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SPECIAL REPORT

BANK IMPROVEMENT PROGRAM

SUMMARY AND EVALUATION

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PREPARED BY:

APCP/CHEMONICS STAFF IN CAIRO

FOR:

THE PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT
(PBDAC)

DATE:

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Acknowledgment

Good will only is not adequate to reach the goals sought by PBDAC to serve Egypt's rural people and to support the Government's economic and social development aspirations. PBDAC needs to become strong, modern, self sufficient and profitable to fulfill its responsibilities. This requires the unselfish dedication, professional application and day-to-day hard work of its employees. Those whose names follow have made the extra effort and are recognized and commended for their contributions to implementing the Bank Improvement Program.

PBDAC HEADQUARTERS:

Dr. Hassan Khedr, Chairman
Eng. Zeinab Salem, Vice Chairman
Mr. Mahmoud Nour, Senior Counselor

BDAC CHAIRMEN:

Mr. Abdel Hamid Bassiouni, Daqahliya
Mr. Hamed Hassanien, Beni Suef
Mr. Adel Hussien, Gharbiya

USAID:

Mr. David Alverson, Director USAID AGR/ACE
Mr. Ali Kamel, Project Officer APCP/USAID

APCP/CHEMONICS:

Mr. Wilmot Averill, APCP/Chemonics/COP
Dr. Anwar Youssef, APCP/Chemonics/Deputy COP
Mrs. Nivine El Oraby, Deposits Expert
Mr. David Munro, Credit Expert
Mr. Samir Sultan, Training Specialist
Mr. Abdel Hamid Mohamed, Banking Specialist
Mr. Mohamed El Bagoury, Bank Operations Specialist
Mr. Gihad Salama, ArabSoft MIS Specialist

PBDAC STAFF SECUNDED TO BIP FIELD OPERATIONS:

Mr. Mahmoud Barakat, PC
Mrs. Ibtisam Kabeel, BIP/C
Mr. Mohamed El Sayed Ali
Mrs. Suzan Abou Shadi
Mr. Sameh Saad El-Din, CMO
Mr. Hamdi Gad, CMO
Mr. Rifaat Mandour, CMO
Mr. Ibrahim El Sawi, CMO
Mr. Mahmoud Azmy, CMO
Mr. Mahmoud Yassin, CMO
Mr. Ahmed Awwad, DMO
Mr. Ahmed Abdul Rahman, DMO
Mr. Ali Abul Waffa, DMO
Mr. Mohamed El Mahdi, DMO
Mr. Mahmoud Soliman, DMO
Mr. Mohamed Zaki, DMO
Mr. Essam Sweelam, BO
Mr. Abdel Aziz Abed, BO
Mr. Adel Qelliny, BO
Mr. Hassan Haridy, BO
Mr. Zakaria A. Bahloul, BFI
Mr. Raouf Zaki, BFI

OTHER SPECIAL CONTRIBUTORS:

Short-term Experts: Drs. D. Adams, J. Poyo & R. Patten
PBDAC Training Dept.: Mrs. Ahlam Abu Zeid, Mr. Ramadan Mohamed

BDAC, BRANCH, VILLAGE BANK OPERATING STAFFS:

Beni Suef

Mr. Mohamed El Shahat
Mr. Helmi Osman
Ms. Soheir Abdel Wahab
Ms. Mona Soliman
Ms. Nahed Seddik
Mr. Farouk
Mr. Gamal Farrag
Mr. Mohsen Gebali
Mr. Mohamed Abdel Aziz
Mr. Gaber Abdel Mouaati
Mr. Salah Abdel Latif
Mr. Mostafa Akel
Mr. Alfons Noor
Mr. Eid Abdel Aziz
Mr. Mohamed El Maadawi
Mr. Zakaria Ahmed
Mr. Moustafa Abdel Hamid
Eng. Mahmoud Abdel Halim

Gharbiya

Mr. Mohamed Tawfik
Mr. Saad El Raghby
Mr. Fathi Nasser
Mr. Mostafa Saber
Mr. Abdel Alim
Mr. Fouad Zaree
Mr. Abdel Salam Rashid
Mr. Sami Emam
Ms. Intessar Ghannam
Ms. Nagah Shaker
Mr. Abul Fetouh
Mr. Fathi Dananah
Mr. Mohamed Shoukry
Mr. Mohamed Aly
Mr. Talaat Saker
Mr. Samir Abou Taleb
Mr. Sami Rizkallah
Eng. Essam Dabbour

Daqahliya

Mr. Abdel Malek El Ashry
Mr. Hamdan Mahmoud
Mr. Mohamed Abul Ezz
Mr. Mokhtar
Mr. Ahmed Sanafawi
Mr. Ahmed Abul Ezz
Mr. Abdel Raouf Farahat
Mr. Seoudi Hassanein
Ms. Samia Abdel Salam
Mr. Sayed Shehatta
Ms. Nour El Hoda Salamoni
Mr. Mohamed Hassan
Mr. Salem Youssef
Mr. Mostafa El Nabawi
Mr. Tawfik Kamel
Mr. Mohamed Rabiah
Eng. Mohamed Abdallah

Legend:

PC - Program Coordinator
CMO - Credit Marketing Officer
BO - Bank Operations
C - Coordinator
DMO - Deposit Marketing Officer
BFI - Bank Facility Improvement

(WA/mb Disk 11 - ACKNWLG)
11/14/95

PBDAC's BANK IMPROVEMENT PROGRAM (BIP)
SUMMARY REPORT & EVALUATION

I. Executive Summary:

PBDAC/Chemonics' Agricultural Production and Credit Project (APCP), a bi-lateral cooperative U.S.A.I.D./PBDAC project, has been operable since September 28, 1988 and is scheduled to end July 15, 1996. APCP has two principal components (1) **Agricultural Policy Reform** consisting of negotiated economic policy reform measures and (2) Institutional Strengthening of **PBDAC**, which provides technical assistance, commodities and training for PBDAC's management, programs and operations improvement. Over two hundred seventy five million dollars were programmed by USAID as cash grants to be paid to PBDAC as reforms agreed to were taken by the GOE and PBDAC. In addition to these grants, an additional thirty four million dollars plus was provided to PBDAC in the way of technical assistance, etc.

It was affirmed in a policy level meeting in January 1995 that PBDAC's priority effort must be directed to profitability as well as servicing Egypt's rural credit needs. Without such PBDAC would not survive except as a tax-supported and heavily subsidized government institution.

The pilot stage of the accelerated Bank Improvement Program outlined in detail below, was to test and demonstrate one positive approach for PBDAC to become a profitable bank and sustain itself. By doing this it could better serve its primary mission, i.e., to support Egypt's economic development in a liberalized free market economy and broaden its client service base to become the principal and viable rural financial intermediary in Egypt.

The basis for the Bank Improvement Program was initially established when PBDAC adopted its new mission statement in November 1993. The Village Bank Pilot Program was conceptualized later in mid 1994 and was finally approved for implementation in late 1994.

The basic strategy and targets for the Village Bank Pilot Program were (a) to provide creditworthy lending to a broader base of farming and rural citizens, (b) to initiate an aggressive deposits mobilization program, (c) to improve PBDAC's banking support services, i.e., accrual, accounting and records keeping, (d) to design and install an employee bonus or incentive system based on unit profits and (e) to improve the Bank's image, public relations, physical facilities appearance, and customer services. The goal for this program is to arrest PBDAC's profit decline and start the Bank on the uphill course to self sustaining profits.

One branch bank and two village banks in each of three governorates (Daqahliya, Gharbiya, and Beni Suef) were selected as pilot units. The implementation of the program in the 3 branch and 6 village banks has been satisfactory. It has required intensive training of both PBDAC's appointed technical advisors, and then in turn the BDAC, branch, and village bank staffs involved. It also required field monitoring by follow-up teams from the APCP staff and PBDACs. Initial orientation and promotional visits were made to the BDACs, branch and village banks and special incentive programs were supported by PBDAC for those employees required to travel daily to and from and within the three governorates.

Preliminary results of the BIP activities todate are highly satisfactory and conclusive that the approach being used is working and that desired targets are being reached. The banks involved are expanding their credit portfolios, are increasing savings deposits as well as the numbers of new depositor clients. The bank units have demonstrated their capability to prepare accurate financial reports, and are using the improved accrual accounting procedures. All the units are upgrading customers records with streamlined new bank operations practices. All six of the original pilot banks have significantly improved the physical appearance of their offices.

The program has been responsible thus far, for obtaining significant gains in investment loan outstandings. This was accomplished principally by the BIP intensive training given and then the active credit marketing by the BIP field staffs and counterpart BDAC/Branch and Village Bank employees.

- Mahallah Abu Ali Village Bank increased its average monthly investment loan volume 150% from LE 186,000 in 1994 to LE 467,000 in 1995.

- Batra Village Bank increased its average investment loan volume by 99% and Talkha Village Bank increased 94%.

- All participating village banks made increases much in excess of the non-participating banks in the same areas. In Beni Suef, Nasser and Dandil village banks averaged 31.3% growth in investment lending while in the other village banks under the same branch decreased by 16%.

The deposit mobilization activity under the BIP has also been very measurably effective. Using the average outstanding indicator rather than the fiscal year end balance to screen out distortions due to seasonality and partly to temporary fictitious increases, (see Annex B for detail), the following has occurred.

For all 9 units together, the average level of deposits during the pilot project period was LE 35,037,000 compared to LE 27,913,000 in the year before. This was a 26% increase.

For each BDAC separately, the increase in their average level of deposits was 30%, 24% and 19%, for Gharbiya, Daqahliya, and Beni Suef, respectively.

For each unit alone, the increase averages were as follows in order of highest to lowest performance: Talkha VB 43%; Mahallah Abu Ali VB 41%; Mahallah BB 32%; Nasser BB 25%; Batra VB 23%; Talkha BB 19%; Dandil VB 18%; Nasser VB 15%; Amereya VB 13%.

The number of additional depositor clients in the three governorates was 326 in Beni Suef, a 5% increase; 191 in Gharbiya, a 2% increase; and 254 in Daqahliya, a 4% increase. (NOTE: Beni Suef's figures are somewhat suspect with respect to real savers. Some might have been forced to save in order to get loans.)

For this program to be continued it must be given full support by PBDAC top level management following APCP's termination of technical services in April 30, 1996.

The Board of Directors must approve the new revised Credit Manual for full application in all of the PBDAC/BDAC banks. This to permit the principle of creditworthy lending to apply. The functions and formal approval to establish appropriate organization units for deposit mobilization must be taken and then the creation of official job titles for deposit mobilization officers. Additional recommendations are listed in the following section V.

II. Introductory Background:

The Egyptian government's decision to move towards a free market economy in the mid 1980's prompted PBDAC to adopt a path of liberalization.

PBDAC's targeted lending for specific purposes; administering centrally controlled cropping plans; monopolization of fertilizer distribution; in-kind lending for farm inputs; fixing prices for agricultural products; and handling government agricultural and credit subsidies; have since 1990 been almost entirely abandoned or sharply curtailed in favor of liberalization and a free market system.

PBDAC also adopted a new mission statement in November of 1993 which emphasizes: financial viability; operating without subsidy; vigorously promoting client savings as the major source of loan capital; placing primary emphasis for loans on the borrower's creditworthiness rather than his/her collateral; expanding bank services to reach all rural clients not just those in the agricultural sector; and streamlining and modernizing the Bank's operations to reduce costs.

To support PBDAC's new mission statement, three other important policy documents were prepared in 1994. A Credit and Financial Policies Manual in January; a Credit Procedures Manual in May, and a Budget Manual in June.[1]

In July 1994 a team of internationally recognized experts in rural finance visited with the Deputy Prime Minister and Minister of Agriculture and the PBDAC Chairman and presented their comments and recommendations after reviewing PBDAC's mission statement and the APCP activities. The team endorsed in principle the mission statement and strongly recommended that PBDAC as soon as feasible: (1) adopt creditworthy lending and cease targeted lending; (2) vigorously marshal deposits from rural clients; (3) prepare and adopt an employee's salary incentive system based on unit profits. The Deputy Prime Minister and the PBDAC Chairman accepted these recommendations and thus the pilot village bank improvement plan came into being.

III. Pilot Village Bank Improvement - AWP VII:[2]

On August 17 the Agricultural Production Credit Project's (APCP) Annual Work Plan VII (AWP) was published. This work plan included creditworthy lending, vigorous deposit mobilization, and improved bank and client services as a specific APCP task and were incorporated into the plan as a pilot program to test and try these new concepts in three branches and six village banks. In order to have official approval for the needed policy changes to implement these new concepts, the financial policies and credit procedures manuals were submitted to PBDAC's Board of Directors for approval. The Board gave its approval for their use restricted to the six pilot village banks. Thus the way was open to start implementation of PBDAC's bank improvement program.

1] Copies of the mission statement and the three manuals may be referred to in the PBDAC and/or APCP's offices.

2] APCP's Annual Work Plan VII.

On November 8, 1994, a memorandum was signed by PBDAC and USAID authorizing the APCP staff to proceed with implementation of creditworthy lending, deposit mobilization, upgrading the six village bank's accounting and bank operations, and improvement of their physical facilities. Training of staff, and official site visits by PBDAC and APCP staff, then commenced on a regular basis in the three governorates of Daqahliya, Gharbiya and Beni Suef. Orientation, promotion and special training workshops were held in the three governorates starting in mid-November 1994 through late January 1995. These were jointly conducted by the APCP technical team and the PBDAC Training Department.

On January 26, 1995, a critically important workshop on Bank profitability was held in PBDAC headquarters. All senior PBDAC officials, all BDAC Chairmen, and senior staff of USAID and the Chemonics APCP team members attended This workshop, and the information presented, clearly made evident that increasing profitability was vital to PBDAC and the workshop members recommended that profitability be designated as PBDAC/BDACs' top management concern and the Bank's highest priority.

Full field implementation for the Pilot Village Bank Improvement Program under the aegis of APCP got underway in late January 1995 and has continued to the present date. The following sections of this report cover the specific activities which were undertaken, major results, and some evaluation of the activities undertaken.

A. Creditworthy Lending - What, Why, How, Results.

1. <u>What?</u>

The term "Creditworthy Lending", needs to be clarified and defined. The Bank historically has always emphasized creditworthiness. It does this on an "asset-based lending," approach. This simply means all lending is secured and collateral constitutes the major factor in the credit analysis. While asset-based lending has been and continues to be used by financial institutions throughout the world, it has certain deficiencies from both the analytical and practical standpoint. Many banks now down play this type of lending.

The bank improvement program emphasizes creditworthy lending based on thorough analysis of the borrowers needs and financial reports to determine:

(a) The financial strength of the borrower,

(b) The borrower's sources of cash with which he will repay the loan, and

(c) The amount and timing of the borrower's cash flow, the period it should be available, and the timing of repayments.

(d) The economic viability of the project considering supply of raw materials, transport, labor, needed infrastructure; market demand for the product or service; pricing considerations and existence of competition.

(e) The borrower's general reputation, and experience in the line of business he/she wishes to be financed.

Based upon consideration of the foregoing five points, a determination is then made as to: whether or not the bank wishes to finance the project; conditions/requirements the bank will place on the financing; amount, tenor and pricing of the financing; the collateral the bank will require; and the repayment schedule.

2. Why?

The government of Egypt has been promoting a progressively more market-driven economy. Banks are now free to compete with each other and the PBDAC system lost its exclusive hold on agricultural finance.

PBDAC's traditional approach to credit, detailed instructions (manshurat), does not permit it to meet and master the current competition in Egypt.

Creditworthy lending seeks to address these deficiencies by providing village bank and branch staff with the skills they need to evaluate and structure any sort of financing they might wish to undertake, as long as such credits are in conformity with basic Bank requirements contained in the mission statement.

3. How?

All the involved credit officers are given extensive and repeat training in:

- Credit Analysis and Approval
- Marketing
- Monitoring and Evaluation
- Village/Client Site Surveys

The creditworthy lending program makes marketing assignments to individual officers within the village banks. They are expected to visit a prescribed number of new clients (as well as existing clients) each month and fill out report of call forms. In addition, they are expected to book a certain volume of loans. Each credit officer must follow his loans and exercise responsibility for the credit quality of the loan packages as well as their eventual repayment.

Prior to beginning the active marketing phase of the program, village bank staff members were required to complete site surveys of villages and towns served by their banks. These surveys (simple lists of businesses, addresses and phone numbers) are used to establish plans, the keeping records of calls, etc.

The VB staffs also participate in program monitoring and evaluation. The creditworthy lending program has developed two reports, both produced on a monthly basis, to track program activities. They are:

- The Monthly Report: This report captures volume information on investment loans booked and includes breakdowns as to purpose of loan, type of loan, tenor of loan and loan size. The report also provides a monthly tabulation of past dues, as well as a comparison of results against the same month last year, last month and year-to-date results against the set targets.

- The Profit Center Report: This report tracks monthly profitability on a unit basis. It includes agricultural as well as investment loans. Essentially it is a Statement of Profit and Loss, and includes calculations of break even points before taking loan loss provisions into account. The report also advises its users of the average loan size required to break even under varying income and expense assumptions thus helping to manage for profitability.

4. Preliminary Results To Date.

Over the course of a four month period of active marketing, Mahallah Abu Ali Village Bank in Mahallah al-Kubra (Gharbiya Governorate) scored the most impressive gain in investment loan outstandings: This unit raised its average outstandings 150.2% from LE 186,000 in 1994 to LE 467,000 in 1995. Second in terms of overall investment loan growth was Batra Village Bank in Daqahliya Governorate which gained a 99.1% increase in outstandings. Following closely, its neighbor, the Talkha Village Bank, outstandings were increased by 93.7%. Average loan volume for Batra was LE 746,000, while Talkha's average volume was LE 226,000.

All participating banks in the program made increases in investment lending well in excess of those of the sister bank not participating. Beni Suef, Nasser and Dandil averaged 31.3% growth while non-participating banks actually saw investment outstandings decrease by 16%.

In Gharbiya governorate, Batra and Talkha averaged 96.4% growth while non-participants' outstandings increased by only 28.7%. In Daqahliya participating bank outstandings moved up 109.6% while the non-participants showed only a 3.8% percent increase.

In capsule form, then, the project can take credit for initiating successful marketing that produced the following increases in loan volume and annualized earnings in the three pilot governorates:

	Loan Volume	Earnings (at 4% spread)
Beni Suef	LE 257,000	LE 10,280
Daqahliya	480,000	19,200
Gharbiya	568,000	22,720
Total	LE 1,305,000	LE 52,200

Overall, credit volume increased 79% in participating banks during the pilot phase, compare to 5% for non-participating banks under the same branches -- a net difference of 74%. For the entire period, March-September, overall loan volume increased 62% compared to non-participants' increase of 18%, a net increase of 44%.

Composition of outstandings was dominated heavily by the agricultural and service sectors. Mahallah Abu Ali led the field in manufacturing loans with LE 519,000 lent by June 30. This figure represented 11.5% of this bank's investment loan volume year-to-date.

A full detailed report by the Credit Marketing Specialist, David Munro is attached to this report as Annex A.

B. Deposit Mobilization - What, Why, How, Results.

1. What?

Deposit mobilization is the active pursuit for and acceptance of funds to be held in trust by PBDAC for its clients or customers. The deposit function complements and supports the lending or credit activities of the Bank. A portion of the funds held on deposit by PBDAC are used to loan to clients seeking credit.

2. Why?

PBDAC is an important financial intermediary in the economic development progress in Egypt and mobilization of savings from Bank clients is good for the Bank, its clients and the Egyptian economy as a whole.

A bank needs funds to loan and a portion of its client savings on deposit are most often the least expensive source for this lending. PBDAC has been and continues to borrow substantial amounts from Egypt's commercial banks for funds to lend. This is much more costly to PBDAC than using its clients savings.

Another reason for PBDAC to have an aggressive savings deposit mobilization program is to provide client customers a safe and institutionalized place to save their money. This also offers them, who do not object because of religions reasons, an opportunity to earn interest from their savings.

A further very important reason for PBDAC to increase its savings deposits is that it provides more investment funds to support the Government's economic liberalization policies. It is expected that economic growth and a free market economy will create considerably more demand from the private sector and thus expand PBDAC's lending.

(a) Banks normally lend 65% of their deposits. In PBDAC the loan/deposit ratio is the other way round. PBDAC needs to close the gap and reach at least a one to one ratio. In some BDACs the deficit is much larger, e.g. in Beni-Suef deposits as of 09/30/95 were only 32% of outstanding loans.

(b) In anticipation of growth in loans due to credit liberalization, more deposits are needed in PBDAC to finance such growth.

(c) As profitability is PBDAC's priority target and an increase in lending is expected, it follows that PBDAC needs less expensive loan funds. Clients' deposits are less costly than commercial bank overdrafts.

(d) Finally, deposits are more stable and reliable as a source of loan funding compared to interbank borrowings or foreign loans.

3. <u>How?</u>

Several unsatisfactory practices were found in some of the village banks with respect to deposits. While specific deposit balance "budgets" or "targets" are set for the village banks and the branches, no suggested marketing methodology, strategy or plan is pursued. Further and most detrimental to attracting deposits is that no employees are specifically assigned responsibility for doing this job.

Many unfavorable methods were observed and are in current use. For example a borrower who asks for a loan of say LE 5,000 is granted LE 6,000 conditioned on his/her depositing the extra LE 1,000 in a savings account. This practice is more common in some BDACs than others, and even within the same BDAC it is practiced more in some village banks than in others. This practice is very widespread and many clients complained of it during the staff's marketing calls. It was also confirmed in two MCC survey studies[3] (1995) on the use of bank credit in rural Egypt and non-formal credit.

This is a serious problem because:

(a) In cases of compulsory savings many clients, neither willing or able, are "forced" to deposit and "the cash deposited is not their surplus" but it is provided to them as part of the loan. In practice those deposits are solicited without any marketing efforts, and the real deposits' market is not penetrated.

(b) Bank employees get their incentives because they achieve budgeted deposit balance targets. They do so by inflating both sides of the balance sheet, "loans and deposits". This does not help to close the "gap" between outstanding loans and deposits. The need for external funding thus continues with its negative effect on profitability.

(c) Many customers who resent this practice change to another bank because they are being coerced, and because they incur a disadvantage because of debit and credit interest rates.

Other deficiencies in PBDAC's deposits policies and practices relate to the method used to complete the total amount of incentives to be paid keyed to the deposit balance at year's end. This prompts employees to seek short term deposits from wealthy clients at the end of June and some also deposit their salaries for a few days to show a high balance at the fiscal year's end. This distorts the records; is highly unethical; and adversely affects the bank's image. The Bank should serve the clients' interest not have the clients serve the Bank's employees interest. Finally there are reports where some clients requesting withdrawals near the end of June are asked, to delay or are forced to keep their balance to the end of fiscal year. This is very counterproductive to improving bank client relations.

While most of the serious problems mentioned above need changes in policy and directions from management. In the pilot program, in order to overcome some of the problems cited, the following methods were followed during initial pilot implementation:

3] Management Consulting Center:
"Informal Finance in Rural Egypt and Marketing Opportunities for PBDAC"
"The Use of Bank Credit in Rural Areas in Egypt"

(a) At the preparation stage the deposit balances were reviewed as a starting position in each of the 9 pilot units, divided by deposit product. Details on number of clients were also obtained, divided by type of client (male, female, company, bank employee, etc.), and by average size of deposit.

(b) About 6 candidates in each governorate were appointed to work in this field: one from the BDAC, one from the branch, and 2 from each VB. Due to the small number there was no formal class training at the pilot stage, only brief sessions for familiarization with PBDAC's deposit products covering prices, terms & conditions, as well as similar information on competitor banks' products which were obtained by surveys.

(c) Simple market studies were done to estimate market size for each pilot unit in terms of number of potential depositors in the community. Market shares were then estimated as a ratio of "actual" to "prospective" clients. Those shares reflected a large potential for growth, through marketing.

(d) While market is by definition an activity that takes place "in the market", it was found that many bank employees are reluctant to approach the public and consider it as somehow degrading to "call on" prospective customers. This is particularly true of deposit solicitation, while they consider that in case of borrowers the bank has upper hand. This attitude needed to be changed to make it clear that both loans and deposits are bank services, and as such are beneficial to both the Bank and the customers.

(e) To demonstrate and encourage the Bank staff to go out and market, the PBDAC and APCP advisors personally joined them in marketing calls partly for field-training and partly for easing tension. The purpose was to demonstrate how to approach potential customers, establish a friendly relationship, discuss savings advantages, introduce Bank products, and focus on Bank products areas of strength.

(f) The BDAC Chairmen & Vice Chairmen helped greatly with the selection of candidates and issuing decrees assigning them to the BIP. They also agreed to our proposal for printing brochures, and preparing simple gifts for customers carrying Bank's name. Thus were very much appreciated by clients. Visits were made to individuals, schools, shops, and factories having a large number of workers, agricultural departments, health units, village homes, etc.

4. Preliminary Results To Date.

To temporize account distortions due to seasonality and temporary or fictitious end of of year deposits, the monthly average deposit balance during the period December 1994 to October 1995 compared to the same period previous year has been used to show changes in deposits as a result of the Bank Improvement Program. The results are as follows:

For all 9 units together, average level of deposits during the pilot project was LE 35,037,000 compared to LE 27,913,000 the year before, i.e. 26% higher.

For each BDAC separately, the increase in average level of deposits was 30%, 24% and 19%, for Gharbiya, Daqahliya, and Beni Suef respectively. Individual unit performance is presented in the following table.

Unit	BDAC	93/94 LE'000	94/95 LE'000	Increase
Talkha VB	Daqahliya	2033	2909	43%
Meh. Abu Ali VB	Gharbiya	3566	5013	41%
Mahallah Br.	Gharbiya	4602	6067	32%
Nasser Br.	Beni Suef	1216	1523	25%
Batra VB	Daqahliya	5211	6393	23%
Talkha Br.	Daqahliya	7225	8611	19%
Dandil VB	Beni Suef	1190	1405	18%
Nasser VB	Beni Suef	1179	1351	15%
Amereya VB	Gharbiya	3006	3392	13%

During the period Nov./Dec. 94 until June 95 the following progress was made in the three governorates:

- 326 additional clients in Beni Suef, 5% increase*
- 191 additional clients in Gharbiya, 2% increase
- 254 additional clients in Daqahliya, 4% increase

* There were some reservations concerning Beni Suef because it was believed that many savings accounts were opened in association with loans, i.e. not real savers.

A full detailed report by the Deposit Mobilization specialist, Nivine El Oraby is attached to this report as Annex B.

C. Accounting & Bank Operations - What, Why, How, Results.

1. What?

Accounting and Bank Operations are two basic components of the Bank Improvement Plan. Briefly, accounting is the accurate recording, closing and balancing of financial records. Bank operations is the proper application of Bank's manuals with respect to customer's bank accounts, savings, time deposits and savings certificates. Both functions have a direct impact on the financial relationship between the customer and the Bank. Thus, a prerequisite to market credit or deposits is to upgrade and modernize the internal control systems of both the accounting and the bank operations functions.

2. Why?

The accounting activity is directed to:

(a) Daily recording, closing, and balancing of the Bank's financial books and accounts.

(b) Proper application of an accrual accounting system regarding the revenue and expenses.

(c) Proper handling of transactions between bank units.

(d) Monthly closing and balancing of financial records and preparation of monthly trial balance and financial reports.

The bank operations activity is directed to:

(a) Enhance the employees' skills in servicing the customers.

(b) Emphasize the need for confidentiality.

(c) Timely record transactions and balancing of customer's accounts.

(d) Properly understand and apply the Bank's operating procedures manuals.

A quantitative reporting system was designed to assess the proper application of bank operations requirements. Also, each one of the six village banks in the pilot was able to produce timely financial statements on an accrual basis.

3. How?

The work involving accounting and bank operations involved three phases in the six pilot locations. First, there was an in-class training to instruct staff on the proper use of existing manuals. Second, there was the on-the-job training concurrent with the implementation process. Third, there was the reporting phase which covered both an evaluation of the implementation process as well as producing monthly financial statements on accrual basis.

In-class training of accounting, covered two groups each of 22 staff members for 5 full days. Also, in-class training, of bank operations, covered three groups each of 20 staff members for 3 days.

Training material in the accounting area was based on the General Accounting Manual. Training materials in the bank operations area were based on the Current Accounts Manual, the Savings Passbook Manual, the Time Deposits Manual, and the Saving Certificates Manual.

The APCP's AWP VIII included several tasks. One of these was to implement the Bank Improvement Plan in the Beni Suef, Gharbiya and Daqahliya governorates. The training materials and courses were basically the same in each governorate. There was also a need to train and place a team of specialized trainers (TOT) as well as to create a team of follow-up trainers. The APCP specialist left behind three groups of PBDAC/BDAC staff who gained an indepth experience in how to conduct training in accounting and bank operations as well as to follow up on the implementation of both functions on a periodic basis.

To select the TOT's, two courses were given:

(a) Bank operations, one course from 8/27/95 to 8/30/95, for 25 trainees.

(b) Accounting, one course from 9/3/95 to 9/7/95, for 25 trainees.

A group was selected from each course, based on merit, and were trained to be TOT's between 9/9/95 and 9/14/95.

Under the direct supervision of the APCP specialist, the TOT's provided training to the rest of the concerned staff in Beni Suef as follows:

(a) Bank operations: 3 courses, each for 3 days, 25 trainees per course, between 9/16/95 and 9/25/95.

(b) Accounting: 3 courses, each for 4 days, 25 trainees per course, between 9/17/95 and 10/5/95.

4. Preliminary Results To Date.

The specialist designed a pyramid like system to follow up on the implementation of both functions. The system was approved by the Chairman of Beni Suef.

The person responsible for performing the follow up system is the manager of the Financial Department of Beni Suef BDAC. He has under his supervision two groups each of 3 senior staff who are assigned to follow up the program in the BDAC and its seven branches. Within each branch, two senior staff are assigned to follow up on their own village banks. Thus, the system covers all bank units in the three levels of the Beni Suef BDAC.

Further, a follow up instrument was designed to cover both functions. The instrument will be filled out during field visits by the follow-up officer to each location. This will then be submitted to supervisory officers in the BDAC.

Based on the training provided through Sept. and Oct. 1995, each village bank, each branch, and thus the Beni Suef BDAC, is able to produce monthly balance sheets as well as expense/revenue accounts on an accrual basis. It is expected that these reports will be prepared and available in December 1995 or at latest January 1996.

A full detailed report by the Banking Specialist, Abdel Hamid Mohamed is attached to this report as Annex C.

D. Bank Facilities and Image Improvement - What, Why, How, Results.

1. What?

To renovate and make the bank offices and buildings more modern and presentable to bank clients. The renovations are also needed to make better use of space and provide a more pleasant environment in which bank employees are to do their work.

Most of the village banks are in poor locations; are in old and sometimes even decrepit physical facilities; many do not have signs outside telling people where the bank is located; most are over-crowded and poorly configurated in terms of providing an inviting office for clients to visit or which are adequate for the employees to perform their work. As a consequence customers are not attracted to use the bank. Further the Bank's employees do not practice good client relations, nor do they adopt "the customer must be well served attitude".

2. Why?

The PBDAC/BDAC image, to a large number of customers, is very poor. The Bank's services are not provided in a friendly and supportive manner. The village bank customers most frequently have no place to sit down and discuss their bank needs with any degree of confidentiality. This needs to change dramatically if PBDAC is to reach its full potential and become a growing and profitable banking system with a strong and supportive client base.

3. How?

All VBs in the BIP are being visited by teams of PBDAC/APCP specialists. They are working with the BDAC engineers who are preparing plans to upgrade and improve, to the extent feasible, the banks physical facilities both internal and external. The BDACs are using funds gained from the APCP retained earnings to do some of the approved renovations.

In addition to the physical facilities, client relations improvement based on bank employees training and orientation is being incorporated in the BIP training programs. These sessions are designed to teach bank employees how to improve the Bank's image and to upgrade the way clients are served and treated when they come to the bank or are called upon by credit and deposit officers who visit them in their homes or businesses.

On the job orientation and awareness sessions are regularly provided by the two PBDAC/APCP Bank Image Improvement and the Chemonics Technical Advisor during their visits to the VBs and branches scheduled for physical upgrading.

Selection criteria were developed and used to identify and fix priorities among the VBs and branches in the program. This resulted in adopting a three phase physical facilities improvement plan.

Phase one comprises those units the BDACs have to start with and could be fully renovated within the BIP life period and would be the model to follow in the two other phases.

Selection criteria in brief are: Geographic distribution and location, area and number of clients serviced, physical condition, cost estimates and renovation's feasibility within 2-3 months maximum.

Also one more imperative concept was introduced and implemented which calls for VB & Branch space reorganization as follows:

- o Space should be allocated for the five most important front offices which deal with and serve the client directly. These are: clients' waiting area, credit office, deposit office, guichet (cashier) and VB/Br. Managers' office. While other space in the back to be allocated for those support activities not directly interfacing with the client.

4. <u>Preliminary Results To Date.</u>

Gov. BDAC	Pilot Unit	Start Date	End Date	Upgrading Cost Estim. LE
Beni Suef	Nasser Br. & Nasser VB (same building)	Mar. 95	May 95	10,884.85
	Dandil VB	Mar. 95	May 95	6,909.00
Gharbiya	Mehallah Br.	Mar. 95	May 95	40,598.09
	Mehallah Abu Ali VB	Apr. 95	Not yet finished	43,252.00
	Amereya VB	Mar. 95	May 95	16,027.00
Daqahliya	Talkha Br. & Batra VB	Mar. 95	May 95	20,000.00
	Talkha VB	Mar. 95	May 95	31,740.15

As previously stated, the total number of village banks and branches in each of the 3 BIP BDACs were sorted out in three phases based on the beforementioned selection criteria.

Accordingly and after several surveys carried out by the Bank Image Improvement team in collaboration with governorates BDAC Committees headed by the BDAC General Manager for Administrative and Financial Affairs, the resulted accomplishments reached to date are:

(a) Beni Suef BDAC:

Total number of units that need renovation:
2 Br. + 22 VBs = 24
Total number of units in phase one:
2 Br. + 8 VBs = 10
Cost estimates : LE 139,750.00

(b) Gharbiya BDAC:

Total number of units that need renovation:
2 Br. + 53 VBs = 55
Total number of units in phase one:
1 Br. + 12 VBs = 13
Cost estimates : LE 292,000.00

(c) Daqahliya BDAC:

Total number of units that need renovation:
- Br. + 51 VBs = 51
Total number of units in phase one:
- Br. + 12 VBs = 12
Cost estimates : LE 428,000.00

The General Department for Engineering Affairs in the PBDAC should adopt the concept of the Bank Image Improvement especially in allocating spaces for the 5 major front offices and other spaces for back offices.

Maintenance of renovated units is of great importance to the concerned units such as branch and village bank managers and BDACs civil engineers.

Reports on facilities utilization and maintenance should be the responsibility of both BDAC civil engineer and the local BDAC and branch inspectors.

IV. Extension of APCP and Expansion of BIP:

During the months of April and May, 1995 the Bank, USAID, and Chemonics were discussing whether to extend the APCP for one more year to September 1996 or close it in September 1995. It was, decided to extend and PBDAC and USAID requested the APCP staff to develop a work plan for the extension.

During preparation of the work plan (AWP VIII) for the extended period, one very important question was raised with respect to how much work could be done within the last year of the project. An implementation decision had to be made that centered around choosing one of the following three alternatives:

1. To replicate the pilot project of AWP VII among all the village banks that belong to the three branches in the pilot project. That meant to replicate the pilot project in an additional 21 village banks, or

2. To cover one governorate completely, i.e. all branch and village banks in the selected governorate. The choice of which governorate was left for PBDAC to decide. To follow this option would bring 40 to 83 banks into the program and to do this work would be distributed as follows:

   o The APCP team would cover the necessary training and also provide some following-up in conjunction with the appointed PBDAC staff.

- o PBDAC would be principally responsible for implementation after training.
- o PBDAC would be responsible for financial audits.

3. To cover all three governorates: Beni Suef, Gharbiya and Daqahliya and all of the 194 banks in these three, and work would be distributed as follows:

- o APCP team would cover only training.
- o BDACs would be responsible for implementation.
- o PBDAC would be responsible for financial audits.

The Bank preferred the third alternative but requested that the APCP team would provide limited on-the-job training including follow-up after training completion. This modified alternative became the option acceptance and is the implementation target for AWP VIII.

A second serious consideration related to the sequence of implementation and the problem of changing systems without seriously interrupting operations while the banks were carrying on regular bank activities. Under normal circumstances, accounting and banking services training should start before credit worthiness and deposit mobilization training. The reason for this is to prepare the village bank staffs to be ready to service the customers fully when the new creditworthy lending and the marshaling of deposits, were being implemented. Training on accounting and banking services had to be postponed until mid-September 1995 to allow the bank staffs sufficient time to close the bank's books and prepare the required financial statements following the end of the fiscal year (June 30, 1995). Thus, training on credit worthiness and deposit mobilization preceded accounting and banking services as an exception in Beni Suef and partly in Gharbiya. Training on credit worthiness and training on deposit mobilization both started in Beni Suef in late August 1995.

There was also some scheduling overlap between continuing the on-going pilot program and starting up the new program. This, however, did not present any significant problems or hamper the implementation teams. It did, however, require a considerable change in operational field work with respect to trip planning, use of vehicles, getting special allowances and incentives in place, and preparing necessary training materials, etc.

Thirteen additional PBDAC staff were assigned by the PBDAC Chairman to work on the program in August 7, 1995. These added to PBDAC's original ten plus the six APCP advisors making a team total of 29 BIP advisor trainers. The PBDAC staff were all assigned specific tasks, given office space in the APCP area of PBDAC, and started then to work in the field by early September 1995.

Details on the intensive training and activities undertaken specifically in Beni Suef and to a lesser degree in Gharbiya and Daqahliya are presented in the three annexed reports.

Future Plans:

Currently, the BIP specialists are preparing or have already started the same course of action as was done in Beni Suef, for Gharbiya governorate. Gharbiya is however twice the size of Beni Suef in terms of the number of branches and village banks (40 to 71). Following that and time permitting the team will move on to Daqahliya. It should be noted however, that Daqahliya governorate decided to initiate with its own staff, training and implementing, the Bank Improvement Plan. To date supervisors and staff from Mansura Branch and its village banks have already been trained and some site surveys completed.

It is expected that the PBDAC team of 23 members, which has worked so intensively and effectively in the three governorates, will continue this program in a selected number of new governorates following the close of APCP technical activities on 30 April 1996. These PBDAC, and the many involved BDAC and branch bank officers, are competent and capable to continue support and extend the benefits of creditworthy lending, deposit mobilization, accounting and bank operations upgrading and bank image improvement throughout the entire PBDAC banking system. This is the cadre that was planned to be available to carry on after APCP close out as requested by the Vice Chairman Eng. Zeinab Salem.

The following recommendations are presented based on what the APCP team members believe are needed to assure the success of continuing the program and to reach the target of profitability and sustainability by every bank unit in the PBDAC system. This will be a noble effort and provide invaluable support to the Government's desire for economic and social development in all the rural communities and areas of Egypt.

V. Recommendations:

To successfully finish the work programmed and targeted in AWP VIII and to be fully prepared then for PBDAC to take over without APCP support, the following is recommended.

1. The PBDAC should establish a task force, unit, or office by which the Bank can continue to implement the Bank's Improvement Program after the Chemonics' APCP team leaves by April 30, 1996. In the current phase of implementing in the three governorates the Chemonics' team assisted in training a number of PBDAC specialized staff who can carry on with the implementation. What is missing is a formal management unit that can administer the activity in the future. This management unit should be assigned the responsibility and authority for scheduling the implementation; planning the field operations; directing field staff and training of additional staff in the concerned BDACs. There are also transportation problems for the trainers which PBDAC must also resolve by authorizing appropriate incentives for trainers and transportation for all staff in the field. Periodically there must be an evaluation of the progress of implementation, to help solve problems related to implementation as they occur.

2. The PBDAC Board of Directors must give its approval to use the new Credit Manual, of 1994, as revised, in all of the banks in the PBDAC system. Otherwise creditworthy lending will not be possible.

3. The Board of Directors must approve a trial test of the motorcycle loan fund and select one or two governorates, preferably two of the original three - Beni Suef, Gharbiya or Daqahliya to experiment, implement, and evaluate the motorcycle loan activity.

4. PBDAC must officially establish and immediately staff a small PBDAC office as the deposit mobilization unit and establish official job descriptions for deposit mobilization officers. Similar units should be established in each BDAC.

5. PBDAC must also install, on a trial basis for an interim period until the unit based incentives program is completed and approved, a performance based incentive program to recognize and compensate the branches and village banks and their employees who are making superior contributions to the implementation of creditworthy lending, deposit mobilization, upgrading accounting and bank operations records and bank image improvement.

(WA/mb Disk 11 - BIPEVAL.RPT)
11/14/95

BANK IMPROVEMENT PROGRAM

ANNEXES

Annex "A"
Creditworthy Lending
by David Munro

Creditworthy Lending: Evaluation of Program to Date as of November 7, 1995

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I. Introduction

The program which has come to be known within PBDAC and APCP as "Creditworthy Lending" needs to be clarified and defined at the outset of this discussion. The Bank's historical approach to credit has in no sense been marked by a lack of attention to "creditworthiness:" To the contrary, there was major emphasis placed on a type of lending we now refer to as "Asset-based lending," an approach that insists that all lending be secured and that appraisal of the collateral constitute the major thrust of the credit analysis. "Asset-based lending" has been and continues to be used by banks and financial institutions throughout the world. It has a place in the "arsenal" of any well-managed bank. However, it has certain deficiencies from both the analytical and practical standpoints which led banks to restrict this type of lending beginning in the 1950s.

A. What do we mean by Creditworthy Lending?

Rather than simply appraising the likely resale value of goods or properties held as collateral, we define creditworthy lending as embodying the following procedures:

1. Analysis of financial reports submitted by the prospective borrower <u>or</u> the creation/preparation of such reports by the credit analyst to determine:

   a. The financial strength of the borrower
   b. The borrower's sources of cash with which he will repay the credit facilities
   c. Timing and amount of the borrower's cash flow to determine the amount of financing required, the period it should be available, and the timing of repayments

2. An examination of the economic viability of the project to be financed. Among factors considered are:

   a. Supply of raw materials, transport, labor, availability of required infrastructure
   b. Market demand for the borrower's product or service
   c. Pricing considerations - Existence of competition for the borrower's product or service and/or other goods and services in the marketplace that might serve as a substitute

3. An evaluation of the borrower's general reputation, experience in the line of business he/she wishes to be financed and experience as a manager.

4. Based upon consideration of the foregoing three points a determination as to *a. Whether or not the bank wishes to finance the project, b. Conditions/requirements the bank will place on the financing, c. Amount, tenor and pricing of the financing, d. Collateral the bank will require, e. Repayment schedule.*

B. How does this differ from the Bank's traditional lending approach?

As mentioned above, the Bank historically has emphasized the collateral requirement above all other considerations. Furthermore, the Bank accepted only one form of collateral - registered land titles or <u>hiaza.</u>

Secondly, the Bank has, in essence, dictated lending policies and procedures from its head office in Cairo by use of extremely detailed instructions (<u>manshurat</u>) for making various types of loans. Loan purposes for which village banks could extend credit were restricted to those covered in the <u>manshurat</u>. This policy had the effect of reducing village bank staff to clerks who simply filled out forms and appraised collateral.

C. Why was there a need to change the Bank's manner of extending credit?

As mentioned in the overall introduction, from the time twenty years ago when the "Open Door Policy" was inaugurated to the present, the government of Egypt has been promoting a progressively more market-driven economy. Market pressures, of course, have affected the banking community as well as other sectors of the economy. Banks are now free to compete with each other and the new competitive environment means that the PBDAC system has lost its exclusive hold on agricultural finance. Commercial banks have been marketing numerous of the Bank's customers, particularly the larger ones.

While the Bank has a considerable array of <u>manshurat</u> allowing it to finance a large number of loan purposes, the net effect of this method of lending is nevertheless restrictive. The <u>manshurat</u> do not cover the entire range of financings the rural market offers. In addition, the <u>manshurat</u> to not allow for flexibility in loan structure, conditions/covenants or pricing.

In short, the Bank's traditional approach to credit does not have the maneuverability required by the new deregulated economy. It does not permit the Bank to meet and master the increased competition in its traditional markets.

Creditworthy Lending seeks to address these deficiencies by providing village bank and branch staff with the skills they need to evaluate and structure <u>any</u> sort of financing they might wish to undertake, as long as such credits are in conformity with basic Bank requirements contained in the Mission Statement. The program attempts to provide village bank staff with enhanced flexibility to match their already considerable unit lending limits to enable them to compete more effectively.

D. The elements of Creditworthy Lending

It must be stated from the outset that the program deals only with <u>investment loans</u>. Creditworthy Lending has three broad components:

1. Credit Analysis and Approval

2. Marketing

3. Monitoring and Evaluation

1. Credit Analysis and Approval Although many Bank staffmembers received theoretical training in credit analysis in the past, they had not received practical "hands-on" training. In addition credit approvals did not depend upon analyses.

Accordingly, the APCP Credit Specialist designed a two-week credit analysis course featuring case studies (not lectures) that required students to master the following analytical techniques:

1. Preparation and analysis of a balance sheet
2. Preparation and analysis of an income statement
3. Preparation and analysis of a cash flow statement
4. Preparation of a transaction analysis
5. Preparation of a cash budget
6. Computation of ratios used in credit analysis
7. Preparation of a Credit Report

In addition to the case studies, students were provided with an additional "Readings in Credit Analysis" booklet, a copy of the draft credit manual and forms for the credit analysis/approval designed specifically to accompany the credit analysis course and to implement course techniques at the village bank level.

In addition to credit analysis training, the program includes a review of bank documentary requirements and training in credit administration tasks that must be performed in the village banks.

2. Marketing

The second feature of the Creditworthy Lending program is an aggressive marketing campaign. It has been the Bank's habit to take a reactive approach to customer relations. When the Bank was established - indeed, until recent years - Egypt's farmers, whether seeking production credit or farm inputs, lined up at the doors of the village banks. With the advent of the market economy, however, and with the divestiture of non-banking activities such as fertilizer distribution, demand for the Bank's services has declined. Competition from commercial banks has eroded loan demand. An increasingly apparent need to promote self-funding and to emphasize unit profitability (See 3 below) makes it incumbant upon the Bank to change its modus operandi and to send officers out into the field, actively seeking deposits and loan business.

Once again, the notion of unit volume targets is not an APCP innovation. The Bank has long established volume lending goals for village banks. These, however, have been centrally imposed and have not been accompanied by an emphasis on or training for marketing.

The Creditworthy Lending program takes the unit goals as established by the BDACs and within this framework makes marketing assignments to individual officers within the village banks. They are expected to visit a prescribed number of new clients (as well as existing clients) each month and fill out Report of Call forms. In addition, of course, they are expected to book a certain volume of loans. They are to be mindful of: Average loan size; tenor of loans (it should match the tenor of deposits); purpose of loans (the bank should widen its scope and include new loan purposes); collections. Each officer should follow his loans and exercise responsibility for the credit quality of the loan packages as well as their eventual repayment. Specific numerical goals accompany all of these considerations.

It is hoped that in the future, village banks will establish their own marketing goals (subject, of course, to BDAC approval), rather than having these imposed from above.

Prior to beginning the active marketing phase of the program, village bank staff members are to complete site surveys of villages and towns served by their banks. These surveys (simple lists of businesses, addresses and phone numbers) are to be used to establish the individual marketing plans within the banks.

The project is providing on-the-job training in making customer calls as well as a number of forms for use in making individual plans, keeping records of calls, etc.

3. Monitoring and Evaluation

The Creditworthy Lending program has developed two reports, both produced on a monthly basis, to track program activities. They are:

1. The Monthly Report: This report captures volume information on investment loans booked and includes

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breakdowns as to purpose of loan, type of loan, tenor of loan and loan size. Prior to the expansion of the program to the three governorates, this report also captured data on non-participating banks for comparative purposes. The report provides a monthly tabulation of past dues.

In addition to monthly tabulations, this report compares results against the same month last year, last month and compares year-to-date results against targets set at the beginning of the year.

2. The Profit Center Report: This report tracks monthly profitability on a unit basis. It includes agricultural as well as investment loans. Essentially a Statement of Profit and Loss, the report includes calculations of break even points before taking loan loss provisions into account, after the loan loan provision, before other income, after other income, and so on. The reports deal only with unit (direct) expenses so far, but allow for inclusion in the future of indirect expenses (branch, BDAC and PBDAC). In addition to providing guidelines on break-even loan volume, the report advises its users of the average loan size required to break even under varying income and expense assumptions. This report is geared to help unit managers, village bank employees and branch and BDAC middle and senior management ***manage for profitability***.

II. The Pilot Program: January - June, 1995

The Bank's Board of Directors approved a pilot program for six village banks in three governorates, as described above. The first phase of the pilot was training, which commenced in January. Around thirty persons from PBDAC and the three governorates received training in credit analysis and accounting in a three-week session held at the Tunsi Hotel, Dokki. The PBDAC supervisory team was selected from this group of persons.

Based upon feedback received during the training, the program was further refined, shortened to two weeks' duration and offered for supervisory (BDAC), branch and village bank staffs in the three locations - Beni Suef, Gharbiyyah and Daqhiliyyah. The training was conducted by the four PBDAC supervisors, assisted by the credit specialist. These training programs were offered simultaneously, allowing implementation of marketing activities to begin in earnest in all three governorates by March 1. Reports on the Creditworthy Lending activity, accordingly, begin with the month of March and carry the six village banks through the end of June. The Profit Center Report has only been used over the course of the last month and is still in early implementation stages. The summary of pilot efforts below is drawn from the Monthly Reports.

A. Outstandings by Loan Purpose:

Over the course of the four months of active marketing, Mahallah Abu Ali Village Bank in Mahallah al-Kubra (Gharbiyyah Governorate) scored the most impressive gain in investment loan outstandings: This unit raised its average outstandings 150.2% from LE 186,000 in 1994 to LE 467,000 in 1995. Second in terms of overall investment loan asset growth was Batrah Village Bank in Daqhiliyyah Governorate which saw a 99.1% increase in outstandings, followed closely by its neighbor the Talkha Village Bank where outstandings increased 93.7%. Average loan volume for Batrah was LE 746,000, while Talkha's average volume was LE 226,000.

Although it was not among the leaders, Nasr Village Bank in Beni Suef recorded a solid 42.9% growth in investment loans for the period.

All participating banks made increases well in excess of those of non-participants: In Beni Suef, Nasr and Dendil averaged 31.3% growth while non-participating banks actually saw outstandings actually decrease by 16%.

In Gharbiyyah, Batrah and Talkha averaged 96.4% growth while non-participants' outstandings increased by 28.7% and in Daqhiliyyah participating bank outstandings moved up 109.6% while non-participants showed only a 3.8% percent increase.

In capsule form, then, the project can take credit for initiating the marketing efforts that produced the following increases in loan volume and annualized earnings in the three pilot governorates:

	Loan Volume	Earnings (at 4% spread)
Beni Suef	LE 257,000	LE 10,280
Daqhiliyyah	480,000	19,200
Gharbiyyah	568,000	22,720
Total	LE 1,305,000	LE 52,200

Composition of outstandings was dominated heavily by the agricultural and service sectors. Mahallah Abu Ali led the field in manufacturing loans with LE 519,000 lent by June 30. This figure represented 11.5% of this bank's investment loan volume year-to-date.

B. Loan Distribution by Size:

Loan distribution continued to be heavily weighted towards loans under LE 20,000, as expected. Batrah Village Bank, however, had over 9% of loan volume in the LE 20,000 - 100,000 range, and

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Talkha surpassed it, recording 21.2% in this category and an additional .6% between LE 100,000 and 500,000. Batrah and Talkha led the other participants in average loan size over the four month period, a key profitability measure which will be dealt with in the Profit Center Reports.

C. Loan Distribution by Type:

The project was successful in stressing its preference for the the simple loan/multiple repayment structure in Nasr and Mahallah Abu Ali Village Banks, who show 80% and 83% respectively in this category. The other banks continue to favor single payments.

D. Loan Distribution by Tenor:

The project recommended that participating banks maintain a preponderence of outstandings as short-term rather than medium-term loans, owing to the Bank's deposit structure. Batrah, Aameriah and Dendil Village Banks adhere to this advice, while the others show a tilt towards the medium-term. The issue is not critical as long as the interest rate structure in Egypt remains stable. Were rates to begin fluctuating, however, units where medium-term loans predominate would find themselves short-funded and vulnerable to a rising rate structure.

E. Past Dues:

Four months into the new lending program, repayment rates at the six participating banks are the same (Talkha, with 4.3% past dues) or better (all other units) despite undertaking new credit risks and departing from the Bank's former insistence that all loans be secured by the pledge of registered land titles. Four banks show an improvement in collections (possibly five: We do not have Dendil's baseline data). The project can take no credit for helping collect the loans; however, provision of monthly past dues information was undoubtedly of aid to Village Bank and Branch management.

F. Conclusion:

The "Results" table (Appendix A) encapsulates the Creditworthy Lending experience on which the current expansion program is based. Strong marketing efforts produced solid increases in loan outstandings across the three governorates served without sacrificing credit quality. Indeed, we would hope that credit analysis training will have made the underlying credits stronger and more likely to repay.

III. Expansion of the Creditworthy Lending Activity:

A. Activities Since July 1, 1995

PBDAC senior management elected to expand the Bank Improvement Program (including Creditworthy Lending) to all units in the three participating governorates, a total of around 200 branches and village banks. This has meant a considerable change in the style of operations. We have spent a large amount of time developing a methodology for training and converting units from the traditional methods of credit extension to the Creditworthy Lending program in the shortest possible time. The approach developed is substantially as outlined in section I.D., above, "The Elements of Creditworthy Lending," and includes Credit Analysis and Approval, Marketing, and Monitoring and Evaluation.

As per Workplan VIII, in July training was conducted for (primarily) BDAC personnel in Beni Suef: Twenty-eight participants completed the revised two-week credit course. Following this training session, four additional courses were held for 127 participants from branches and village banks. Following completion of the training, implementation of the market surveys began. This activity is scheduled to be completed November 10 and full attention will be devoted to Marketing and Monitoring and Evaluation from that point forward.

Development of the Profit Center Report is complete, with Dendil and Nasr Village Banks having served as the proving ground for these reports. Computerization of the Monthly Report will proceed once baseline data is received (the deadline is November 10).

In the meantime, supervisory training was completed in Gharbiyyah for thirty participants, and two additional training groups of around thirty each (branch and village bank staffs) are currently under way. A further two weeks of training is scheduled in Gharbiyyah for the remaining two groups.

Daqhiliyyah Governorate decided to initiate Creditworthy Lending training in advance of the scheduled date, January 2, 1996. To date supervisors and staff from Mansurah Branch and its village banks have been trained. They are presently conducting site surveys.

Lending activities in the pilot village banks continued throughout the summer, of course. Unfortunately, increases in loan volume did not keep pace with progress recorded during the first four months. In Beni Suef, participating banks did no better than non-participating banks while in Gharbiyyah non-participants actually showed somewhat larger percentage increases in July (non-participating banks' results are missing for August). In Daqhiliyyah, however, participating banks outperformed non-participants by a sizeable margin (309% and 146% compared to 33%). (See Table 1, below).

Table 1: Investment Loan Volume in Pilot Units
(LE Amounts in 000's)

Unit	July	%1Yr	%NPB	August	%1Yr	%NPB	Sept	%1Yr	%NPB
Dendil	157.9	9.9	9.8	182.5	-41	11.2	705	16.9	N/A
Nasr	170.8	10.3	9.8	282.2	11.0	11.2	844	-10	N/A
Mahallah	371.6	13.1	27.3	331.7	-5.4	27.2	581.3	101	-19
Aameriah	326.8	14.7	27.3	603.8	23.0	27.2	434.0	46.7	-19
Talkha	692.5	4.5	29.2	352.8	309	33.5	307.6	-7.5	195*
Batrah	136.7	28.0	29.2	370.4	146	33.5	311.0	27.9	195

1YR = 1 Year; NPB = Non-Participating Bank

* Talkha Branch booked a LE1,060,000 medium-term loan in September. This loan is not reflected in the NPB figure.

Cumulatively - from March through September, 1995 - results for the four pilot banks were as follows:

Table 2: Percentage Increases in Monthly Loan Volume
March - September, 1995

Bank	*Percentage Increase*
Dendil	9.17
Nasr	26.12
Non-Participants	(7.45)
Mahallah Abu Ali	101.35
Aameria	51.48
Non-Participants	7.80
Talkha	97.25
Batrah	85.47
Non-Participants	53.21

Without question, the program has led to significant increases in loan volume and has had, at the same time, a positive effect upon collections (Tabulations appear in the Monthly Reports). On average, participating banks increased their loan volume by 61.8% over the seven-month period, while non-participating village banks under the same branches registered an increase of 17.8%, for a net difference of 44%.

B. Problems/Issues for Remainder of Program

It is the opinion of the Credit Specialist that the program must concentrate on the following issues/areas to ensure success of the program in the three participating governorates and replicability/sustainability of the activity in years to come:

1. *Staff Training* Continued top priority must be accorded on-the-job training for supervisory staff at both the PBDAC and BDAC levels. This training must include the three broad Creditworthy Lending concerns - Credit Analysis, Marketing and Monitoring/ Evaluation. We do not have developed adequate standards for supervisors taking part in the program. In addition, there have been wide differences in performance in the formal training programs among participating governorates. While job descriptions have been developed, the development of standards needs more work.

2. *Assembly of Manual for Creditworthy Lending* A manual or practical guide for implementation of this activity is being assembled. This guide should aid PBDAC to implement the program in coming years. The guide will need to be further developed over the course of the next five months.

3. *Credit Manual Revision* Based upon input from the field and upon the results of this evaluation exercise, the draft Credit Manual must be revised and issued to all participating units. The manual must be made to better conform to realities in the field, requires better organization and needs to be made easier to consult.

4. *Computerization of Monthly Report and Profit Center Report* This process should be finished prior to the program's termination. Workshops need to be held to explain the reports' utility to middle and senior management at both the BDAC and PBDAC levels.

Creditworthy Lending March - June, 1995: Results of the Pilot Program

Amounts in LE 000's

Location Bank	March 1995	% Change from 3/94	April 1995	% Change from 4/94	May 1995	% Change from 5/94	June 1995	% Change from 6/94	Four Month Average	% Change from 1994
Beni Suef										
Dendil	214	-71.4	338	36.7	395	69.5	376	43.7	331	19.6
Nasr	774	51.5	864	48.1	492	50	571	22	675	42.9
Non-Participating Banks	384	-40	319	11.1	214	-27.2	312	-9.6	307	-16.4
Daqhiliyyah										
Talkha	354	70.9	202	91.6	199	5.9	147	206.3	226	93.7
Batrah	131	45.3	410	194.1	941	36.7	1501	120.1	746	99.1
Non-Participating Banks	208	27.1	169	-20.8	188	93.4	661	15.1	307	28.7
Gharbiyyah										
Mahallah Abu Ali	429	130.8	399	86.4	450	160.1	589	223.6	467	150.2
Aameriah	959	107.6	431	107.6	412	38.3	1027	22.6	707	69.0
Non-Participating Banks	358	-1	354	-3.1	326	13.9	325	5.5	341	3.8

Annex "B"
Deposit Mobilization
by Nivine El Oraby

DEPOSIT MOBILIZATION

Why is it particularly important to PBDAC:

1. While banks normally lend 65% of their deposits, in PBDAC the loan / deposit ratio is the other way round. So to start with, we need to cover the gap and reach a one to one ratio. In some BDACs the deficit is much larger, e.g. in Beni-Suef deposits as of 09/30/95 were 32% only of outstanding loans.

2. Also in anticipation of growth in loans with the liberalization of credit, more deposits are needed to finance such growth.

3. From a profitability point of view, as referred to in Dr.Anwar's analysis more loans generate more interest revenues, which in turn leads to a reduction in the ratio of administrative costs / revenues, and therefore leads to more profit.
   It follows that we need more deposits to finance the desired increase in loans, and positively affect profits.

4. Also related to profitability, deposits are usually less costly than interbank borrowings, also depending on the composition of deposits ranging from zero to 2 - 3% interest on demand accounts, to 8.5-10.5% on time deposits and saving certificates. As to the savings account, while the announced rate is 12% the cost to the bank is said to be below 10%, because interest is calculated on the lowest balance only during the month.

5. Deposits are more stable and reliable as a source of funding compared to interbank borrowings or foreign loans.

Change in Methodology

While specific deposit balance "budgets" (targets) are set for each village bank and each branch, no particular marketing methodology or plan is being pursued, and no one is particularly assigned to the job. Many unfavorable methods are therefore often used such as:

1. A borrower who asks for a loan of say L.E. 5,000 is granted L.E. 6,000 conditioned with placing the extra L.E. 1,000 in a deposit account.

   This phenomenon is more common in some BDACs than others, and within the same BDAC it's more in some village banks (VBs) than others. There's no measurement of the magnitude of this phenomenon, but the fact remains that it's there, and very widespread as mentioned to us by clients during our marketing calls; also confirmed through the 2 survey studies recently conducted by the consultation office MCC on "formal and informal finance in the rural areas".

This is quite serious because :

1.a. While deposits are a bank product sold in the market, "**demand**" for a product refers by definition to those "**willing**" and "**able**" to buy it. In case of compulsory savings, users are neither willing or able: they are "**forced**" and "**the cash is not their surplus**" but it is provided to them as part of the loan. So in such practice deposits are solicited without any marketing efforts, and the real deposits'market is not penetrated.

1.b. While employees get their incentives because they manage to achieve the budgeted deposit balances, they actually do so by inflating both sides of the Balance Sheet, "loans and deposits", which does not help with regard to covering the "gap" between outstanding loans and deposits. The need for external funding thus continues, with its negative effect on profitability.

1.c. Customers resent this practice because they are being forced, and because they incur the difference between debit and credit interest rates.
N.B. Some customers frankly told us that after they settled their loans, they happened to accumulate some cash surplus but decided not to deposit it with the Bank, but in other banks, because of the compulsory savings that they had to place at time of need for loans.

2. Deposit balances are said to be reviewed quarterly to allow for periodical payment of incentives throughout the year. However, the total amount to be earned in incentives for the full year depends on the balance as at end of June, FYE.

This causes lots of unfavorable practices: a few days before FYE employees would resort to some wealthy clients and ask them to place some funds temporarily in deposits until FYE date is over so that books would show a high balance on that date. Also employees place their salaries for a few days for the same reason.
This does not serve as a source of funding because it lasts for a few days only. It also seriously affects bank image because it's the bank's function to "serve the customers" not to ask for their assistance.

3. Many clients' requests for withdrawing funds from their own deposit accounts a shortwhile before FYE are turned down by the staff, so as to keep the FYE balance high.
This seriously annoys clients, it also affects their confidence in the "liberty to withdraw" from one's savings at any time, and make them feel reluctant to make further placements of cash.

Before we discuss the change in methodology, I would like to refer to Dr.Anwar's analysis of consolidated financial statements, it showed and increase in deposits by 28% during FYE 93/94, then 19% in 94/95. These would be very good achievements if it weren't for the methods referred to above. We also note that in 93/94 PBDAC's interest rates were clearly above market. And in 94/95 they have been reduced, but not from the beginning: reductions were in Aug.94, Dec.94, and June 95. So the reduction in interest rates did not have a full-year impact yet.

The objective of BIP is to increase deposits and number of depositors, but also to solicit deposits from their "**proper market**", i.e. from people who "**have a surplus**" (even if it's very small in the beginning), and who are "**convinced**" with dealing with the bank. This conviction could be the outcome of one or more marketing calls, in which case the bank marketing officer himself would manage through good performance to increase the market size.

For deposit mobilization the pilot units were not only the 6 VBs but we also included the branches because some clients that were solicited by VBs preferred to deposit at the branches for better premises, i.e. more security. This is before the premise renovation activity started. Messrs. Ahmed Awwad and Ahmed Yehia of PBDAC were the first to handle the job starting Nov. 94, then they specialized in Gharbiya and Dakahliya respectively while Ms. Ebtessam Kabil joined and handled Beni Suef.

At the preparation stage we reviewed the deposit balances as a starting position in each of the 9 pilot units, divided by deposit product. Details on number of clients were also obtained, divided by type of client (male,female,company,bank employee..), and by average size of deposit.

Training & Implementation

About 6 candidates in each governorate were appointed to work in this field : one from the BDAC, one from the branch, and 2 from each VB. Due to small number there was no formal class training at the pilot stage, only brief sessions for familiarization with PBDAC's deposit products with regard to their prices, terms & conditions, as well as similar information on competitor banks' products obtained by a survey done then by A.Awwad and A.Yehia.

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While marketing is by definition an activity that takes place "**in the market**", many bank employees are reluctant to approach the public and consider it as somehow degrading to "**call on**" prospective customers. This is particularly true of deposit solicitation, while they consider that in case of borrowers the bank has upper hand. We needed to change this understanding and make it clear that both loans and deposits are bank services, beneficial to both the bank and the customers. We also clarified that the mere appointment of a bank employee as a marketing officer reflects the bank's confidence in both his caliber and his charachter, so as to represent the bank in the market as a good image

The most suitable thing to do at that stage was to personally join them to marketing calls partly for field-training and partly for easening any tension. The purpose is to demonstrate how to approach potential customers, establish a friendly relationship, discuss savings' advantages, introduce Bank products, and focus on Bank products' areas of strengths.

Through time, there was a gradual heavier reliance on PBDAC officers with regard to field-training; 75% of the time was in the field.

Simple market studies were done to estimate market size for each pilot unit in terms of number of potential depositors in the community. Market shares were then estimated as a ratio of "**actual**" to "**prospective**" clients. Those shares are very limited and reflect a large potential for growth, through marketing.

The BDAC Chairmen & Vice Chairmen not only helped us with the selection of candidates and issuing decrees assigning them to the job, they also agreed to our proposal for printing brochures, and preparing simple gifts for customers carrying Bank's name, which was quite appreciated by clients. Visits were to individuals, schools, shops, factories having a large number of workers, agricultural departments, health units, village homes....

RESULTS

During the pilot project we traced monthly developments in terms of increase in deposit balances & number of clients from previous month as well as from baseline. And now that we have a long period under review, 10-11 months from baseline, it could be compared with the increase in balances during the corresponding period previous year, i.e. from Dec.93 to Oct.94

However to account for fluctuations in deposit balances, partly due to seasonality and partly to temporary & fictitious increases as previously referred to, we'd rather use the **monthly average deposit balance during the period December/October**.

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Actually this "**average outstanding**" is a better indication as a source of funding throughout the year.

(A) For all 9 units together, average level of deposits during pilot project was L.E. 35,037,000 compared to L.E. 27,913,000 the year before, i.e. 26% higher.

(B) For each BDAC separately, the increase in average level of deposits was 30% , 24% and 19%, for Gharbeya, Dakahleya, and Beni Suef respectively.

(C) For each unit alone, averages were as follows in order of performance:

UNIT	BDAC	93/94 LE 000	94/95 LE 000	INCREASE
Talkha VB	Dakahleya	2033	2909	43%
Meh.Abu Ali VB	Gharbeya	3566	5013	41%
Mehalla Br.	Gharbeya	4602	6067	32%
Nasser Br.	Beni Suef	1216	1523	25%
Battra VB	Dakahleya	5211	6393	23%
Talkha Br.	Dakahleya	7225	8611	19%
Dandil VB	Beni Suef	1190	1405	18%
Nasser VB	Beni Suef	1179	1351	15%
Amereya VB	Gharbeya	3006	3392	13%

As to number of depositors, it was as follows from Nov./Dec.94 till June 95:

- 326 additional clients in Beni Suef, 5% increase*
- 191 additional clients in Gharbeya, 2%increase
- 254 additional clients in Dakahleya, 4% increase

* For Beni Suef's figure we have some reservations as it is said that many savings accounts were opened in association with loans, i.e. not real savers.

EXTENSION:

Beni Suef

1. **Class Training** for 80 employees divided into four 4-day sessions. PBDAC officers participated in training the first group (supervisory level from BDAC & Branches), then 3 BDAC officers participated in training the VB staff level.

   The training material included: a definition of the deposit marketing officer (DMO) job, being new to the bank, as opposed to the deposit customer service job. Detailed presentation of Bank's various deposit products and the characteristics and pricing of each. Information on uptodate prices of other banks' products, obtained from PBDAC Finance Sector, as well as the present interest rate on post-office savings, as another important competitor. How to analyze deposits available at each VB, and to estimate market size for a VB and its present market share. Planning and timing of marketing calls, and how to approach various types of existing or prospective customers (individuals, groups, women, students ...). Highlighting the advantages of personal visits, especially in the rural markets, as opposed to other promotion tools. Clarifying the negative effects of unfavorable methods of deposit collection previously referred to. Usage of formats for follow-up reports regarding daily visits to customers, visit outcome, number of opened and closed accounts ...etc.

2. Four new PBDAC officers joined at that stage (Messrs Mahmoud Soliman, Ali Abul Waffa, Mohamed Kamel and Mohamed El Mahdi) which allowed for visiting all 34 VBs and 7 Branches in Beni Suef, and to **practically** do with the trainees the **start-up situation analysis and market study** for each unit.

3. Among the trainees, one was selected for each VB, and one or two for each branch, and two at BDAC. **Field-Training** was done for all.

4. The Chairman and Vice Chairman issued **decrees assigning the candidates** for the job on a full-time basis upon our request. In VBs that had staff shortage they delegated someone from the branch for the job. They were also so supportive that they held a meeting with all Branch managers and VB managers, and a meeting with all assigned DMOs, to make it clear that the fictitious ways of collecting deposits are rejected, and that the marketing job is to be closely monitored.

5. **Automation** for the follow-up reports was done by Arabsoft officers, and BDAC & Branch MIS staff were on-job trained thereon. Reports prepared manually at VB are sent to the Br. at end of each month for consolidation, with a copy of both individual and consolidated reports to be sent monthly to the team-leader at BDAC, for analysis, follow-up, and reporting to the Chairman.

6. Deposit balance at Sept.30,95 was L.E. 95 million, 106% of the budget for 30/06/96. However this is misleading because the breakdown shows that BDAC alone achieved 245% of its budget which pushed the total figure upwards, while some of branches had balances as low as 54% of budget, with some subsidiary VBs at 20% of budget only.

Accordingly, we did not set a certain monthly percentage increase for each unit, but rather **the plan** is as follows:

a. A minimum number of visits was set for each DMO, Ms.Ebtessam proposed 70 per month for VB DMOs, as to branch officers it is set at 50 per DMO only because part of their time is to be devoted to supervising subsidiary VBs, 2 visits monthly to each VB to check the number and outcome of their visits, as well as assisting them in their marketing visits if necessary. We made it clear in the above plan that any visits made to existing borrowers do not count, as well as visits to customers requesting a loan.

   BDAC officers are to make 2 visits monthly to each branch and to VBs if the need arises, and follow-up the whole activity.

b. On monthly basis, development in deposits balance for each unit is reviewed, also to check how close to budget it is getting. This is to be reported monthly to the Chairman for deciding on incentives to the better performing units at his discretion.

c. 2 PBDAC officers will continue to go to Beni Suef about 4 days a week for additional field training, follow-up, streamlining and reporting problems to the Chairman. Their focus is on the units doing poorly.

7. Ms.Ebtessam proposed to the Chairman to conduct a seminar to which public figures in the governorate are to be invited for presenting the bank's role in community development. He agreed and referred the matter to PR Department. Also Mr. Mohamed Kamel designed posters exhibiting deposit products list and prices, for placement at Br's & VBs.

Gharbeya

Class training started mid-October and is due to end mid-November. Meanwhile 2 PBDAC officers started visiting Br's and VBs for starting position analysis and market studies with candidates who already received class training.

All other procedures will be pursued as in Beni Suef. The only difference will be with regard to the desired target. Most Gharbeya units are doing very well with regard to achieved deposit levels as a percentage to 30/06/96 budget. Yet by discussing with the Chairman the importance of covering the deposit/loan gap, he decided to have this as a goal, not only achieving the deposit budget. As of 30/09/95 deposits were at L.E. 254 million and loans at L.E. 410 million, i.e. 62%.

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Outstanding borrowings from PBDAC was L.E. 62 million on that date with the rest of the gap covered by other Balance Sheet items. The Chairman would therefore aim at covering the gap and wants each DMO to be responsible for a specific rate of increase. Another session will be held with the Chairman and General Manager for Financial Affairs for setting these goals, upon completion of class training.

Dakahleya

Their Chairman & Vice Chairman decided to start expansion of pilot project. They are making use of the PBDAC officer who was handling the pilot project. He's using the same training material that we use. Together with BDAC officers he already finished two branches (13 VBs) in terms of class training, field training, analysis of startpoint situation and market studies. He's now working on 2 new branches.

RECOMMENDATIONS

1. **To establish a "deposit marketing function" on the bank's organization chart**, at the 3 levels VB,BR,and BDAC. Each level is to supervise and train lower levels in addition to bearing the responsibility of increasing his own unit's volume of deposits, number of depositors.

   This function is to be totally separate from the "**loan marketing job**", or else the officer will inflate both sides to indicate better performance by compulsory savings by borrowers as mentioned.

   N.B.

   a. Credit Specialist's recommendation in this regard is to have loan marketing and credit analysis performed by the same credit officer. The specialist does not endorse segregation of both functions and thus does not ask for new titles in the credit function.

   b. As a suggestion, people who can be released from their initial job to allow for creation of the new function are mainly "**ficha**" clerks, and commercial units staff. This is because there are usually several ficha clerks in a VB, also commercial units staff are said to be not as heavily loaded with work as other staff. Selection criteria for a DMO job are mainly communication and representation skills and preferably an inhabitant of the village itself for easier communication. As to training on bank's deposit products, itican be acquired.

Justifications for this recommendation are as follows:

a. Deposit collection is essential to the bank so as to cover the existing loan/deposit deficit, which is in some BDACs very large. More deposits are also needed to finance the envisaged expansion in credit so as to increase bank's revenues and improve profitability.

b. We discussed with the staff the possibility for part-time assignment, 3 days a week. They all said their initial office work will be accumulated, pending for their return to the office, in which case the burden will be too much.
Someone proposed that DMOs finish their initial jobs in the morning then go out for marketing starting 12:00 o'clock. But this will be at the expense of marketing because one rarely finishes up at noon, especially if involved with customer service. So going out to the field will gradually disappear, especially with the hassle and fatigue related to moving around in the field, and transportation inconvenience.
Also handling two jobs leads to diffusion of responsibility whereby you can not account the DMO responsible for increasing deposits, he would be always attributing slowdowns to his being busy with other jobs.

c. While the bank regularly advertises its deposit products in the newspapers, in our marketing calls we found that many people are not aware of the advantages of bank's deposits products, and sometimes not even aware that the bank provides deposits & savings services whatsoever. Many people in the rural areas have no access to newspapers, or can not read, and many do not pay attention to advertisements.
MCC's survey studies previously referred to confirmed the inadequacy of promotion activity in the bank.

d. Some propose TV advertisements, but these are very costly, especially if compared to using existing human resources whose salaries are borne by the bank anyway,i.e. no extra administrative costs.

e. Personal calls are especially effective in the rural areas partly because the DMO has the chance to introduce his products in a very simple language to suit various educational levels of the clientele. The rural community is by nature sociable, people appreciate being approached, the visit gives the chance for establishing a personal & friendly relationship as

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well as for two-way communication where the prospect can make all his queries.
For existing depositors on whom DMOs call for solicitation of additional deposits, the visit is an opportunity for the client to make any observations or complaints regarding the bank's service.

f. We have noticed in the pilot project that if TA or PBDAC officers do not go to the field, the assigned DMOs stay in the office doing other work. This means that after the project the whole activity will fade out because people have other jobs to do in the office. This is especially true because many Br. & VB managers are against the idea, because they manage to achieve their budgets anyway through methods previously referred to.

2. We also recommend that **written instructions to be issued to all managers prohibiting compulsory savings**. And similar **instructions prohibiting turning down clients' requests for withdrawals from saving prior to FYE**. It is to be made clear to managers that in replacement to the above, DMOs are assigned for "real" marketing of deposits.

3. In determination of deposit budgets, and in turn the related incentives, **we recommend a "budget monthly average"** to be set, rather than a "FYE budget balance". This would cut down present unhealthy practices for inflating FYE balance. We note that if FYE balances are peaks while the rest of the year has low deposit balances, this does not help much insofar as funding is concerned.

4. To encourage DMOs to obtain motorcycle loans from the bank; with a suitable travel allowance to be paid by the bank to help them pay off the loan. For other DMOs, especially females, a suitable **allowance to be paid covering actual travel expense**.

5. Another major problem is the low liquidity level allowed to be maintained at VBs vault, often L.E, 3,500 only. If it is not possible for the bank to increase this figure, then instructions to be issued **urging staff and managers to speed up bringing cash from the higher level** upon clients' requests if available cash falls short. This is not to be delayed, and clients should certainly not be told to wait until some borrowers repay their loans and make cash available!

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6. We also need to clarify to staff that the purpose is not necessarily to cause extraordinary jumps in deposit balances, (this is seriously resisted by staff because it means that the following year's budget will be automatically set at a higher level). The purpose is to reasonably increase deposits but **mainly "real" savings, and to widen the scope of bank business by reaching the community by and large** thus increasing number of customers.

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Annex "C"
Accounting & Bank Operations
by Abdel Hamid Mohamed

Cairo Oct.15,1995

Mr.Eng. Hamed Hassanain
Chairman,
Board of Director
BDAC, Beni-Suef Governorate

SUBJECT: BANK IMPROVEMENT PLAN / BENI-SUEF GOVERNORATE

According to the APCP action plan approved by the Chairman and the Vice Chairman of PBDAC's Board of Directors, which stipulates the initiation of bank improvement plan at Beni Suef Governorate, I would like to inform you that implementation was conducted as follows:-

FIRST: TRAINING

We have implemented the following training activities on "Accounting & Customer Service functions"

1. At the Supervisory level:

   a. Customer Service Training Program (25 trainees) From 08/27/95 to 08/30/95
   b. Basics of Bank Accounting Training Program (25 trainees) From 09/03/95 to 09/09/95

   The two crash courses were attended by the financial and banking suprvisory staff of the Governorate and district banks. It was designed to develop their working and supervisory skills and to predispose them for implementing and monitoring the plan at all levels starting from the Governorate BDAC to the village banks.

   c. A group has been selected on merit for a training - of - trainers course which started on 09/09 to 09/14/95, to develop their training skills to conduct the on-the-job training required for the junior staff.

2. At the executive level

   Six crash courses were designed and implemented to develop operating skills of the financial and banking services staff.

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a. <u>3 courses on Customer Service</u>
Each of the 3-day courses was attended by 25 trainees The program started on 09/16/95 and terminated on 09/25/95

b. <u>3 courses on Bank Accounts</u>
Each of the 4-day courses was attended by 25 trainees. The program started on 09/17/95 and ended on 10/05/95.

To initiate and monitor application at the level of the governate and upon your verbal approval, a follow up team was constituted from among the staff of the BDAC and its affiliates, as follows:

<u>FIRST</u>: <u>BDAC STAFF</u>

Mr. Gaber Abdel Mu'tti, Financial Department manager will act as a Chief Supervisor. The following two teams will report to him:

* <u>First Team:</u>

Mr. Salah Ahmed A.Lateef	Supervisor
Mr. Adel Sadik Hanna	Member / Monitor
Mr. Zakariyah Ali Ahmed	Member / Monitor

The team will assume a supervisory function and will monitor the following units

- Governorate Bank
- Nasser Branch Bank (and affiliated village banks)
- Beni Suwaif Bank (and affiliated village banks)
- Wasita Branch Bank (and affiliated village banks)

* <u>Second Team:</u>

Mr. Mostafa A.Mohammed Aql	Supervisor
Mr. Alfons Ayyad A.Nour	Member / Monitor
Mr. Mohammed A.Aleem El Me'addawi	Member / Monitor

<u>Areas of Assignment</u>

- Beba Branch (and the affiliated village banks)
- Semista Branch (and the affiliated village banks)
- El-Fashn Branch (and the affiliated village banks)
- Ehnasia Branch (and the affiliated village banks)

SECOND: BRANCHES & VILLAGE BANKS

1. Beni Suwaif Branch , with five affiliated village banks, in addition to the branch's unit.
   Field monitoring will be conducted by :
   - **Mohamed Ali El-Ze'airi**
     Branch's unit + Beni Suwaif village bank + Balut village bank

2. Nasser Branch , with four affiliated village banks in addition to the branch's unit.
   Field monitoring will be conducted by:
   - **Eid A.Aziz Eid**
     Branch's unit + Nasser village bank + Minshat Hudaib village bank
   - **Matter Matter Matter**
     Dandil village bank , Ashmant village bank

3. Al Wasita Branch, with five village banks in addition to the branch's unit.
   Monitoring will be conducted by:
   - **Fawzy M.Abd El Aleem**
     Branch's unit + Atwab village bank
   - **Fawzy Sawieros**
     Anfust village bank + Abou Sier village bank
   - **Youssef A.Allah Aboul Ella**
     Qumn El-Arous village bank + Al Maymoun village bank

4. Ehansia Branch, with five village banks in addition to the branch's unit.
   Monitoring will be conducted by:
   - **Sayed Tawfik Ali**
     Branch's unit + Ahnasia village bank + Al Awawna village bank
   - **Salah Kirollus**
     Nana village bank + Qay village bank + Brawa village bank

5. Beba Branch, with five village banks in addition to the branch's unit.
   Monitoring will be conducted by
   - **Mohammed Rabea Abdullah**
     Branch's unit + Beba village bank + Tansa village bank.
   - **Abdullah A.Aziz Abdullah**
     Qumbush village bank + Hilia village bank + Saft Rasheen village bank.

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6. Semesta Branch, with four village banks in addition to the branch's unit.
   Monitoring will be conducted by:
   - **Anees Attiyah Shenuda**
     Branch's unit - Simesta village bank + bad-hal village bank.
   - **Gaber Youssef**
     Mazourah village bank + El-Shantour village bank.

7. El-Fashn Branch, with five village banks in addition to the branch's unit.
   Monitoring will be conducted by :
   - **Redha Hilal Farag**
     Branch's unit + El Fashn village bank + El Fant village bank.
   - **Massoud A.Massoud**
     Aqfahs village bank + Telt village bank + Shenra village bank .

PERFORMANCE REPORTS

Annex (1) is a model of a performance report. It includes all the points to be monitored by supervisors and field work team members. These points cover day-to-day activities to be monitored in each field visit and monthly practices to be applied and checked at the beginning of each month. the report is to be completed for each visit to the unit, signed by the person in charge, and raised to the higher level.

To ensure better monitoring, it is advisable that a time-schedule be set for each level of supervision, as follows:-

A. Village banks' monitoring level
A field visit must be paid at least once a week to the units of assignment.

B. Branches' monitoring level
A field visit must be paid at least once a week by the concerned person, together with an unprearranged visit to a village bank during the visit to the branch.

C. Supervisory level
Paying a weekly visit to the unit (s) where monitoring reports indicate shortcomings, either to define causes and attempting at solutions or to raise the matter to the team leader.

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D. Team Leader
Conducting a bimonthly tour of those units where in accumulative reports denote certain problems or difficulties that need intervention. Proper solutions may be either put in place or raised to the higher administrative level for decision.

FINANCIAL REPORTS

In collaboration with APCP's MIS specialists and PBDAC's MIS Dept., a computer program was designed for the monthly financial reports, whose data are directly derived from the General Ledger.

The program will provide a financial report for each village bank without putting an additional burden on the staff at village level. The report clarifies the financial position and revenues position of each village bank. These self-explanatory reports are dispatched by the branches to the governorate bank to follow up the development of financial performance at village level.

Finally, I would like to indicate that APCP team will assist the follow-up teams in applying the system and in reporting until the second week of November 1995. Later, we will be monitoring the overall performance through the accumulative reports or unprearranged field visits according to circumstances. We will soon be starting application at Gharbiyah Governorate. Whenever there is a need for my presence, do not hesitate to contact me at APCP head office.

Kindly approve designating above - cited monitoring teams. I am more than ready to respond to your inquires, if any.

I avail myself of this opportunity to place on record my heartfelt gratitude to your goodself and your staff members for your cooperation, without which our mission could not have been a success.

With my sincere regards

Abdel Hameed Mohammed
Accounting & Banking Specialist

CC. Eng.Zeinab Salem
Vice Chairman, PBDAC

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BANK OF DEVELOPMENT & AGRICULTURAL CREDIT
BENI SUWAIF GOVERNORATE

________________ Branch ________________ village bank

Name of Monitor ____________________ date of visit / / 199

Report on Monitoring Accounting & Banking Performance

" The monitor should ascertain the timely implementation of the following points. Tick (√) when they are observed carefully and (x) if they are not applied".

	YES	NO
FIRST : GENERAL ACCOUNTS		
A. Treasury Function		
1. Cashier regularly records deposits, and withdrawals (receipts 42 & 24) in the payables and receivables book, each in the right box (current, saving deposits, certificates, credit, expenditures...)	___	___
2. Ascertaining that the daily journal is being completed by the cash clerk or an employee other than the cashier	___	___
3. Reconciling totals of payables and receivables in the day-book with those in-charge according to the sheet of withdrawal and depositing (28 village bank) at the end of the day and before cash count	___	___
4. Cash count, preparing a day-by-day statement reconciling the balance with the cash book's balance and the cash account balance in the General Ledger	___	___
B. Day-book & General Ledger		
Daily Journal		
1. Preparing the day-book regularly and carrying forward to the General Ledger at the end of the day	___	___
2. Preparing a daily balance sheet and reconciling the total of both debit and credit sides with the total of the daily journal	___	___
3. Entering credit and debit advices without undue delay	___	___

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	YES	NO
4. Preparing the daily account sheet at the Branch's current account book and sending it to the Branch's premises in the following working day	___	___
5. Carrying forward the total of credit accounts (agricultural, investment, commercial) to the monthly Interest form and settling it daily	___	___

Monthly Work

1. Calculating interest on credit for the month using the monthly Forms (account / account)	___	___
2. Calculating & entering inputs revenues during the month	___	___
3. Confirming that monthly expenses (interest on saving accounts) and other expenses have been prepared and posted in their relevant books at the end of the month	___	___
4. Confirming that interests on overdraft from the Branch have been posted in the month's expenses. Similarly, posting interests on finance secured from other sources by the branch and the Governorate Bank	___	___
5. Calculating the 5% on monthly revenues for agricultural, investment and commercial credit and posting the amount as a liability under service expenses in the branch's current account	___	___
6. Preparing a balance sheet for the month and a general one for payables, receivables and ending balances.	___	___

SECOND: BANKING WORKS

Daily Works

1. Instantaneously posting in the customer's account (while the deposit or credit account is being prepared)	___	___
2. Entries into receivables & payables'sheet (28 village bank) are observed on time	___	___
3. Using the new form for fixed deposits customers	___	___

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YES NO

4. Preparing customer files, completing the required documents and keeping a true copy of the customer's signature specimen in his own file ___ ___

5. Preparing separate files for signature specimens (current and saving account) to confirm the veracity of the customer's signature ___ ___

6. Reconciling the totals of the day-to-day payables and receivables with those of the cash journal at the end of the day ___ ___

7. Performing relevant entries to fixed time deposits which fall due during the day, renewal thereof and entering the monthly interests into the customer's account ___ ___

8. Timely posting into the subsidiary Ledgers of certificates ___ ___

Monthly Works

- Calculation of the following interests on savings and deposits:-

  * Saving accounts - using the annual sheets of interest rates ___ ___

  * Time deposits - preparing a list of fixed deposits (amount of deposit, monthly rate, historical interest rate ___ ___

  * Current accounts, on the lowest balance, if any ___ ___

  * Certificates (all typesü) ___ ___

- Preparation of the monthly balance sheets for current accounts and intermediary accounts stated in the attached list ___ ___

- Reconciling the balances of the general statement for credit customers with their counterparts in the General Ledger ___ ___

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YES NO

- Preparing a quarterly balance sheet for credit customers and reconciling it with the balance of the General Ledger ___ ___

Remarks of the monitor

____

____

____

Signature

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A LIST OF CURRENT AND INTERMEDIARY ACCOUNTS FOR WHICH A MONTHLY PROOF SHEET IS NEEDED

	ACCOUNT NO.
- Agricultural cooperative current	4101
- Agarian Reform cooperative current	4102
- Non-Farming Cooperative current	4103
- Corporate bodies cooperative	4104
- Other current accounts	4105
- Payable cheques under settlement	5121
- Unhonoured cheques under settlement	5123
- Three year saving certificates under payment	5125
- Five year saving certificates under payment	5126
- Certificate with accumulative value under payment	5127
- Return of the 3-year income certificates under settlement	5151
- Return of the monthly income certificates under settlement	5152
- Return of the quarterly income certificates under settlement	5153
- Fixed time deposits and their interests under settlement	5154

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Bank of Development & Agricultural Credit
Beni Suwaif Governorate
Nasser Branch
Minshat Hudaib village Bank

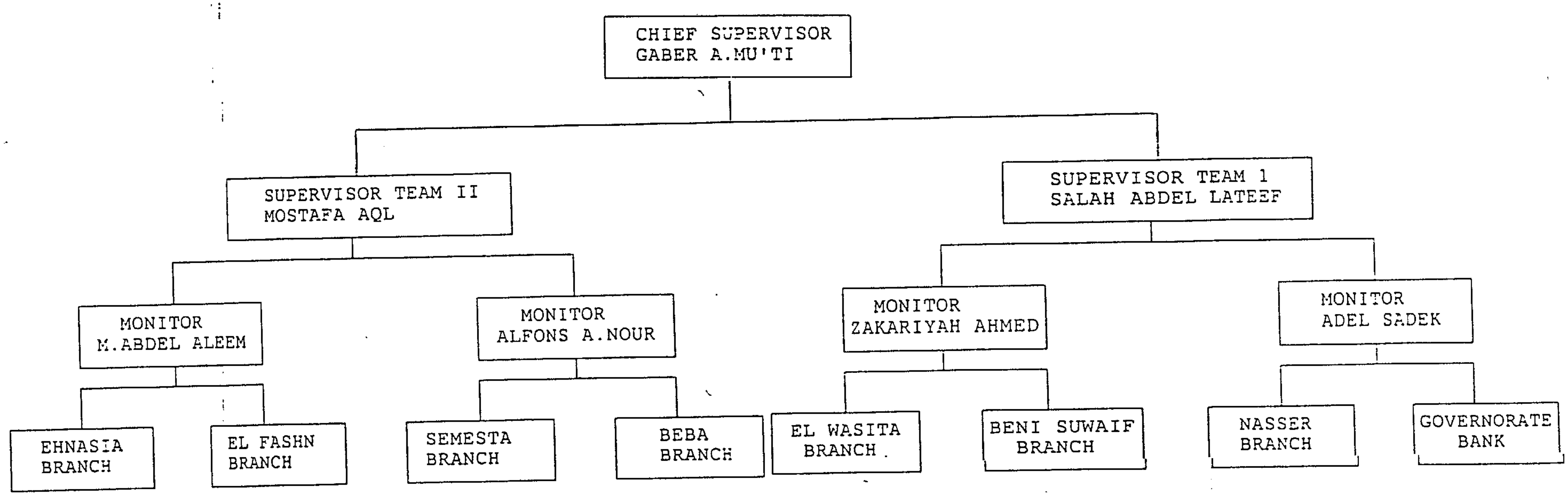
FIRST: FINANCIAL POSITION IN (L.E.)

Description	Balance	No. of Account	Description	Balance	No. of Account
Loans			Deposits & Savings		
Short term	3,181,128.00		Under request Current account	55,849.00	
Medium term	1,589,548.00		Time deposits	244,040.00	
Long Term	54,345.00		Saving certificates	798,367.00	
			Saving Books	1,779,874.00	
			Others	0.00	
			Total savings & deposits	2,878,130.00	
			Branch's current account		
TOTAL LOANS	4,825,019.00		TOTAL	5,756,260.00	

Bank of Development & Agricultural Credit
Beni Suwaif Governorate
Nasser Branch
Minshat Hudaib village Bank

SECOND: REVENUE POSITION IN (L.E.)

Expenditure	Amount	Revenues	Amount
- First bugetary division (Salaries & compensations)	17,811.00	- Ag. credit revenue	
		- Investment credit revenue	
- commodity inputs	10.00	- Commercial credit revenues	
- Service inputs	67.00	- Banking services revenue	17.00
- Finance interests	56,875.00	- Production input revenues	
- Allocated expenses	0.00	- Miscellaneous revenues	6,479.00
- Brought forward from previous year	0.00	- Carried forward revenues	
- SURPLUS	0.00	- Store service revenues	
		- DEFICIT	68,267.00
TOTAL	74,763.00	TOTAL	74,763.00



CHIEF SUPERVISOR
GABER A.MU'TI
SUPERVISOR TEAM II
MOSTAFA AQL
SUPERVISOR TEAM 1
SALAH ABDEL LATEEF
MONITOR
M.ABDEL ALEEM
MONITOR
ALFONS A.NOUR
MONITOR
ZAKARIYAH AHMED
MONITOR
ADEL SADEK
EHNASIA
BRANCH
EL FASHN
BRANCH
SEMESTA
BRANCH
BEBA
BRANCH
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