

**Consultancy Report**  
***Quarterly Report July 1 - September 30, 1993***

PLANNING  
10/27/93

***Egypt: Small Enterprise Credit Program***  
***Contract Number: 263-0228-A00-2026***

Prepared by:  
***Charles Vokral***

Prepared for:  
Agricultural Cooperative Development International  
50 F Street, NW, Suite 900  
Washington, DC 20001  
Phone: 202/638-4661  
Fax: 202/626-8726

July 1 - September 30, 1993

AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL

(ACDI)

SMALL ENTERPRISE CREDIT PROGRAM

(SECP)



QUARTERLY REPORT

JULY 1 - SEPTEMBER 30, 1993

## TABLE OF CONTENTS

I. INTRODUCTION	Page 1
II. CREDIT MANAGEMENT AND POLICY SUPPORT MODULE	2
III. MANAGEMENT INFORMATION SYSTEM MODULE	7
IV. PROJECT MANAGEMENT SUPPORT MODULE	10
V. TRAINING MODULE	12
VI. FINANCIAL ANALYSIS MODULE	14
APPENDICES	
A. LIST OF ACDI OUTPUTS	
B. LOAN ACTIVITY GRAPHS	
C. CREDIT QUALITY INDICATORS	
D. PRELIMINARY FINANCIAL ANALYSIS	
E. SECP BORROWER PROFILES (3)	



## SMALL ENTERPRISE CREDIT PROGRAM

Cooperative Agreement No. 263-0228-A-00-2026-00

Effective Dates: March 1, 1992 - June 30, 1995  
PIO/T No.: 263-0228-3-91088  
Project No.: 263-0228  
Total Amount Obligated: \$1,288,105 and LE 415,921  
Modification No. 1: March 5, 1992

\*\*\*

### I. INTRODUCTION

SECP lending officially began on July 1, marking the start of the Operational Phase of the project. The quarter was remarkably successful, with both the number and LE amount of loans exceeding targets for this initial phase. Visits to targeted geographic areas and to specific clients indicated that the SECP staff had been well-trained by the SECP Project Director and the TA Team. Word is quickly spreading about the program. Potential clients who have never before visited a bank are going to NBD branches to inquire about loan eligibility, and the thousands of entrepreneurs already served by the project are pleased with their access to funds during this period of economic hardship.

The following sections of this report detail the activities implemented by the ACDI Technical Assistance team in relation to the SECP Master Plan of January 1993. These activities served to guide and reinforce the NBD's work in orienting and training staff; establishing policies and procedures for the program; disbursing loans and monitoring installment collections throughout the 13 geographic areas targeted by the SECP.

ACDI's Regional Vice President conducts periodic project reviews for the purpose of increasing the effectiveness of the technical assistance provided. The last SECP review, conducted on May 11, 1993 with USAID project personnel, resulted in ACDI's decision to propose modifications to the SECP Cooperative Agreement in an effort to enhance the technical assistance provided to the project. A proposed amendment was submitted to USAID on August 21, 1993, with a primary focus on the alleviation of MIS concerns. ACDI believes this area requires immediate attention, given that current, well-organized and accessible information is critical to the provision of technical and policy guidance on a credit portfolio of this scope. This concern is discussed in greater detail under the MIS Module Section III.



## II. CREDIT MANAGEMENT AND POLICY SUPPORT MODULE

### Planned Activities This Quarter

1. Support commencement of NBD SECP lending activities.
2. Participate in NBD decision making
3. Translate "Credit Policy Guide" into Arabic and obtain NBD approval to distribute it to staff
4. Provide policy support to NBD

### Achievements This Quarter

#### 1. Lending

The past quarter was dominated by the start of lending activity. Achievements exceeded the expectations of all parties. The lending staff disbursed 5,034 loans, surpassing their goal by about 25%. Loans averaged LE 1,600 with a total actual principal disbursement of LE 8,375,175. Appendix B presents this information in graphic form.

At the end of the reporting period, loans were increasing at a rate of about 200 per week. Loans to female borrowers at September 30, 1993 were 9.2% of the total portfolio in 463 loans (LE 662,366 or 7.9% of total cumulative principal outstanding).

In addition to achieving remarkable success in disbursing loan funds, SECP loan officers have already established an impressive rate of installment collection. LE 3,209,551 in principal, fees, and advanced payments has been collected to date, with virtually no late payments. Of this amount LE 204,394 was composed of interest and transportation fees collected (Project Income) with an additional LE 51,320 that was applied to the insurance reserve. LE 58,305 was applied to Late Payment Fees and held in escrow to be distributed at the end of the repayment cycles to clients whose installments have been on time.

The program is having a positive impact on the small-scale business people who are the targeted beneficiaries. Appendix E gives three profiles as samples of the types of impact that are being achieved.

Finally, the program was inspected by the NBD Internal Control Department, which found no significant accounting or procedural errors or omissions.

## 2. Decision-Making

T.A. Team members participated in an advisory role in all phases of the NBD's decision making forums, had full access to all requested accounting records, account statements, and loan production reports.

The SECP Branch managers' meeting, held every week in the offices of the Project Director, provided an important tool to assess cash position, portfolio composition, branch efficiency, and individual problems. All meetings were largely credit control discussions and training sessions for the managers, and were attended by the ACDI Team Leader, the ACDI Credit Specialist, and the ACDI Training Specialist who did follow-up analysis and assessment of future training requirements.

ACDI has presented weekly reports to USAID on the growth in lending activity and has incorporated consolidated loan production reports in Appendix B. The weekly loan reports initially were in Arabic. An English macro format was created and this report will be received in English hereafter, which will facilitate the technical input of the team members to SECP decision makers.

## 3. Policy Support

As part of ACDI's efforts to provide policy guidance and suggestions for improved credit administration and marketing to the NBD and USAID, including promotion of credit services to women owned and operated business, the ACDI T.A. Team addressed the issue of loan classification during the reporting period.

The NBD Steering Committee and the NBD Chairman, who heads that committee, want the program to be dedicated to value added activities, which are classified as Investment and Production Loans. This policy was discussed with ACDI, which recommended a 15% limit to the Commercial Portfolio in the "Credit Policy Guide", since these loans do little to add to the employment increases that SECP credit will foster. One exception may be the many women borrowers who are petty traders and whose loans are considered commercial. The size of the commercial portfolio may need to be adjusted to achieve the objective of disbursing 35% of the loans to women.

The NBD Steering Committee's review of reported observations from the weekly loan production report through the first six weeks of credit activity led to instructions to the Project Director to reduce the amount of loans classified as Commercial Loans. ACDI supported this recommendation. Through the Branch Managers' Meeting, described above, this directive was communicated and commercial loans were reduced from about 25% to 17% of the total portfolio by amount, as of September 30, 1993.

The NBD Steering Committee has set the interest rate at 19% p.a. flat. In discussions with the Chairman and the Project Director, the ACDI Team Leader advocated a higher interest rate given the strong demand for SECP loans; however, the rates have remained in line with perceived competitive rates of the SME project and others. This somewhat delays profitability but must be measured in the context of the progress in the up-coming periods. In addition, ACDI agrees that the interest rate is not the critical factor at this time. Achieving a high level of loans per officer and minimizing bad debts (late payments and defaults) are central concerns.

#### Comment on Planned Activities vs. Achievements

Our joint plan with the NBD was to begin lending in the thirteen SECP branches prudently and conservatively. We anticipated loans to be made initially at a rate of 10 loans per loan officer per month growing through the quarter to 13 loans per month per officer. This projection planned for 4,031 loans with an average loan size of LE 2,000, or approximately LE 8,062,000 in principal outstanding by the end of the quarter.

Not only did SECP exceed these projections, it also established and maintained a high level of credit quality. Portfolio distribution, bad debts, portfolio composition, and savings were all within established guidelines. Details of these credit quality indicators are in Appendix C.

While average loan size was slightly below the anticipated amount, the critical element of credit control was clearly demonstrated by the Project Director and his senior staff with input from the ACDI T.A. Team as they managed loan production this quarter. Branches that were advancing too quickly, were ordered to slow down. Management clearly instructed officers to be conservative and careful with their initial screening of borrowers and understate cash flow projections of client's income versus loan requests. Such control will be of vital importance to the long-term success of the SME Department.

This action affected loan production figures on the downward side. However, ACDI agrees that this was prudent as the majority of the staff are new employees with no credit experience and there was concern about their marketing skills, double shift job demands, and the skill level in assessing borrowers. In addition, the coordination of functions at all levels is being measured.

As can be seen in Appendices B and D, loan volume is ahead of schedule and projected break-even is on schedule. We anticipate that profitability will be achieved at 125 loans per loan extension officer, with a default rate under 2% of total

outstanding loans.

At the end of the reporting period, each credit extension officer was managing LE 91,000 in 55 loans with an average loan size of LE 1,664. Lending trends for the quarter are summarized as follows:

Month	Total # of Loans	# of Loan Officers	Average # of Loans per Officer
July	2,038	111	18
August	3,872	99	39
September	5,034	92	55

If an average increase of 15 loans per month per officer is achieved, SECP could reach its target of 125 loans/officer in 4 to 6 months. However, a number of other factors will affect progress toward this goal: additional staff must be hired and trained to reach the full compliment of 9 credit extension officers per branch, personnel turnover should be minimized, and costs must remain stable.

We anticipate that the average loan size shall increase to LE 4,000 next quarter (still much under the project lending limit of LE 10,000), which should also produce better than anticipated returns. This prediction is based on the RSSE experience that over 60% of first time borrowers became repeat borrowers (more credit worthy) and took a larger second loan.

However, seasonal borrowing trends, client income cycles, marketing skills of SECP staff, and possible increased rate of default, as well as policy considerations could affect these trends and projections.

#### Problems Encountered

1. Five of the thirteen NBD branches had slight delays in remodeling the areas utilized for SECP, which is an NBD procurement action and an assumed ACIDI precondition to achieving the outputs called for in the credit module. This delay did not hamper over all loan production but the branches affected have lower than average numbers of loans.

2. The NBD personnel department checked the credentials of the outside hires of SECP and denied employment to those people that had improper military exemption or other discrepancies in their application forms. Therefore, the planned level of loan

officers in the field, which should have been 117 (9 people per 13 branches) was not fully achieved. At the end of the quarter there were 92 loan extension personnel. This is being addressed.

Another factor which contributed to lower staffing levels than projected was NBD's decision not to accept 13 people as loan extension personnel because they did not have undergraduate degrees in Commerce. They had degrees in either Law or Engineering, but they attended the entire initial training period. As individual performers they were among our best initial loan producers and they were all bi-lingual. The SME unit of NBD reported to the senior NBD Management Steering Committee (for SECP) in the previous quarter recruitment phase that the intention in hiring such people was to staff each branch with a person with Law or Engineering and ability in English or French to host visitors. They also were intended to assist management in future legal actions and technical mechanical engineering considerations, respectively. ACDI agreed with this operational plan and assumed that since no objection was raised at the time that the NBD senior managers who compose the committee agreed with the policy. However, the NBD Personnel Department won out over the objections of the Project Director and these people were not offered contracts. In the future, ACDI recommends that such NBD policy be made clear to SME Department project management and that decisions of the Steering Committee are published after every Steering Committee meeting, and passed to project management and the ACDI Technical Assistance Team. This action affected morale and most likely reduced loan production figures.

3. A difficulty with the present high level of activity, including work on other than SECP activities, is to get NBD senior management to spend time reviewing project outputs and making their comments to finalize the documents. The resignation in the previous quarter of the Deputy assigned to this task and the lack of a qualified replacement is also a set-back in this area. For example, NBD senior management shared our concern with accounting and reporting functions and agreed with our recommendations. However, they have not yet finalized the Arabic version of the "Credit Policy Guide" provided by ACDI or distributed it to the branches.

#### Plans for Next Quarter

Any new credit operation requires great depth in training, policy making, personnel supervision, financial controls, and reporting to achieve success over the long term. In the coming quarter, ACDI's efforts will focus on consolidating the excellent start to NBD lending operations. We intend to concentrate on the same strategy of credit control and accounting accuracy that has led to the results reported above. ACDI TA team efforts will focus on the following areas:

### **Policy guidance:**

- Personnel policies
- Credit "write off" policy
- Incentives policy
- Policy establishing the importance of adequate credit analysis
- Policy concerning determination of future plans based on analysis of different economic scenarios

### **Credit reporting:**

- Improve reporting to include detail on loan composition. This will not only support SME Department management but also allow preparation of improved training and promotional materials.
- The higher the volume of loans, the greater the need for an automated system to provide accurate data quickly. ACIDI will work with all concerned to resolve the present impasse concerning this vital area of project activity.

### **Administration for profitability:**

- Encourage on-going training
- Increase follow-up, including site visits
- Monitor portfolio guidelines
- Expand Procedures Manual
- Develop solid marketing and promotional materials to tell the SECP story. This includes the production of a video, promotional pamphlet(s), case studies, and written profiles of key project staff.

### **Lending to women entrepreneurs:**

- Project objectives are to achieve a 35% portfolio of loans to female small scale entrepreneurs. During the next quarter, we hope to work with NBD to increase the percentage of loans to women from the current 9.2%.

## **III. MIS MODULE**

### Planned Activities This Quarter:

1. Assist in software and hardware procurement.
2. Assist in installation of the system.
3. Assist in the installation and testing of the software programs.
4. Recommend enhancements to the system.

5. Train MIS operators.
6. Address problems related to the MIS Specialist position. Consensus among USAID, NBD and ACDI was that additional skills were required of the person in the position.

Achievements This Quarter:

1. Developed revised MIS hardware specifications and assisted in the hardware procurement process.
2. Recommended a process for maximizing NBD value obtained in the best and final phase of the hardware bid process.
3. Commented on the hardware evaluation process conducted by the NBD/SECP computer staff (upon request of the Project Director).
4. Developed MIS Backup Contingency Plan for hardware, software and data.
5. Provided NBD draft contracts covering hardware purchase and hardware maintenance for consideration in the procurement process.
6. Proposed to USAID that the current MIS Specialist be replaced by a highly qualified expatriate Egyptian-American meeting all of the requirements of the MIS Specialist position.

Comment on Planned Activities vs Achievements:

There were only two achievements in the past quarter related to planned activities due to reasons cited below.

Problems Encountered:

1. In seeking to re-staff the MIS Specialist position, ACDI has noted a lack of high calibre local talent available for the variety and complexity of tasks required of the ACDI MIS Specialist. In addition to providing technical expertise in the area of computer hardware and software, the MIS Specialist is required to possess knowledge of accounting systems, take a leadership role in ensuring the effective development and use of the MIS, plan and execute changes in the system, train the NBD SECP MIS staff, and work effectively with the NBD Computer Department to overcome their resistance to the SECP MIS and accounting approach. Despite ongoing recruiting, ACDI has not succeeded in finding a suitable replacement to the current MIS

Specialist, who was hired with USAID and NBD approval, but whose main-frame expertise has become less essential with the decision by USAID, the NBD, and ACDI to use a PC-based system.

2. Negative initial reaction from USAID regarding ACDI's proposed solution to the problems related to the MIS Specialist position.
3. Funds for MIS-related software were requested from USAID by the NBD with ACDI assistance on February 23 and August 29, but had not yet been released by the end of the reporting period.
4. Lack of access to ALTS software with source codes, due to a dispute with the software developer that was not resolved until the end of August.
5. Inaction of NBD regarding accounting software options previously presented by ACDI due to a higher priority of other issues the Project Director was required to address.
6. Delays in hardware procurement by NBD due to difficulty in convening the Procurement Committee.
7. Delayed recruitment of MIS staff by NBD due to other pressing priorities of the Project Director.
8. Rapidly growing backlog of loans to input into the MIS system.

The problems listed above are of great concern to ACDI, since they affect not only the MIS module itself, but the project as a whole. An inadequate MIS will result in poor performance in credit reporting and will thus compromise ACDI TA and NBD management's ability to analyze results and make needed changes in portfolio direction and policies.

#### Plans for Next Quarter:

1. Obtain USAID's written response to the ACDI proposal regarding the MIS Specialist position, and proceed accordingly.
2. Assist in software procurement and enhancement (loan tracking and accounting), including providing specimens of adequate contracts and Arabization.
3. Assist in installation of system hardware.
4. Assist in the installation and testing of software programs.
5. Participate in selection committees to fill the remaining



NBD MIS positions. The TA team will emphasize to the Project Director the importance of holding the selection committees as soon as possible. Consensus will be sought with the two existing SECP Computer Department personnel as to the best means of securing a variety of qualified candidates to appear before the Committee. USAID will be asked for names of qualified candidates they may wish to refer for consideration.

6. In coordination with SECP Computer Department personnel, and the accounting software vendor, train the SECP MIS operators.

7. Recommend enhancements to the system to include software issues and policies/procedures necessary for proper usage.

#### IV. PROJECT MANAGEMENT SUPPORT MODULE

##### Planned Activities This Quarter:

1. Identify, document and resolve constraints affecting project implementation.

2. Report on work performed, impact achieved, constraints encountered and changes recommended.

3. Provide overall direction and guidance to team members.

4. Bi-monthly monitoring of team member progress, project activities and achievements.

5. Maintain contact with USAID Project Officer and NBD Project Director.

6. Review and approve ACDI/SECP financial documents.

7. Produce quarterly progress report.

##### Achievements This Quarter:

1. Identified and documented Project constraints. Proposed actions to resolve those constraints. Appendix A identifies ACDI outputs during the quarter, most of which were delivered in response to Project constraints.

2. Continually updated Project Director, USAID Project Officer and ACDI/MERO on work performed, impact achieved, constraints encountered and changes recommended.

3. Monitored day to day Project operations and provided

direction to team members where required.

4. Monitored team member progress, project activities and achievements through frequent team meetings.
5. Maintained daily contact with Project Director and weekly contact with USAID Project Officer/FI Office.
6. Reviewed and approved ACDI/SECP financial documents for submission to USAID.
7. Reached agreement with USAID on an improved financial processing mechanism to reduce funding delays.
8. Prepared preliminary draft of Quarterly Progress report for submission to USAID.
9. Assisted the NBD in meeting its monthly operating expense reporting requirements to USAID. USAID had expressed concerns about non-receipt of financial reports from NBD. In response, the ACDI TA team persuaded the Project Director to compel SECP personnel to prepare monthly data by expenditure line item and make it available to the team. The team then input the data into reports for submission to USAID. As part of the process, the team actually developed an SECP Expenditure Report format that not only met the NBD monthly reporting requirements but also aided the Project Director in the financial management of the Project.

Comment on Planned Activities vs Achievements:

Since Project Management support is an ongoing process, there were achievements related to each of the planned activities. Although not listed as a planned activity, ACDI is tasked with assisting NBD in meeting its reporting requirements to USAID. Due to concerns expressed by USAID about the delays in NBD operating expense reporting, the TA team took a lead role in providing the required expense information to USAID.

Problems Encountered:

1. The untimely receipt from NBD of required T.A. Team support, i.e. vehicles, computers, offices, etc. (Profiled in PIL No.1)
2. Inadequacies in C.A. budget items, identified in C.A. Amendment Request of August 21, 1993.
3. Other SME projects taking time of senior management and staff away from SECP (New Social Fund, Italian Government Proposals. RSSE, Ford Foundation, UNICEF, and CIDA activities).

4. Lack of clarity about NBD's support for the Project Departmental Structure as identified in the SELFA and the consequent decision making authority of the Project Director.

Plans for Next Quarter:

Since Project Management Support is an ongoing activity, plans for the next quarter are identical to the plans for this quarter, with the addition of:

1. Update the Master Plan
2. Continue to work for the approval of the amendment to the Cooperative Agreement so that the problems listed above (items #1 and #2) can be resolved
3. Develop recommendations to address items 3 & 4 above
4. Train NBD accounting staff to enable them to prepare operating expense reports for USAID with minimal or no TA team involvement.

**V. TRAINING MODULE**

Planned Activities This Quarter:

1. Prepare specialized training plans for accountants and computer operators.
2. Conduct refresher training.
3. Determine continuing training needs for existing SECP branch personnel.

Achievements This Quarter:

1. Specialized training plans for computer operators were developed and provided to the Project Director for review.
2. Identified continuing training needs for branch personnel. The needs include refresher training on procedures, forms completion and reporting. Almost all SECP employees who were not NBD employees prior to the beginning of the Project have never held continuous full time jobs before. It is especially important to monitor their progress and provide continuing training to them. SECP cashiers need to be placed with regular NBD cashiers for additional on the job training.



3. Screened and placed 13 Headquarters SECP employees in outside training for English language (eight) and professional translation (five).
4. Developed and prioritized a list of training center equipment needs.
5. Assisted in bid solicitation for audiovisual equipment.
6. Analyzed offers and made recommendations to Procurement Committee for audiovisual equipment to be purchased.
7. Planned an OJT program for SECP cashiers.
8. Participated in agenda-setting and leadership of weekly meetings for the branch managers. These meetings are conducted by the Project Director and provide a useful forum for informal refresher training and problem-solving.
9. Assisted the Project Director in the delivery of two sessions of specialized loan officer training regarding project forms and client selection.

Comment on Planned Activities vs Achievements:

Of the three main activities planned for the quarter, the formal refresher training program was not conducted for employees due to the heavy time demands of the lending process on NBD staff, which precluded diverting their time to training. Nevertheless, the TA team did conduct a number of branch visits to assess branch compliance with sound credit practices and reinforce the practices through on-site training. They also participated in the weekly meetings for branch managers mentioned above. In addition to this ad hoc training, ACDI's Training Specialist completed several unplanned activities, as listed above.

Problems Encountered:

1. Present space available for training activities is inadequate. Headquarters space to accommodate a training center was approved by NBD in the past, but now appears to be compromised unless a third floor is allocated to the project.
2. The two months remaining in the contract of the ACDI Training Specialist is inadequate to transfer the required skills and knowledge to the NBD counterpart.
3. The review and approval of the credit and training manuals produced for the SME Department by ACDI has not occurred. This was due to time demands on SECP senior management resulting from

initiating lending operations in 13 NBD branches.

Plans for Next Quarter:

1. Emphasize transfer of skills and knowledge to NBD counterpart through increased involvement of the counterpart in planned activities # 2-8 below. This requires commitment from the Project Director to reduce the portion of the counterpart's time devoted to personnel activities.
2. Conduct refresher training.
3. Submit justification for adequate training space allocation to NBD's Project Steering Committee.
4. Assist NBD with final details of audiovisual equipment acquisition
5. Develop training plans for new SECP recruits and accountants.
6. Implement OJT program for branch cashiers.
7. Continue participation in branch manager meetings held weekly at Headquarters.
8. Manage the administrative details of MIS operator training.
9. Secure a six month extension to the Training Specialist contract as proposed in the ACDI Modification request of August 21, 1993.
10. Heighten the Project Director's awareness of the importance of the review process for the credit and training manuals to gain NBD approval for distribution of the documents.

**VI. FINANCIAL ANALYSIS MODULE**

Planned Activities This Quarter:

1. Recruit and hire Financial Analyst who will undertake portfolio reviews, risk assessments, and trend analysis. In addition, the analyst will assist in the preparation of profitability assessment scenarios, with the participation of senior NBD management, to demonstrate impacts to other NBD Departments.
2. Describe the requirements for NBD to do an adequate

financial analysis of SECP.

Achievements This Quarter:

1. Interviews were held with six candidates.
2. Prepared preliminary financial analysis as presented in Appendix D.

Problems Encountered:

1. Candidates interviewed were not acceptable to the selection committee.

Plans for Next Quarter:

1. Recruit and hire Financial Analyst.
2. Describe the requirements for NBD to do an adequate financial analysis of SECP.
3. Provide portfolio reviews, risk assessments, and trend analysis. The materials should assist the NBD management to determine future plans and predict outcomes under different economic scenarios.

## APPENDIX A: LIST OF ACDI OUTPUTS

ACDI's TA Team, working closely with the NBD Project Director and his staff produced the following for SECP during the reporting period:

1. Request for Operating Fund Replenishment
2. Request for Sales Tax Waiver from USAID.
3. "Officers Certificate" and request for Credit Funds.
4. Request for Operating Support Requirements of T.A. Team.
5. Recruitment Committee agendas and minutes.
6. Task Force Committee agendas and minutes.
7. All Executive Committee and MIS Committee minutes.
8. Revised MIS Hardware Specifications.
9. Translations of NBD approved SME Department Procedures.
10. Proposal for maximizing NBD value in best and final hardware bids.
11. Comments on the hardware evaluation process conducted by the NBD/SECP computer staff.
12. MIS Backup Contingency Plan for hardware, software and data.
13. Prepared drafts of hardware purchase and maintenance contracts.
14. Proposed General Ledger Specifications.
15. Setup English language instruction for eight trainees.
16. Setup professional translation course for five trainees.
17. Developed and prioritized a list of training center equipment needs.
18. Assisted in bid solicitation for audiovisual equipment.
19. Analyzed offers and made recommendations to Procurement Committee for audiovisual equipment to be purchased.
20. Conducted follow-up field visits of the branches.
21. Provided Project Director a set of administrative forms related to personnel and vehicles in order to establish standardized SME Department forms.
22. Produced SECP Borrower Profiles (3)
23. Documented SECP activities in a slide set.
24. NBD/SECP Monthly Expenditure Report

ACDI Regional Office Management oversight and assistance included the following:

1. Meetings with the Team Leader and Credit Advisor for quarterly update.
2. Reviewed progress reports (minutes of task force meetings, report drafts).
3. Review of expense reports and follow-up on financial and administrative issues.
4. Review of correspondence and meeting minutes regarding MIS.
5. Regular supervisory meetings with TA staff for compliance with cooperative agreement, ACDI Standard Operating Procedures, Personnel Policies and Procedures & Corporate Conduct Policies.
7. Liaison with contract officer, replies to audit questions,

- etc.
8. Liaison with ACDI/Washington for contracts, finance, audit and personnel actions.
  9. Provided NBD the use of ACDI's P.O. Box to receive employment applications.
  10. Supplied NBD with candidate CVs from ACDI's own employment database.

ACDI Regional Office General Services to SECP team included:

1. Work permits for US TA team.
2. Residence visas for US TA team.
3. Custom clearance for POV's of US TA.
4. Drivers license for expatriate personnel and family members.
5. Vehicle licenses for POV's.
6. Advertisement for FSN SECP staff recruitment.
7. Screening interviews, arrangements for meetings and hiring FSN staff.
8. Procurement of local office stationary and supplies, literature from Accion, Gemini, etc.
9. Messenger (local) and courier service to HQ/Washington.
10. Secretarial and office space support for TA team, report production and printing.
11. Procurement of model manuals and reports to be used in SECP.

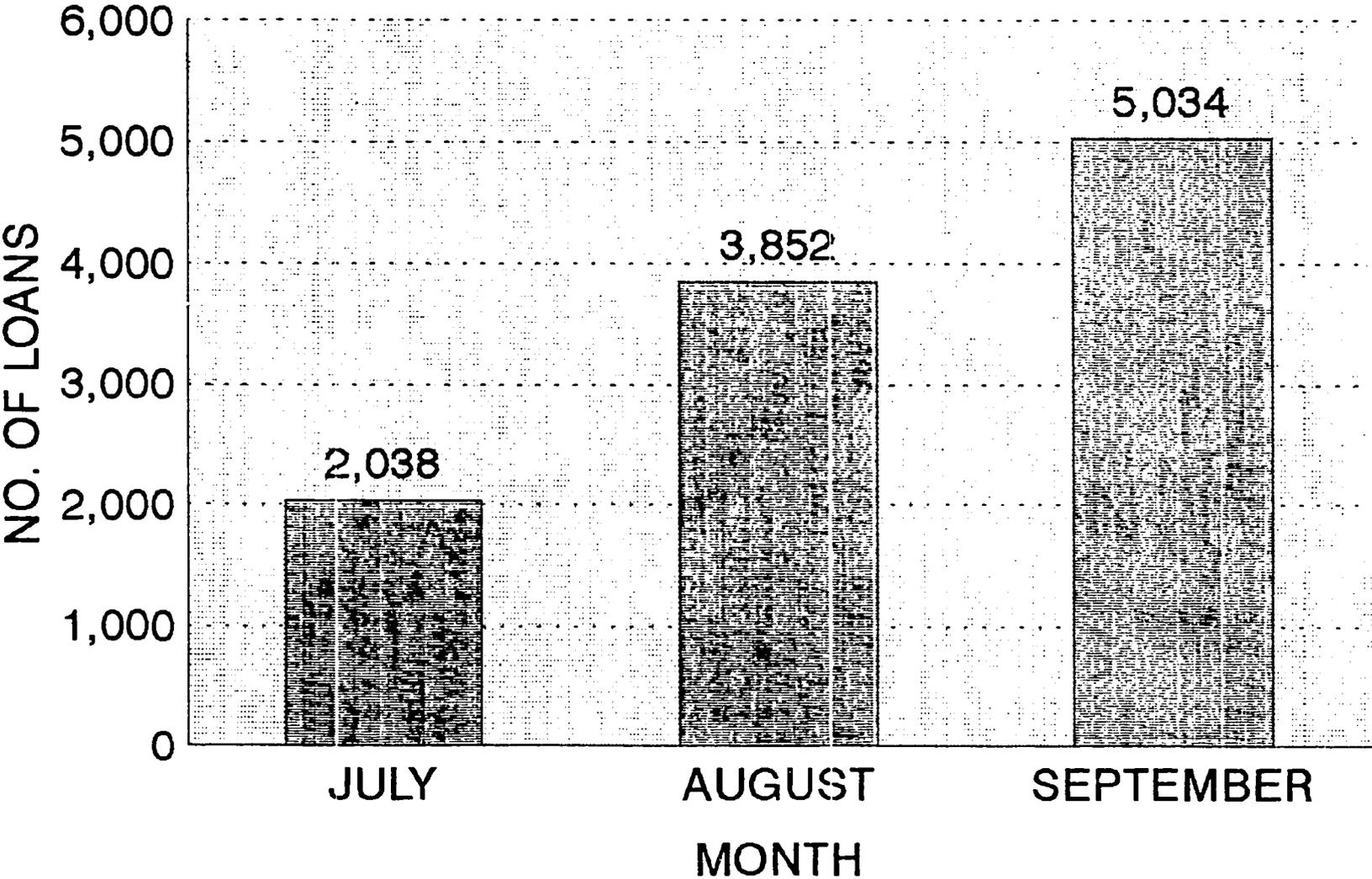
ACDI Regional Office Finance and Accounting services:

1. Review of invoices and preparation of checks.
2. Preparation of payroll for SECP FSN staff.
3. Tax deductions and social insurance payments.
4. Payments for housing leases, utilities etc.
5. Control of SECP bank accounts and monthly reconciliation.
6. Preparation of monthly financial reports in LE and \$.
7. Preparation and submission of requests for project funds from USAID in LE and \$.
8. Procurement and voucher audit for procurement actions.
9. Audit of expense reports.
10. Budget preparation, transfer of funds to ACDI/Washington.
11. Special reports to ACDI management.

**APPENDIX B: LOAN ACTIVITY GRAPHS**

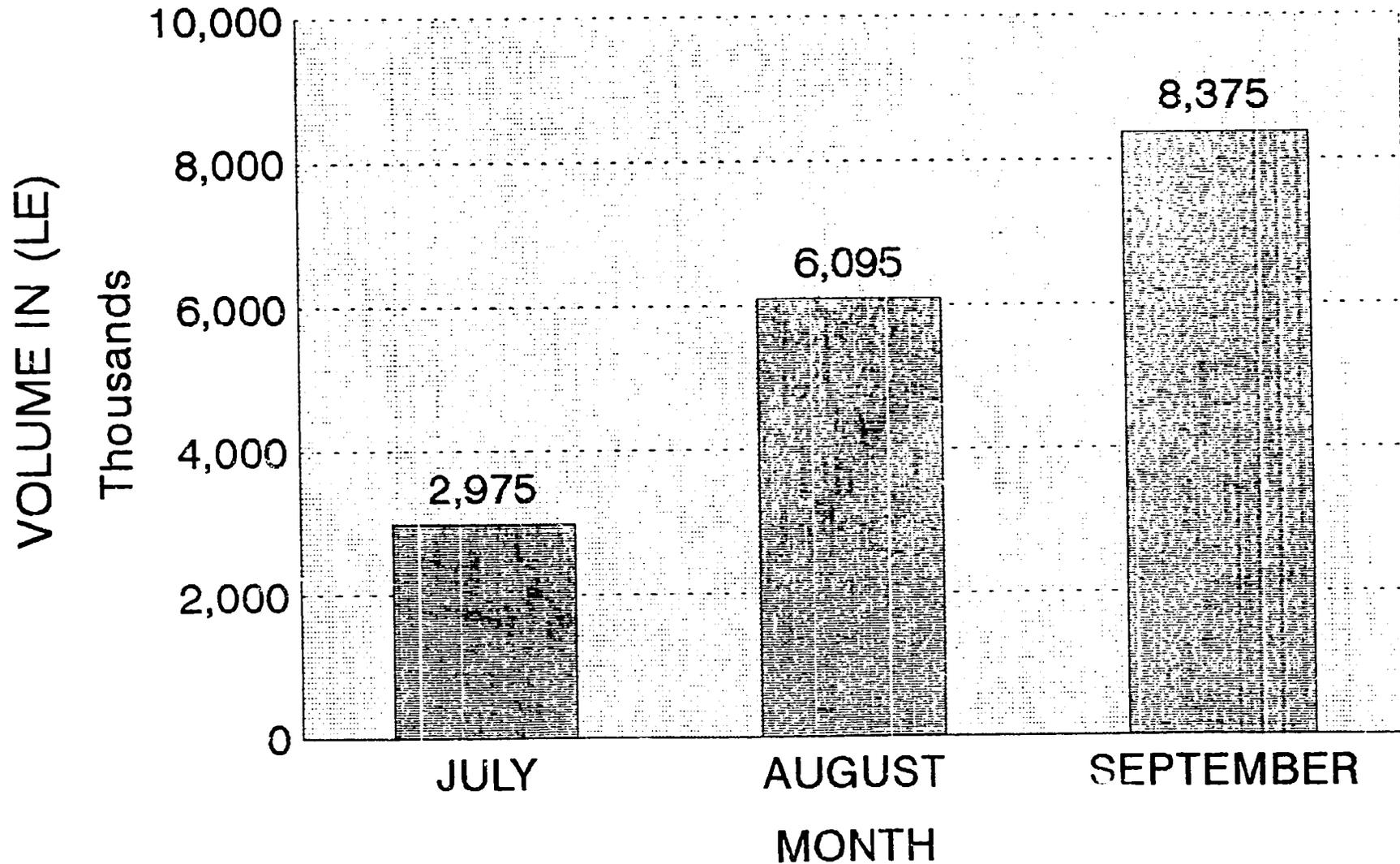
# SECP CUMULATIVE LOAN GROWTH

AS OF 30/09/93



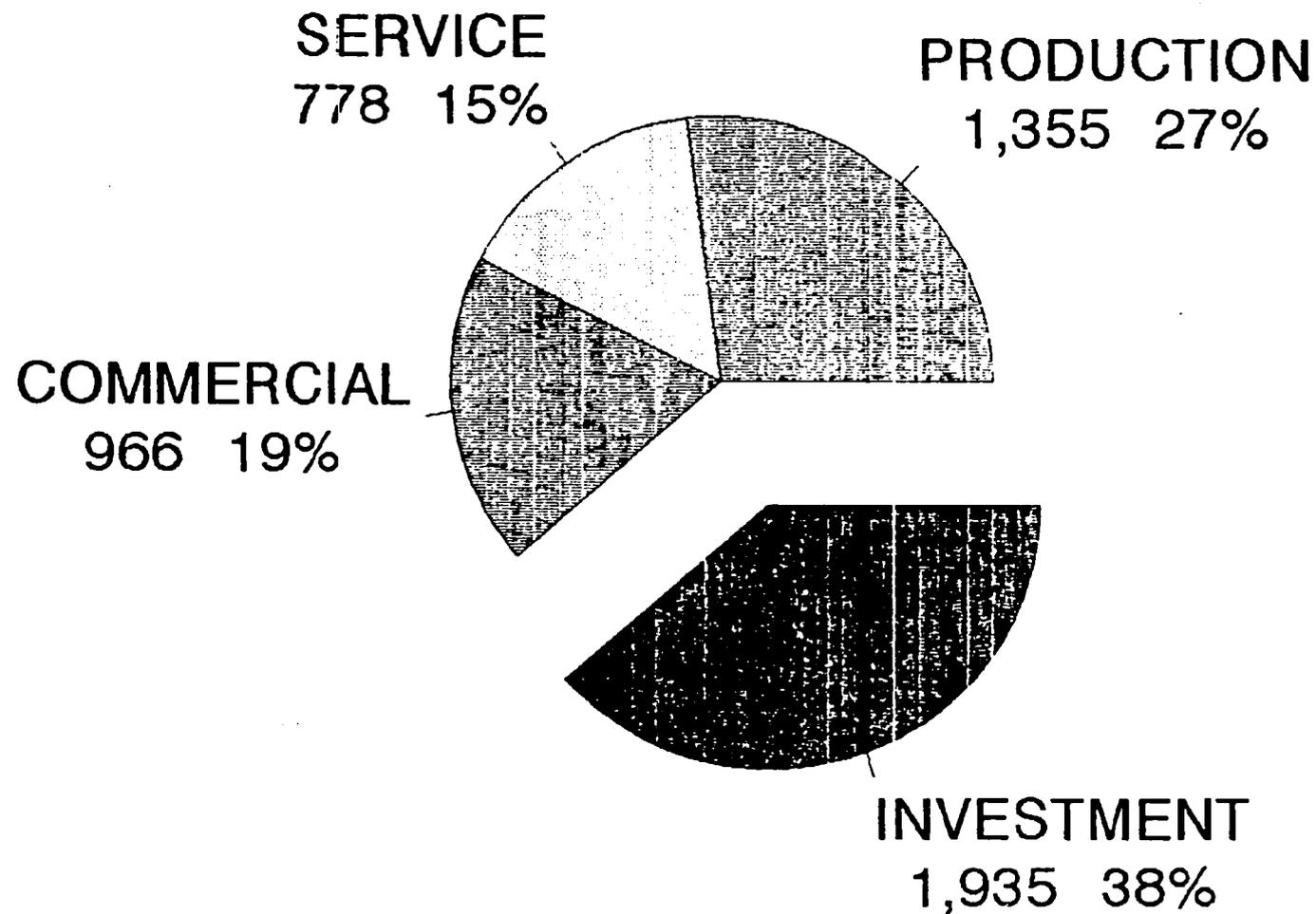
19

# SECP CUMULATIVE LOAN VOLUME GROWTH PRINCIPAL (LE) AS OF 30/09/93



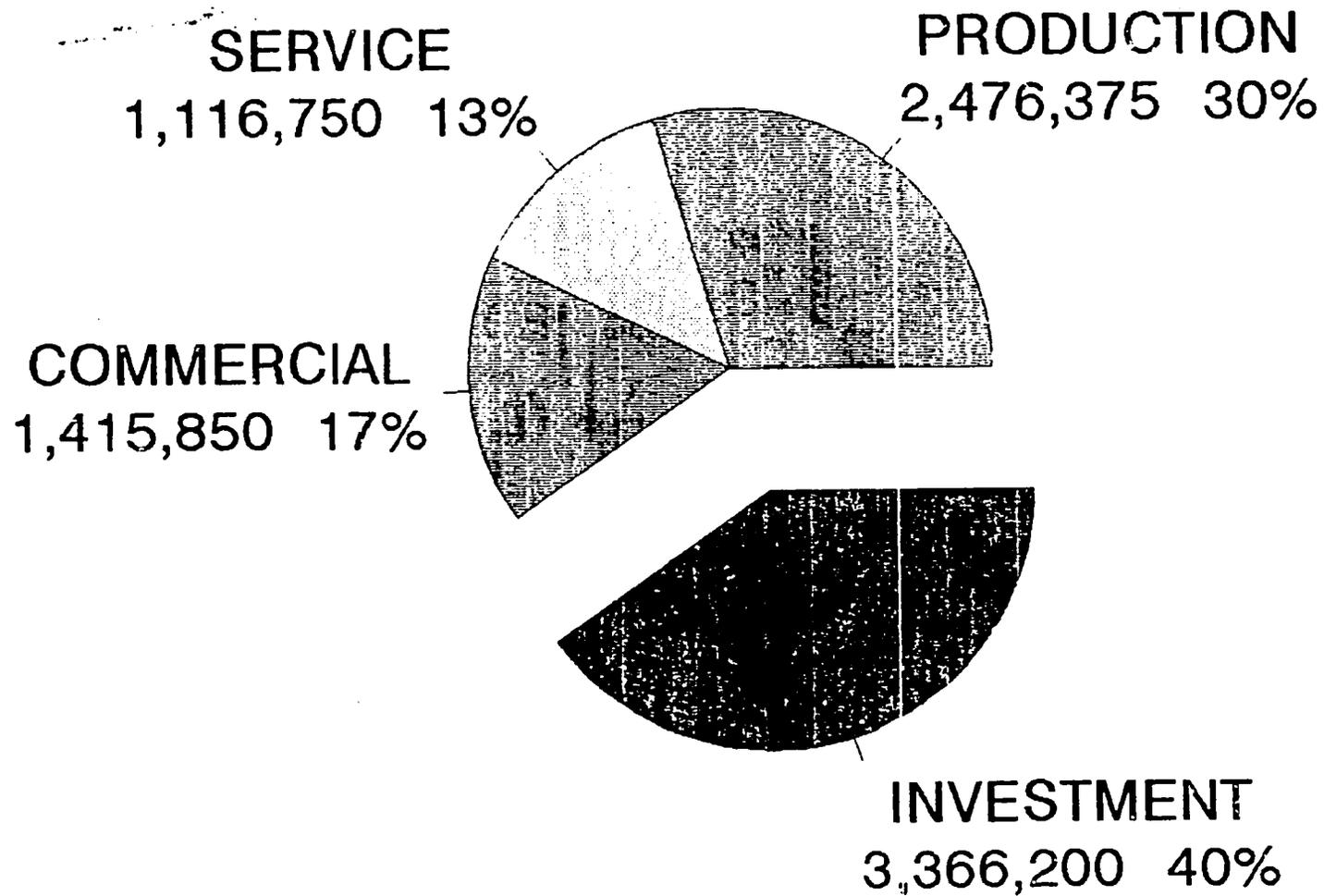
# SECP DISTRIBUTION OF NUMBER OF LOANS BY ACTIVITY AS OF 30/09/93

---



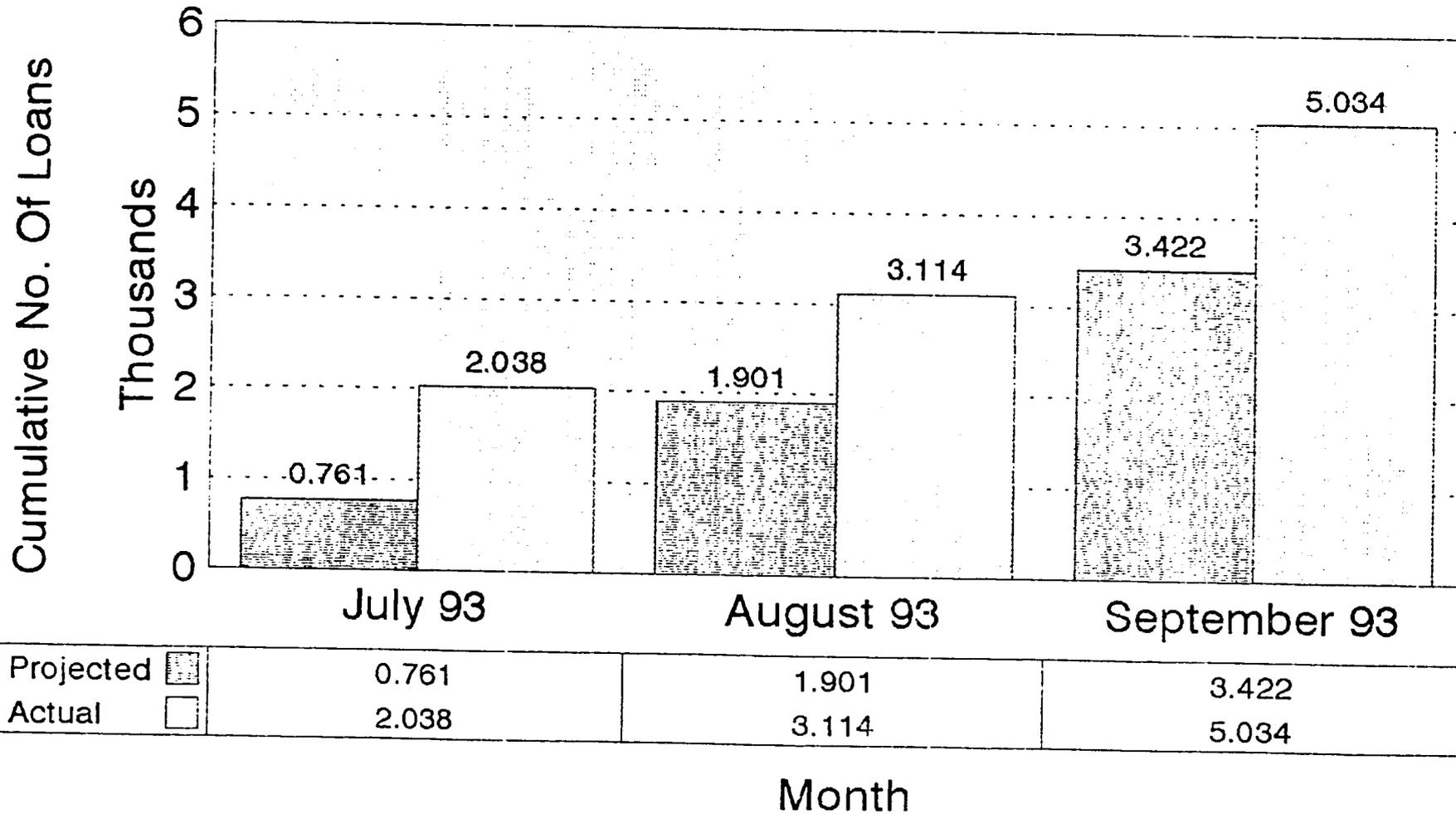
# SECP DISTRIBUTION OF LOAN AMOUNT (LE) BY ACTIVITY AS OF 30/09/93

---



# Analysis of SECP Lending

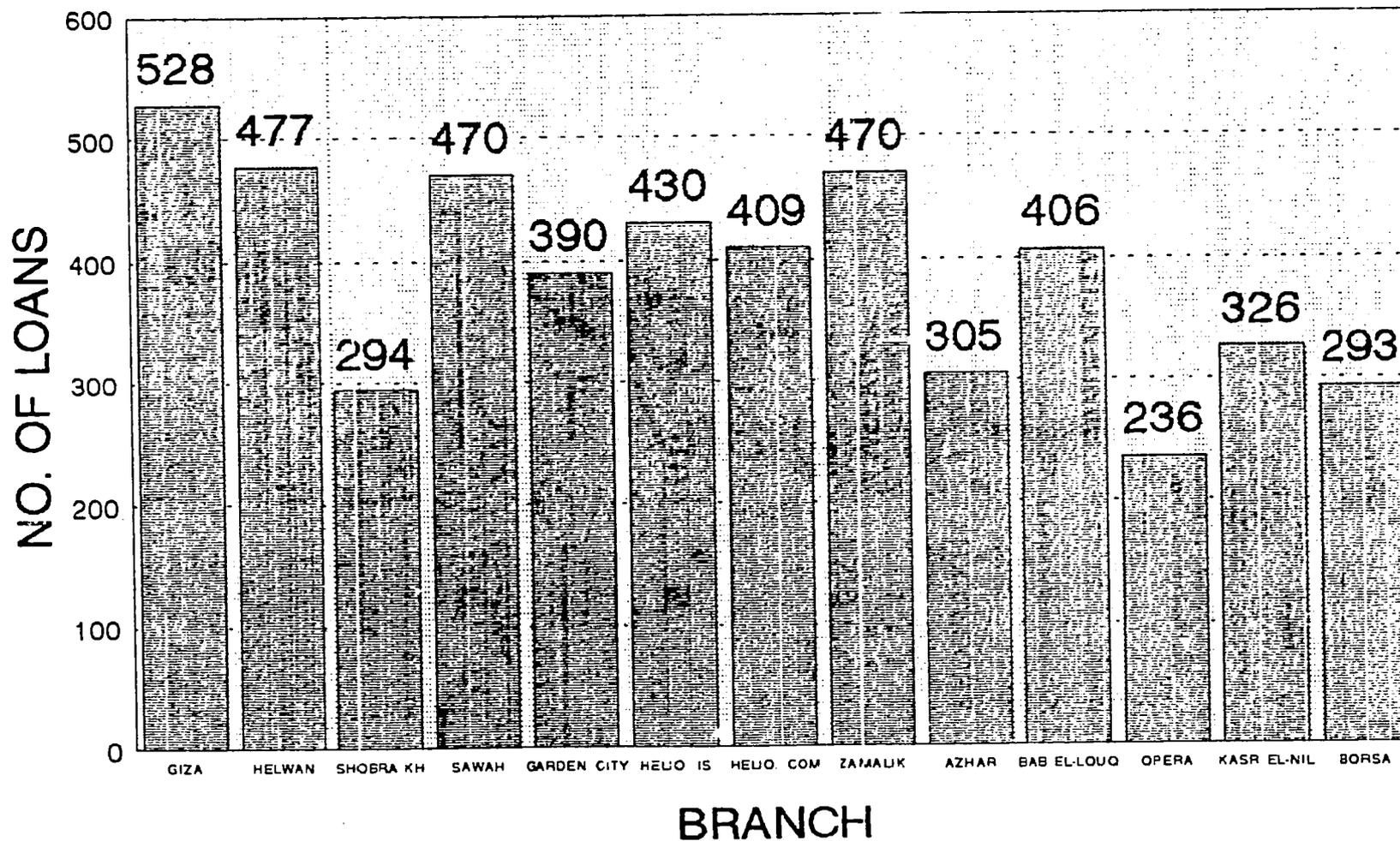
Projected (1) vs Actual number of Loans by Month



(1) Projection of December 21, 1992

# SECP BRANCH ACTIVITIES

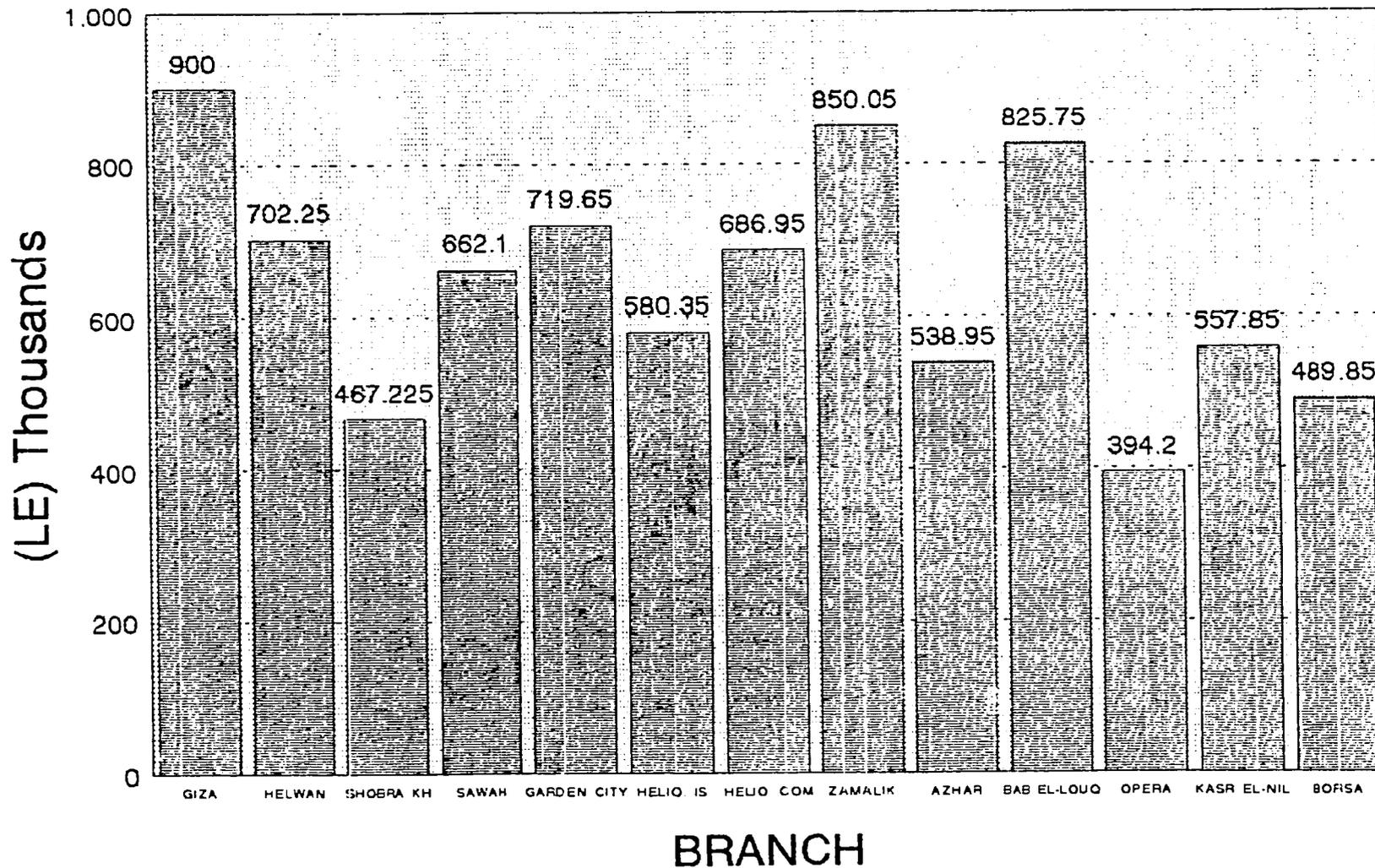
CUMULATIVE NO. OF LOANS AS OF 30/09/93



12

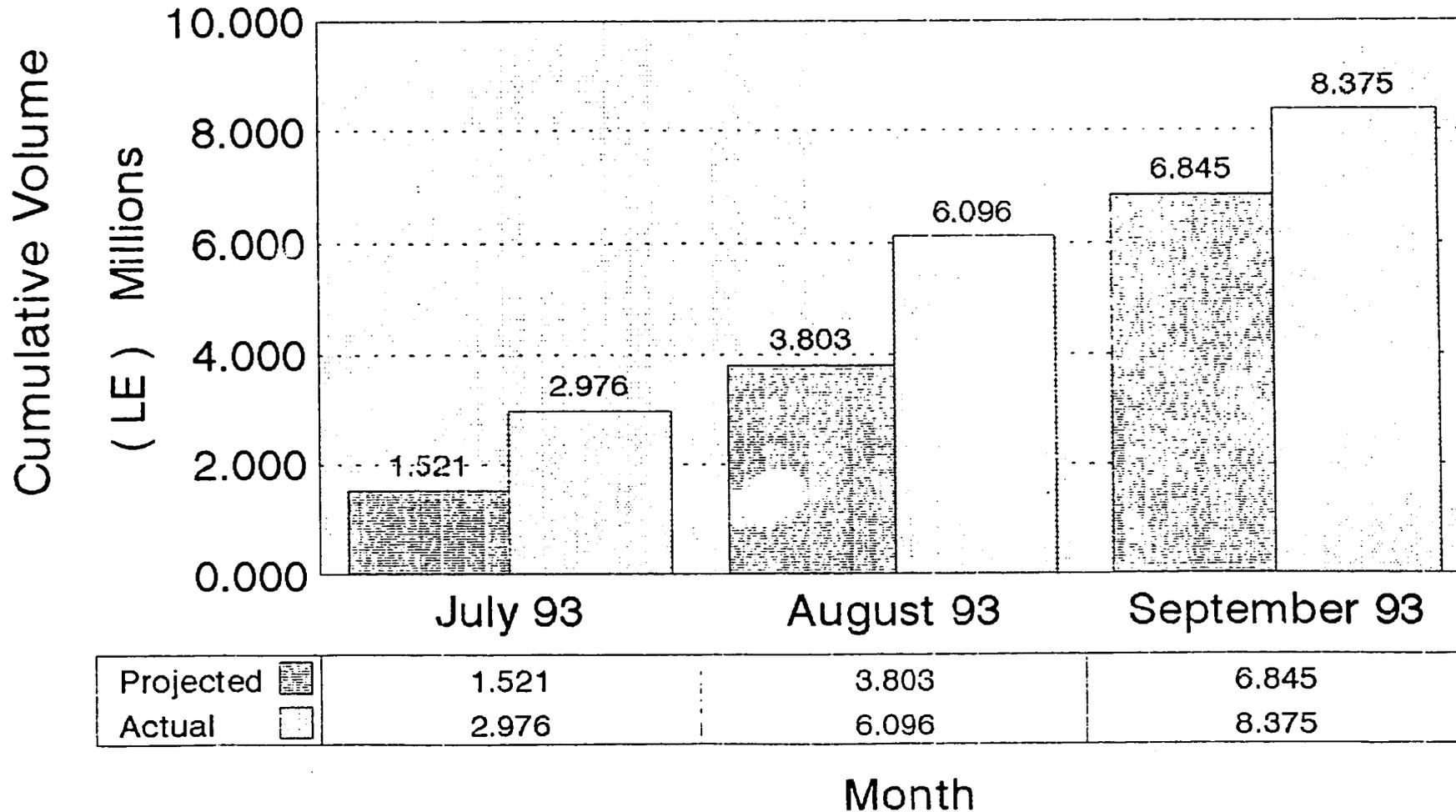
# SECP BRANCH ACTIVITIES

CUMULATIVE PRINCIPAL DISBURSED AS OF 30/09/93



# Analysis of SECP Lending

Projected (1) vs Actual Cumulative Loan Volume by Month



(1) Projection of December 21, 1992 based on LE 2000 average loan size

APPENDIX C

Credit Quality Indicators  
As of September 30, 1993

1. Portfolio Distribution

The portfolio of SECP at 30 September 1993 appears to be well spread by branch and by type of activity. Note that each branch serves well defined areas via the mobile unit and is not restricted to the NBD area of the commercial branch. The following table gives cumulative figures.

Branch	# of Loans	Amount (LE)
Giza	528	900,000
Helwan	477	702,250
Shobra El Khima	294	467,225
El Sawah	470	662,100
Garden City	390	719,650
Misr El Gedida (Islamic)	430	580,350
Misr El Gedida (Commercial)	409	686,950
Zamalek	470	860,050
Bab El Louk	305	538,950
El Azhar	406	825,750
Kasr El Nil	236	394,200
Opera	326	557,850
Borsa	293	489,850
TOTAL	5,034	8,375,175

2. Portfolio Composition

SECP stated Loan Sector Objectives are to concentrate on the Investment and Production Sectors, which are used by borrowers to purchase capital equipment or raw materials. Service loans to enhance or expand premises are limited to 20% of a portfolio, while commercial loans to purchase inventory are to be no more than 15% of any portfolio. The determination of this portfolio composition was set by the Steering Committee policy decisions.

The following tables summarize the composition of SECP's loan portfolio to date:

**Number of Loans  
by Loan Sector**

Sector	# of Loans	Percentage
Investment	1,935	38%
Production	1,355	27%
Service	778	15%
Commercial	966	19%
TOTAL	5,034	100%

**Amount of Loans  
by Loan Sector**

Sector	Amount of Loans (LE)	Percentage
Investment	3,366,200	40%
Production	2,476,375	30%
Service	1,116,750	13%
Commercial	1,415,850	17%
TOTAL	8,375,175	100%

**3. SECP Bad Debts Position**

Cash collections of LE 3,207,551 occurred in the reporting period. This indicates the expected high velocity of money and short term nature of the initial portfolio. Maturities of loans averaged 4-6 months. Another significance of these collections is that no late payment problems have surfaced.

Past due (late payments) were LE 17,630 or 0.2% of total principal disbursed. This is well below the project objective of late payments and defaults remaining under 1.5% of total outstanding principal.

#### 4. SECP Savings Position

The savings creation aspect of SECP mandates that a minimum of 10% of the requested loan amount be deposited prior to loan disbursement. This "keeps the client in the transaction" and serves to offset risk. At the same time, interest on this deposit is paid as a project expense and the customer learns the benefit of savings.

#### Savings Position by Branch

Branch	Amount of SECP Savings Deposited (LE)
Giza	76,780
Helwan	66,600
Shobra El Khima	50,417
El Sawah	69,305
Garden City	67,931
Misr El Gedida (Islamic)	64,276
Misr El Gedida (Commercial)	73,884
Zamalek	76,017
Bab El Louk	59,170
El Azhar	78,016
Kasr El Nil	49,500
Opera	54,084
Borsa	54,355
<b>TOTAL</b>	<b>840,335</b>

## APPENDIX D

### Preliminary Financial Analysis of SECP's First Quarter

To reach operational break-even and profitability, SECP must control the cost per loan and the cost coverage ratio. In the future, the following measures will be compared to previous periods, and will thereby indicate the rate at which the program is moving toward profitability.

#### Cost Per Loan

TOC = Total Operating Cost for the period

TOC/# of Loans = Cost per Loan

LE 1,010,000/5,034 = LE 200.64

The figure for operating expenses for the quarter includes estimated ODC items such as utilities that have not yet been charged to the project by the NBD. The salary component for 232 people (including 18 in the H.Q. unit) is the most significant operating expense at approximately LE 289,000 per month. In this period ODC, the other operating expense component of TOC had a one time allowable start-up expense for renovation of NBD branches.

#### Cost Coverage Ratio

When interest income and transportation fees for the period are compared to operating costs the project shows that 20% of costs are currently being covered. The calculation is as follows:

Total Income/Total Expense = Cost Coverage Ratio

LE 204,394/LE 1,010,000 = 20.2%

#### NBD Management of Operating Costs

The NBD is responsible for, and controls, its own project operating funds and the credit funds of SECP, which were projected to be utilized for the first 18 months of loan operations. Funds appear to be on target regarding usage of start-up and operational funds as allocated; and credit funds are reaching the target market and have no losses or appreciable late payments. Project income is added to the credit fund and reserves during this 18 month period.

The NBD budget provided by USAID is divided at the beginning of lending between pre-operating expenses [including the initial

three month training expenses, salaries and allowances prior to operations (July 1, 1993); procurement of required equipment; and vehicle purchase] and operating expenses after July 1 [including Salaries and Other Direct Costs (ODC)]. The operating expenses shall be compared to project income to determine project break-even.

The budget for procurement that is not yet expended shall be utilized to purchase computers for example, but shall not be included in the break-even calculation with USAID. Such an expense is considered a pre-operation expense under the NBD's agreement with USAID.

**Project Income  
as of September 30, 1993**

Amount (LE)	Type of Income	Application
172,178	Interest Received	To Credit Funds
32,216	Transport Fees	To Credit Funds
51,320	Insurance Revenue	To Insurance Reserve
58,305	Late Payment Revenue	Held for Refund
314,019	TOTAL	

Note that a 5% loan loss reserve is allowable under the NBD's agreement with USAID.

**Project Expenses  
as of September 30, 1993**

Item	Pre-Operational Expense	Operational Expense	Total
Salaries	1,223,530	851,658*	2,0075,188
ODC	298,945**	58,116	357,061
Vehicles	972,009		972,009
Office Equipment	888,842		888,842
Training	497,025	497,025	
TOTAL	3,880,351	909,774	4,790,125

\* September salary is estimated as the same for August, i.e. 288,466.56 for 232 people employed.

\*\* ODC was used to cover the expense of acquisition of needed telephone lines.

**Actual Expenditures versus Budget  
as of September 30, 1993**

Item	Actual	Budget	Remaining Budget
Salaries	2,075,189	5,140,260	3,065,071
ODC	357,061	751,500	394,439
Vehicles	972,009	1,302,600	3300,591
Equipment	888,842	1,419,500	530,658
Training	497,025	738,140	241,115
<b>TOTAL</b>	<b>4,790,126</b>	<b>9,352,000</b>	<b>4,561,874</b>

Audited by NBD's Internal Control Department.

32

APPENDIX E: SECP BORROWER PROFILES

Profile No. 1 Helwan Branch Hamida Mahmoud Abdel Hamid  
Profile No. 2 Helwan Branch Shadia Mahmoud Abdel Hamid  
Profile No. 3 Helwan Branch Samira Attia

## SECP BORROWER PROFILES

### Profile No. 1 Helwan Branch

Name: Hamida Mahmoud Abdel Hamid  
Gender: Female  
Business: Tile production  
Loan: LE 2,000  
Term: 5 months

Two years ago, Hamida was widowed and left with the responsibility of providing for her five children. In a subsequent marriage, she discovered that her new husband would not support her and the children. Deciding that she must enter into business to support her family, she chose to produce concrete tiles with a



decorative design. A hydraulic press was needed to manufacture the tiles, and this required an investment in capital that Hamida did not have.

Hamida began working in the market to accumulate funds to purchase the press. She earned enough to purchase the press, but struggled in the tile making business due to the lack of working capital. In June of 1993, an SECP credit extension officer paid a visit to the tile making operation at the premises rented by Hamida. As the SECP Project was explained to her, Hamida recognized how participation in the Project could enhance her income. The credit officer assisted her in completing an application. Upon the usual SECP analysis, the cash flow prospects of the business and the good character references of Hamida resulted in approval of a loan to purchase raw materials.

The availability of working capital allowed the business to operate more efficiently. This in turn has meant a better life for Hamida and her children. The two eldest sons were unable to attend school due to the lack of funds for educational expenses. Now, with improved business cash flow, the three younger children are able to attend school. Hamida appreciates the improvement in the quality of life her participation in the SECP program has meant for her family. As SECP gains further experience with her in paying back the loan, Hamida is already looking forward to applying for a loan of LE 4,000 to purchase another machine for the business, enabling her to increase production and profit.

SECP BORROWER PROFILES

Profile No. 2 Helwan Branch

Name: Shadia Mahmoud Abdel Hameed  
Gender: Female  
Business: Tailor  
Loan: LE 1,000  
Term: 5 months



Shadia, Hassan Abdel Rahman, SECP Credit Officer, Shadia's Daughter

Shadia is married with three children. In 1992, tragedy struck when her husband suffered a stroke. Blind and partially paralyzed as result of the stroke, he was unable to continue to support the family in his profession as a tailor. Shadia began to generate income by sewing dresses for people who brought their own cloth to her. She used the machine her husband had worked with in the past. Although income was generated, it was sporadic and fell short of meeting the family's needs.

When Shadia learned of the SECP program from her neighbors, she proceeded to apply for a loan to enable her to break out of the financial impasse which she faced. By securing a loan for materials to produce dresses and school uniforms, she no longer waits until someone brings materials for her to sew. The sale of ready made clothes has increased the income from her small business. Materials for a dress cost her LE 10, and she is able to sell a dress for LE 25. The additional income generated through the business allows the family to meet normal living costs plus medical expenses of the disabled husband.

Shadia is a firm believer in the benefits of the SECP program. She readily states that the SECP loan has given her family the means to help itself out of severe economic difficulty.

75

SECP BORROWER PROFILES

Profile No. 3 Helwan Branch

Name: Samira Attia  
Gender: Female  
Business: Electronic repairs  
Loan: LE 2,000  
Term: 4 months

Samira manages and owns a small workshop for repairing electronic equipment. Her two brothers work part time in the workshop doing the actual repairs, and they share in the profits with her. A constraint they faced was lack of sufficient working capital for an adequate stock of spare parts. Spare parts are expensive, but necessary in order to be able to provide ready service to clients requiring electronic repairs.

When Samira learned of the SECP Project from her neighbors, she applied for a loan of LE 2,000 to enable her to purchase spare parts. The loan has enabled the business to generate additional income by being able to meet customer's repair needs promptly. People in the community have benefitted through more timely repairs. The result has been a better standard of living for three families.

