. Reaching borrowers for whom the loan provides a much-needed service will also make the self-promotion of the program more likely. If borrowers are enthusiastic about the credit they receive from the program, they are more likely to tell their friends about it. This kind of borrower promotion is what drives all of the major microenterprise programs in the world. The extension officers visit businesses recommended by other borrowers who are familiar with the program, and reduce the number of visits they make that do not result in loans.

Training and Technical Assistance

To date, ESED provides no training and some technical assistance, in the form of advice, to borrowers. The extension officers talk with borrowers on their frequent visits (monthly or more) but rarely spend more than about 15 minutes with each borrower on these follow-up visits. Although training and technical assistance are part of the project design, they are to be pursued after efficient credit delivery services have been developed. Given the project's emphasis on the sustainability of the foundations, the initial focus must be on services that produce substantial revenue, such as credit.

Part of the project budget includes US$500,000 for Special Projects in training and technical assistance. ESED is considering the possibility of purchasing a showroom where clients could exhibit their products; the foundation is also contemplating setting up a library and other borrower services. A full proposal for ESED's Special Projects has not yet been developed. It will be important for ESED to consider the recurrent costs of any activities in this area, and be careful to not let such activities deter them from self-sufficiency. Given ESED's late start on disbursing loans, they should probably postpone any special project activity for another year until they reach a high level of productivity and self-sufficiency.

Impact

ESED has only been lending for one full year, and no impact studies have been carried out.

SECTION FIVE

PROJECT TECHNICAL ASSISTANCE

The last modification of the technical assistance contract with NCBA, signed in December 1991 extended the period of technical assistance to October 1992. The budget was increased to US$ 1,441,537. The budget and amount disbursed in each category through October 31, 1991 are shown in Table 11.

TABLE 11

BUDGET AND AMOUNT DISBURSED IN EACH CATEGORY
THROUGH OCTOBER 31, 1991
(in US$)

	Budget	Amount Disbursed	% Disb.
Salaries and Fringe	170,728	150,400	88%
Consultant Fees	15,052	15,052	100%
Subcontract-EQI	816,091	498,821	61%
Travel/Per Diem	196,401	161,269	82%
Other Direct Costs	18,195	13,768	76%
Overhead	153,011	124,788	82%
G and A	39,971	25,015	63%
Total Est. Cost	1,409,449	989,113	70%
Fixed Fee	32,088	24,997	78%
Total Cost plus Fee	1,441,537	1,014,110	70%

The foundations are generally satisfied with the technical assistance that they have received. The resident advisor from NCBA who was in Cairo until October 1991 was seen as extremely effective by EQI and the foundations. The two resident advisors from EQI have been providing invaluable support to both foundations and have succeeded in keeping the project on track.

In addition to the continuous support, advice, and training of the advisors, the Management Information System has probably been the most critical input of the technical assistance contract. It has provided detailed, reliable information about loan disbursal, repayments, delinquency, sizes, activities, and other information since project start-up. Project management relies on MIS for administration and reporting, and the operations departments rely on MIS for organizing daily, weekly, and monthly activities; MIS will become important for accounting purposes as well. It has enabled both foundations to use resources, more efficiently.

The technical assistance has been used in slightly different ways by each foundation. In Cairo, it is doubtful that the project would have ever gotten off the ground without the technical assistance.

Before the Executive Director was hired, the EQI resident advisor worked with a committee from the board to activate the project. His persistence and the support he had from the NCBA advisor, EQI, and USAID staff were critical in the initiation of activities of the ESED foundation.

The ESED foundation continues to be dependent on the technical assistance team, a fact that highlights the importance of the last nine months of the technical assistance contract. ESED has been requesting (and receiving) assistance from EQI even in areas beyond the contract, such as teaching word processing to the secretary and bringing in a specialist to reorganize the filing system. ESED does not have staff in place to assume several critical functions currently being carried out by EQI, such as training new extension officers, managing the extension officers and zones, financial management, and managing the information system. It is a critical and difficult challenge for ESED to wean itself from the technical assistance during this final phase.

The ABA has taken advantage of, but not become overly dependent on, the technical assistance. The resident advisor has trained the operations and branch managers to assume his training functions. The MIS specialist is capable of assuming management of the system. The accounting staff still faces a challenge in fully computerizing the accounting system and assuming financial management responsibilities, but should be able to do this by the end of the contract. The initiation of the branch offices system in the coming weeks is the final major area in which technical assistance is required by ABA. Once the first two branch offices are running smoothly, and linking well with headquarters, ABA will have a pattern to copy for future branch offices.

The technical assistance has been guided by a detailed master plan of activities since project initiation. This plan has been used as a check list throughout project initiation. When the extension was being negotiated, the plan (and the NCBA resident advisor's final report), were used to identify areas where additional technical assistance was required. The extension includes detailed specific activities to prepare both foundations for managing themselves. These planned activities address most of the areas of weakness identified in this evaluation.

SECTION SIX

LESSONS LEARNED AND RECOMMENDATIONS

COMPARISON OF ABA AND ESED

There are obvious differences between the way the project has been implemented by ABA and ESED. ABA has exceeded project expectations, and ESED has lagged behind them. Table 12 summarizes the condition of each foundation in each category addressed by the evaluation.

TABLE 12

SUMMARY OF THE CONDITION OF EACH FOUNDATION IN EACH CATEGORY

ESED	ABA
INSTITUTIONAL DEVELOPMENT	
- Org'n formed for project - Initial leadership problems - Limited authority for Executive Director	- Pre-existing org'n - Strong leadership - Sufficient authority for Executive Director
- Cloudy vision at board and operations levels	- Clear vision throughout organization
- Studying incentive system - Unfilled midlevel management positions	- Incentive system in place - Midlevel management positions filled
- Continued dependence on technical assistance	- Limited need for technical assistance
FINANCIAL SITUATION	
- Good capital accumulation - Good liquidity	- Good capital accumulation - Good liquidity
- 1991: Operational self-sufficiency of 47%	- 1991: Operational self-sufficiency of 100% (60% in 1990)
- LE 3,758,000 disbursed - LE 1,563,824 outstanding	- LE 12,580,000 disbursed - LE 4,036,091 outstanding

- 12% past due > 30 days	- 3% past due > 30 days
- 17% contaminated	- < 8% contaminated
- 40% portfolio in 1 activity	- 30% portfolio in 1 activity
- 85% portfolio in 4 activities	- 78% portfolio in 4 activities

SERVICES DELIVERY

- 748 enterprises reached	- 3748 enterprises reached
- 11 extension officers	- 21 extension officers
- Avg. loan size micro: 2862	- Avg. loan size micro: 1365
- Avg. loan size small: 5524	- Avg. loan size small: 5678
- % loans to micro : 65%	- % loans to micro : 84%
- % loans to small : 35%	- % loans to small : 16%
	- 1990 Op. cost/LE lent: .07
- 1991 Op. cost/LE lent: .13	- 1991 Op. cost/LE lent: .07
	- 1990 Op. cost/outst. : .16
- 1991 Op. cost/outst. : .24	- 1991 Op. cost/outst. : .16
	- 1990 Op. cost/loan : 154
- 1991 Op cost/loan : 468	- 1991 Op. cost/loan : 142
	- 1990 USAID cost/LE lent: .10
- 1991 USAID cost/LE lent: .22	- 1991 USAID cost/LE lent: .04
- USAID LE cost/loan : 841	- USAID LE cost/loan : 158
- Borrowers/ext. off. : 57	- Borrowers/ext. off. : 134
- Loans/EO/month : 10-15	- Loans/EO/month : 20-30
- Delayed legal follow-up on past due payments	- Immediate legal follow-up on past due payments
- Training and TA in planning stages	- Training and TA activities being initiated

In some respects, ESED appears to be behind ABA by just a year because of a year's delay in start-up. On the other hand, several indicators imply that ESED is weaker than ABA was one year ago: organizational leadership and vision are still weak; efficiency indicators are far below ABA's indicators of one year ago, even considering higher costs in Cairo than Alexandria; and ESED has a delinquency problem that has yet to plague ABA.

ESED has a difficult road ahead of it, and this next year will be critical in determining whether or not it can shake its uncertain beginnings and turn itself into an efficient credit organization.

RECOMMENDATIONS

Specific recommendations for ESED include:

- The Executive Director must assume full authority from the board for day-to-day management of the organization, especially hiring and firing decisions;

- Efforts to create a more unified board in agreement with the project's goals and objectives should be continued;

- ESED needs to find its niche in the SME sector of Cairo by focusing its efforts on those enterprises for which small working capital loans can make an important difference. This may require making a special effort to reach smaller businesses in less traditional activities, and could include extending credit to services as well as productive enterprises. Reaching businesses that are enthusiastic about the program's services will help self-promotion of the program and improve the attitudes and efficiency of the extension officers.

- ESED should focus on improving its operational efficiencies by developing well-defined and concentrated geographic zones for the extension officers, an incentive system for extension officers, immediate legal action for delayed payments, group disbursement of new loans, operations and branch managers who can support and organize work of extension officers, and improved automation of loan processing and of accounting activities.

- Although ESED needs to continue its emphasis on achieving operational self-sufficiency, it should not let this short-term goal override the need for building a strong organization with capable staff. Well-qualified personnel must be hired to assume many of the responsibilities currently assumed by the technical assistance team.

ABA faces two major challenges in the coming months: preparing itself for the end of the technical assistance support, and successfully opening branch offices. It will need to focus its efforts on the following:

- Training the operations manager to assume full responsibility for planning, opening, and managing new branch offices; training branch managers; and training new extension officers;

- Developing midlevel management to support the activities of an organization with growing decentralization through branch offices;

- Fully computerizing the accounting system and linking it with the LTS system;

- Developing in-house financial management, including portfolio projections, cash-flow projections, analysis of spreads, self-sufficiency projections, analysis of income and expenses, and so forth.

Lastly, it should be noted that the extension of the technical assistance agreement focuses on most of the areas mentioned above.

THE PROJECT DESIGN AND THE PROPOSED AMENDMENT

The original project design included several critical features for successful project implementation.

1. The collateral fund arrangement.

   The collateral fund encourages the development of self-sufficient institutions in three ways:

   - The institutions pay a cost for their portfolio funds from the very beginning, which instills a sense of financial discipline and an awareness of the need to charge higher than commercial rates of interest;

   - The value of the collateral fund is protected from the effects of inflation and currency devaluation by being kept in dollars and earning interest in dollars. It increases in value in relation to the local currency, enabling growth of the overdraft account that provides portfolio funds; and

   - The collateral fund is long-term equity for the institutions — their access to portfolio funds will not diminish when the Project reaches its completion date.

2. Support for operations costs.

   The manner in which the operational costs are supported enables the institutions to capitalize themselves, but also pushes them towards self-sufficiency. Even though it was not specified in any agreement, the foundations have understood from the beginning that USAID's support for operating costs terminates when they reach break-even. Surprisingly, there is no indication that the institutions have tried to prolong coverage of their operational costs by USAID by delaying their break-even point. In the case of ABA, as the institution approached self-sufficiency and projections indicated imminent self-sufficiency, the final project modification stipulated that use of operational expenses for more than six months would need additional approval from USAID. USAID is using the project modifications to push the institutions towards self-sufficiency. In addition, use of operational costs to purchase office premises enables the institutions to build a strong capital base and maintain low operational costs.

3. Separate support for technical assistance and training activities.

   A separate line item within the budget provides funds for training and technical assistance. Treating this as a separate cost center has encouraged the institutions to focus on developing a self-sufficient credit operation, and then consider the development of discreet training and technical assistance activities. Expenses and income from these training and technical assistance activities should continue to be maintained separately.

4. Technical assistance to the foundations.

   The project budget included substantial funding for technical assistance, which has provided invaluable support to the implementing institutions. If anything, the technical assistance may have been too generous, allowing the institutions to postpone assumption of several responsibilities and operational expenses that are carried out by the technical assistance team.

In sum, the Small and Micro Enterprise Project has been well designed and generously funded. It should leave in place well-capitalized, self-sufficient institutions with all the skills and capabilities required to provide credit to large numbers of small- and micro-scale entrepreneurs, as well as some training and technical assistance. Despite these positive features, however, there are areas for improvement and issues that should be considered while project expansion is studied:[9]

1. Selection of participating foundations.

   As the experience with ESED and ABA shows, the leadership of the implementing institutions is critical. The impact of project inputs (technical assistance, generous funding) can be thwarted by poor leadership and implementation. USAID has taken this critical lesson into consideration in the Project Amendment by looking for boards with initiative to organize themselves, private sector orientation, and unified support of project's goals and objectives.

2. Leverage.

   Although the Project Paper anticipated two-to-one leverage of the collateral fund by the end of the Project, this appears unlikely. A representative from the Export Development Bank, which handles the ESED account, asserted that they would never consider leveraging the collateral funds, no matter what credit history or profitability ESED showed. Current financial reforms have created uncertainty in the financial sector, making it impossible to predict the possibility of future leverage. USAID should realize that, for the foreseeable future, they are donating 100 percent of the portfolio funds for these projects. For the current project, the amount obligated was $16 million, and the amendment includes an additional $16 million for a total of $32 million.

3. Focus on manufacturing.

   The original Project Paper specified that borrowers would be engaged in some form of manufacturing. Manufacturing activities may have the largest potential for direct employment generation, but services and commerce also increase incomes and job creation in the SME sector directly and indirectly. In addition, poorer entrepreneurs and women are more fully represented in these sectors, and the project's credit methodology adequately fits the credit needs of these sectors. Experience gained through the RSSE project indicates that these enterprises are no more risky as borrowers than manufacturing enterprises. Lending to services and commerce can also increase the efficiency of the foundations by increasing borrower concentration, and decrease their portfolio risk by more diversification. The Project Amendment does not specify whether borrowers would be limited to manufacturing activities or not. In both the Project Amendment and current project implementation, consideration should be given to expanding the target population to include entrepreneurs involved in service and commerce activities. The focus could remain on manufacturing by stipulating that services/commerce should not absorb more than a certain percentage of portfolio funds.

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[9] An amendment to the current project is being considered that will expand the project to 3 to 5 additional foundations, increase the length of project by two years, and obligate an additional $24 million to the project.

4. Long-term technical assistance.

Generous technical assistance support has contributed to the achievements of the project. The Amendment includes $2.4 million for technical assistance, or 10 percent of the budget. After several additional foundations are established, it may be more cost-effective and sustainable to provide technical assistance through a network, instead of individually. Such a network has been extremely successful for ACCION International throughout Latin America and, in a more similar case, in Colombia, where 18 nonprofit organizations form an Association. The Association has a small staff that coordinates and provides technical assistance and training to all of its members. Cooperation between the foundations is common: staff from one are trained at another; improvements in management information systems or methodology are shared, and so on. Association members pay a fee for their membership and pay for financial intermediation services. These fees enable the Association to cover most of its operating costs. This arrangement allows for long-term, sustainable technical assistance that is continually enhanced by the experience of each member.

5. Reaching women borrowers.

The original Project Paper made no mention of special attempts to reach women entrepreneurs. Throughout project implementation, however, there has been continual discussion of the need to increase women's participation in the project. To date, approximately 9 percent of ABA loans have been disbursed to women, and 5 percent of ESED loans. (Initial results from ABA's recent impact study show that women's employment, both temporary and permanent, is increasing in the borrowers' businesses however.) The Project Amendment mentions the importance of reaching women borrowers, but sets no specific targets. If USAID wants to reach larger percentages of women borrowers, consideration should be given to the recent USAID study on women microentrepreneurs (Weidemann, 1991). It found that women are more likely to be in services, trade, and manufacturing enterprises, in that order; women's businesses are likely to be unregistered; and women are more likely to run their business from home rather than a shop. The current project only lends to registered manufacturing business, which helps explain the small percentage of women borrowers.

6. Reporting and projections.

Several of the reporting and projection formats are not optimal for encouraging good management by the foundations. For example, portfolio reports focus on the number and amount of loans disbursed and repayment rates. Although repayment rates are important for project management, they do not indicate how much risk is in the actual portfolio. The quality of the portfolio is better monitored by delinquency and loan loss rates calculated as a percentage of the outstanding portfolio. Secondly, the self-sufficiency projections prepared for USAID mix principal and fee income. Especially as the foundations begin to use their own revenues to pay their expenses, it is critical that principal and fees are always treated separately. Otherwise, the foundations may be tempted to use principal repayments to pay their operating costs, which would threaten their financial stability.

USAID'S LONG-TERM INVOLVEMENT IN SME FINANCE IN EGYPT

Neither the original Project Paper nor the Proposed Amendment addresses the critical issue of savings in the SME sector. ABA has begun to address the savings issue by requiring that borrowers who reach a certain loan size must have a bank account. The ability of the poor to save, and the benefits that savings offers to them and to the development of the financial system, have been shown in several different projects around the world. Well-structured savings programs provide borrowers with convenient savings facilities that give them easy access for deposits and withdrawals, and incentives for saving in the form of positive returns on their deposits. In the case of Indonesia, such savings facilities attract sufficient local capital to more than meet local credit needs.

Law 32, under which the foundations are regulated as nonprofit organizations, does not permit them to capture savings. As previously discussed, Law 32 also limits the operations and efficiency of the foundations in other important ways.

The Project Paper and Amendment include training and technical assistance to borrowers as integral parts of project design, but do not specify how these services will be provided. The Special Projects line item in the budget gives the foundations funding to develop these activities. Thus far, neither foundation has gained any experience to determine whether these activities will be of importance for their clients. It should be recognized, however, that these activities represent the only service that the foundations provide that formal financial institutions do not normally provide (though not to the SME sector). Formal financial institutions can provide important services that the foundations cannot provide, such as savings. Furthermore, they have a country-wide infrastructure already developed.

USAID is working with the National Bank for Development, which is supplying credit services to microenterprises, and is under negotiation for a large expansion into the Cairo metropolitan area. The NBD project also has a savings component. It will be important for USAID to study and compare the developments of the NBD project with this SME project. The NBD project, if well managed and implemented, offers a better institutional structure for providing financial services to large numbers of micro- and small-scale enterprises throughout Egypt than the nonprofit foundation structure of the SME project. If nonfinancial services are of primary importance, then the foundation structure is more appropriate than the bank.

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APPENDIX A

SCOPE OF WORK OF MIDTERM EVALUATION

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SCOPE OF WORK
Interim Evaluation of the Small and Micro Enterprise Project
Egypt (263-0212)

1. The activity to be evaluated is the Small and Micro Enterprise (SME) Development Project (263-0212) is a $20 million, seven-year project. It was authorized in 1988; the current Project Assistance Completion Date (PACD) is September 30, 1995. The purpose of the project is to increase employment and profitability amount small and micro entrepreneurs in the metropolitan areas of Cairo and Alexandria, Egypt. The project is delivering credit services to small (6-15 employees) and micro (1-5 employees) entrepreneurs in the metropolitan areas of Cairo and Alexandria. The preferred client is the owner/operator of an existing productive enterprise who has credit requirements in the LE 500-10,000 range (US$ 150-3,000). The project is utilizing a group of private businessmen in each of the two areas, formed into non-profit foundations, to act as a bridge between existing banks and clients that can profitably utilize short-term loans. The two foundations are the Alexandria Businessmen's Association (ABA) in Alexandria and the Egyptian Small Enterprise Development (ESED) Foundation in Cairo.

2. The purpose of the evaluation is to support the growing demand by both private entrepreneurs and the Government of Egypt to expand the geographical coverage of the SME project. USAID/Cairo requires an evaluation of project implementation before final decisions can be reached on the scope of the expansion. This evaluation will primarily by used by USAID/Cairo management as guidance in our future support to the SME sector.

3. The background of the project is that very little broad-based assistance had been provided to the small and micro enterprise sector previous to the implementation of the SME project. The Egyptian government had little positive experience in dealing with the SME sector; data on the general sector was, and still is, quite limited. With AID's broad experience in SME development, a project was designed to have minimal involvement with the government agencies, to deliver and recover market interest rate loans in the two metropolitan areas of Cairo and Alexandria, and to use the private sector to the maximum extent possible to assist small entrepreneurs. (Cairo and Alexandria collectively represent over one-third of Egypt's population and have the highest concentrations of SMEs.)

Following the design phase of the project, the foundations gained legal status (as non-profit foundations able to receive assistance from international donors), headquarters were established, staff recruited and trained, and management information systems were designed, installed, and tested.

Experience to date has been positive, although this has been the first attempt in Egypt to deliver market-rate interest loans on a broad scale. End-use lending began in Alexandria in January 1990; the first loans were extended in Cairo in November 1990. The two foundations have cumulatively extended about 6,000 loans valued at about LE 12 million as of October 1991. The average loan length is about six months; in Alexandria nearly half of the loans being extended presently are to repeat borrowers.

4. The statement of work and methods and procedures to be followed are stated below.

A. Review documentation available at USAID/Cairo on the history of the project. This includes the project paper, consultants' reports, and financial reports submitted by the two foundations.

B. Conduct detailed interviews with the foundation(s) management and staff regarding project implementation and relationships between USAID and the foundations. This will include in-depth discussions with the technical assistance team delivering consulting services under this project.

C. Interview a selected sample of current borrowers to determine if required credit and technical assistance services are being delivered. These borrowers should come from a range of businesses that include wood working, garment production, metal fabrication, and leather craft.

D. Assess the extent to which the project has contributed toward increased employment and productivity. This would include a review of original project logical framework and assessment of Foundation data to see if original targets can be achieved within the life of project.

E. Assess the effectiveness of on-lending mechanisms at both foundations. The project is utilizing local banks by setting up a collateral fund with right of offset in both locations.

F. Deliver an oral presentation to AID staff on the results of the evaluation along with a preliminary draft report, and a final written evaluation within one week of finishing the field work.

5. The Mission requires one individual for up to four weeks of service. It is expected that the consultant will be experienced in the operation of SME credit projects and will require approximately three weeks in Egypt for the field work to be carried out, with an additional one week to finalize a written report. The evaluator will be allowed to work a six-day work week in accordance with most Egyptian businesses.

For the information of the consultant, USAID/Cairo is open five days per week, Sunday through Thursday. The Mission will assist in the coordination of the field work.

The Mission prefers to "buy-in" to the existing Growth and Equity through Microenterprise Investments and Institutions (GEMINI) project, although USAID/Cairo reserves the right to approve the consultant appointed to carry out the evaluation. An Washington-based AID employee would also be acceptable if she/he has the requisite qualifications.

APPENDIX B

PERSONS INTERVIEWED

APPENDIX B

PERSONS INTERVIEWED

USAID/CAIRO

Karl Jensen - Contractor, Finance and Investment.
Magdi Khalil - Project Officer, Finance and Investment
Randall Parks - Evaluation Officer
Jeffrey Malik - Program Office

EGYPTIAN SMALL ENTERPRISE DEVELOPMENT FOUNDATION

Abdel-Aziz Hosni - Executive Director
Ahmed Mokhtar - Finance and Administrations Manager
Mohamed Refaat - Acting Operations Manager/Extension Officer
Shareef Sabri - Extension Officer
Essam Bakr - Extension Officer
Yaser Shoeer - Extension Officer
Refaat Ebrahim - Extension Officer
Mubarak Rifal - Board Member

ESED Borrowers:

Leatherworker, 1st loan LE 7000 for 6 months.
Clothes manufacturer, repaid 1st loan LE 3000, considering applying for 2nd loan.
Plastic manufacturing, on 2nd loan worth LE 5000, 6 months.
Metal products, on 3rd loan worth LE 7000, 4 months.
Food processing, on 2nd loan worth LE 3000, 10 months.
Metal products, on 2nd loan.
Tailor, on 1st loan, LE 1500, 8 months.
Copper products, on 1st loan, LE 5000, 8 months.

Alexandria Businessmen's Association

Nabil A. El Shami - Executive Director, Small and Microenterprise Project
Ali Orfi - Executive Committee, Board of Directors
Ibrahim Kamel Sid-Ahmed - Executive Committe, Board of Directors
Florette Makram Gad - Manager, Management Information System
Sabry Talkan - Marketing and Exhibition Director
Metwally Saleh Youssef - Finance and Administration Manager
Ahmed Famzy Elhelw - Lawyer in Legal Department
Yousry Hammouda - Operations Manager
Hassan Fathy - Branch Manager, Victoria
Bassem Yacout - Extension Officer

ABA Borrowers

Furniture maker, on 2nd loan, LE 1500 for 8 months.
Desk/table maker, on 4th loan, LE 3000 for 8 months.
Shoemaker, on 2nd loan, LE 1000 for 8 months.
Shoemaker, on 3rd loan, LE 4000 for 8 months.
T-shirt manufacturer, on 4th loan, LE 15,000 for 10 months.

Environmental Quality International

Yasmine Hafez - Head, Dept. Finance
Randa Fahmy - Technical Advisor
Dr. Mounir Neamatalla - Executive Director
Dr. Ezz El Sharkawy - Small and Microenterprise Advisor to ABA
Nabil Zaki - Management Advisory Services
Dr. Syed Hasanein - Small and Microenterprise Advisor to ESED

National Cooperative Business Association

Peter Parr - Previous Resident Technical Advisor for NCBA in Cairo
Robert Blayney - Project Officer, NCBA, Washington

OTHERS

Zohra Merabet - Director, North South Consultants Exchange
Heba Elkholy - Project Officer, Ford Foundation
Mohamed A. El Rahman Hegazy - Credit and Marketing Dept., Export Development Bank of Egypt
Ayman A. Abdel Aal - Credit Department, Export Development Bank of Egypt
Ismail Hassan Siam - Rural Small-Scale Enterprise Project Director, National Bank for Development
Charles Vokral -- Technical Advisor, Rural Small-Scale Enterprise Project, Agricultural Cooperative Development International

APPENDIX C

EGYPTIAN EXCHANGE RATES

APPENDIX C

EGYPTIAN EXCHANGE RATES

Date	Egyptian Pounds (LE) Per Dollar
November-December, 1989	2.73
January-June, 1990	2.76
July-December, 1990	2.82-3.00
February, 1991	3.2
March-December, 1991	3.3

Egyptian Inflation Rates

Average Annual Rates (July through June)

1988/89	22%
1989/90	23%
1990/91	21%

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GEMINI Working Papers:

1. "Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI): Overview of the Project and Implementation Plan, October 1, 1989-September 30, 1990." GEMINI Working Paper No. 1. December 1989. [not for general circulation]

*2. "The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990. $5.50

3. "Prospects for Enhancing the Performance of Micro- and Small-Scale Nonfarm Enterprises in Niger." Donald C. Mead, Thomas Dichter, Yacob Fisseha, and Steven Haggblade. GEMINI Working Paper No. 3. February 1990. $6.00

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*2. "Interest Rates and Self-Sufficiency." Katherine Stearns. $6.50. Available in English and Spanish.

Nonfinancial Assistance to Microenterprise Section:

*1. "A Field Manual for Subsector Practitioners." Steven S. Haggblade and Matthew Gamser. $4.65. Also available in French.

Special Publications:

*1. "Training Resources for Small Enterprise Development." Small Enterprise Education and Promotion Network. Special Publication No. 1. 1990. $9.00

*2. *Financial Management of Micro-Credit Programs: A Guidebook for NGOs*. Robert Peck Christen. ACCION International. Special Publication No. 2. 1990. $19.00

*3. *The ADEMI Approach to Microenterprise Credit*. A. Christopher Lewin. Special Publication No. 3. 1991. $15.00

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