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SMALL BUSINESS CAPACITY DEVELOPMENT:

OUTLOOK AND PROSPECTS FOR THE EGYPTIAN PRIVATE SECTOR

VOLUME 1

CASE STUDIES

by

Partnership for Productivity/International
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to

Dr. Robert Mitchell
Office of Industrial Resources

In partial fulfillment of

SMALL BUSINESS CAPACITY DEVELOPMENT PROJECT
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FOREWORD

This Volume contains 36 case analyses of small and medium-scale Egyptian businesses in three industrial sectors: engineering, food and ready-made garments. The field interviews, upon which the foregoing written analyses are based, were conducted in Egypt during April and May, 1985 as part of a broader study on the private, small-scale sector, commissioned by U.S.A.I.D./Cairo and undertaken by Partnership for Productivity/International.

EXECUTIVE SUMMARY

As a special task in an on-going world wide contract with USAID, Partnership for Productivity/International provides this report on the prospects for the improvement of the small and medium private business sector in the Arab Republic of Egypt. Sponsored by USAID in Cairo, the objective of the study is to demonstrate appropriate improvements to the support capabilities of the Federation of Egyptian Industries and in other ways to suggest specific and action-oriented mechanisms for service delivery to SMEs.

Our conclusions, borne out by 36 case studies, are that:

1. The SME sector is considerably underserved by existing public and private institutions.

2. Both public and private institutions have the will to increase services but not necessarily the means.

3. For information and services to be credible to and accepted by SMEs, they must originate from institutions which are credible and non-threatening to SMEs.

4. What is missing from this scenario is a fabric for intra- and inter-organizational communication.

The study recommends a general strategy to formalize a network of existing public and private institutions as a coordinating body that provides services to small- and medium-size businesses and to add to their institutional capacities or create new mechanisms as necessary to fill the gap in needed services to SMEs. The key services that need to be strengthened within these institutions, coordinated among these institutions, and/or created are:

1. Information and communication services;
2. Extension services;
3. Credit and financial assistance;
4. Policy dialogue;
5. Technical assistance;
6. Vocational training; and
7. Special economic activity.

Each service should be pilot tested for the first 6 - 12 months prior to institutional and programmatic commitments over the proposed five-year program. At the end of five years, the coordinating body should be financially independent of USAID, have assisted 60% of the SMEs, have facilitated an average of 5% growth of their fixed assets or LE 46,851,000, and cost approximately $2,613,000 in US currency and $4,560,000 in Egyptian currency.

This study was coordinated by the Office of Industrial Resources, USAID/Cairo, and conducted in the spring of 1985. It represents the efforts of a five person team (a total of 34 person-weeks), and included the participation of Project Sustain in addition to PfP/I personnel and consultants. To arrive at the prospects for Egypt's small and medium private business sector, PfP/I both reviewed existing studies and conducted its own field work. PfP/I conducted 36 in-depth case studies, interviewed a host of organizations involved with supporting the small business sector, and conducted a pre-feasibility assessment of demand for services and analysis of appropriate strategies to assist the SME sector. The results of this study are presented in three volumes:

Volume 1 -- Case Studies
Volume 2 -- Research Findings Analysis
Volume 3 -- Alternatives and Recommendations

CSNo.1*

THE KITTAB COMPANY

BACKGROUND

The Kittab Company is a food processing firm located in suburban Cairo which has been in production for approximately 5 years. The company employs 110 people, 75 of whom work directly in the Kittab factory. Initial assets of the company were LE 200,000, a figure which has now grown to approximately LE 4 million. Current sales are approximately LE 500,000 per montn. The General Manager is Mr. Mohy Soliman who has held the post for the past 1 and 1/2 years.

COMPANY EVOLUTION AND GROWTH

When Kittab started production in 1979, it was one of only two private sector companies in the market. Consumer reception to their products was very good, as evidenced by an average annual growth in sales of over 45% in the past 5 years. Additional private sector companies entered the market, following on the success of Kittab; there are now approximately 40 such companies in the market, 7 of which Mr. Soliman considers to be "worthwhile" competitors.

Soliman considers the Kittab Company to be one of the fastest growing in its field and "very successful" in terms of overall growth (sales and production), market penetration and product quality. Plans are currently underway to build a new factory on the outsirts of Cairo with a capital investment of LE 2.5 million.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Labor: Soliman views labor and its associated problems 80 percent a management responsibility. Egyptian laborers, he says, by nature are flexible and relatively undemanding. Therefore, if employees are well-informed as to what is expected of them and supervised by effective management, then problems with labor are minimized. Kittab pays competitive wages and as such does not experience problems with constant turn-over, etc. Problems do exist, however, in the area of training, and here, Soliman says the challenge is to change the mentality and habits of employees since factory hygiene is crucial to his successful operation.

Approach: To address his training needs, Kittab paid for a series of training seminars offered by the Executive Service Corps (ESC). Included were audio-visual films emphasizing the importance of personal hygiene in the factory. Soliman was extremely pleased with the training provided and plans to utilize the services of ESC in the future.

Other strategies followed with regard to the maximization of labor productivity include the fostering of a "family" atmosphere among employees, i.e., company picnics, collections for weddings, deaths, births, etc. At the same time, the rules which govern employees' responsibilities/duties are posted in the factory, and although Soliman rarely has to resort to strict enforcement of these rules, they are there for all employees to see and in effect, serve as a good instrument for ensuring employee compliance with company rules and regulations. Soliman places great importance on the "human" factor, i.e., he views his minimal problems with labor and productivity as directly associated with fostering the human spirit and treating each employee as a member of the Kittab business "family."

2. Management: Prior to Mr. Soliman's assumption of the General Manager position, the post was held by the owner's brother. At that time, management was highly centralized with "every piece of paper" coming across the general manager's desk for signature, effectively leaving no time for him to "manage" and plan for the company's future.

Approach: The appointment of Mr. Soliman to the General Manager position led to several changes in the company's management style and decision-making processes. Educated in Europe with several years of business experience abroad, it is apparent that Soliman introduced a fresh/creative approach to management. He began by delegating management responsibilities/authority to each of his various line managers - Sales, Product, Factory, Purchasing, etc. and admits it was a difficult transition. Since the initial adjustment period, however, Soliman feels that his managers are much more efficient, appreciative of their management responsibilities and generally more loyal to the Kittab Co. and its future.

The decision to replace the owner's brother was in Soliman's opinion a wise one since "family" and "formal" are contradictory terms, i.e., Since Soliman is not related to the owner, he can be formal when he needs to be and thus minimizes the possibilities of mishandling business situations, etc. which might occur if a familial relationship were involved.

3. Legal/Regulatory: In Soliman's view, his and Kittab's major on-going problems are directly related to the "unpredictability" of the Egyptian business environment. He cites complex and constantly changing government laws and decrees and frequent contradictory interpretations of the law as the major constraints to Kittab's successful operation. Several examples were described by Soliman as indicative of his on-going problems with government/regulatory authorities.

-- One day approximately 20 government officials descended on the Kittab factory, sealed it off, and closed the company's storage areas. When asked why, Soliman was told that they were investigating the source of his raw materials and until they could verify its source, the factory was closed; the officials proceeded to seize samples of his product. Soliman tried to reason with the officials, inviting them to inspect and verify the company's import, health, and other government documents. When this failed Soliman went immediately to the responsible Deputy Minister who, when asked by Soliman, "what is the reason for this?," was told 'Calm down, let's handle this matter like a family.' Soliman's approach - much patience and some aggressive arguing resulted in the reopening of his factory the next day.

-- The second situation centered around a government charge of unethical, possibly illegal actions by the Kittab Co. According to Soliman, this problem occupied 60% of his time in a three-month period and forced Kittab into several court cases which continue to the present day. At one point, Soliman was offered an excessive bribe by a government official who told Soliman he could "clear the matter up."

-- Kittab needed a new piece of equipment for its factory. When the responsible government agency would not issue an import license, Soliman had a business colleague import it for him and then bought the piece of equipment from his colleague.

-- Due to the recent "trial" economic policy and the resulting scarcity of hard currency, the government suspended or reduced many of Kittab's import licenses. Kittab's approach: They have submitted a new type of proforma invoice, specifying lower quantities of product, a proposal Soliman hopes will be approved by the Committee for Import Rationalization. In the interim, the company was fortunate to have had surplus inventories of essential raw materials.

Overall, Soliman maintains that even as his tries to manage Kittab strictly "by the book" (e.g. works to comply with tax, National Insurance, health, customs and other government rules

and regulations), still all things are "unpredictable" in the Egyptian business environment. He points to the recent 3-month trial economic policy, its subsequent reversal, its likely crippling efffect on Egyptian businesses for the next three years and its impact of scaring foreign investors away.

Soliman attempts to keep himself informed about changes in government policy, etc. by subscribing to the Official Journal published weekly by the Office of the President, reading daily newspapers, etc. He insists, however, if the private sector in Egypt is to thrive, rules and regulations must be simplified, they must be adhered to and published/disseminated in such a way that all businesses are kept informed.

4. Marketing - The Kittab Co. has no marketing department as such, but relies on the personal efforts of its sales team to obtain information regarding its competitors, additional marketing and distribution channels, etc. Factory production is currently at full capacity and the national market absorbs all that Kittab produces at rather healthy profit margins. Soliman realizes, however, that as Kittab grows and additional competitors enter the market, his marketing information system must become more sophisticated. He expressed a keen interest in and willingness to pay for market intelligence, but added that it would have to be good and reliable information, unlike the statistics and information published by the government.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

Soliman perceives the Federation as a public agency and is unaware of any services/information that the Federation or the Chamber of Food provides. The only interaction that the Kittab Co. has had with the Federation revolved around the Chamber of Food's willingness to play a mediator role between Kittab and government agencies during the course of a problem. This, Soliman views as a worthwhile and effective role for the Federation/Chamber of Food to play. In addition, Soliman insists that if the Federation seeks to serve the needs of the private sector, then it must align itself "completely" with the sector and make this well known to the public at large. He welcomed the idea of the Federation serving as an information source on market intelligence, etc. but insisted the information must be reliable. With regard to other insitutions which serve the needs of small business, Soliman's only knowledge is of Delta International Business Center. Having attended a couple of seminars hosted by DIBC, Soliman found them ineffective and expensive in terms of the quality received. In general, he thinks the information available from DIBC is expensive and not suitable for his company's needs.

LESSONS LEARNED

The Kittab Co. can be classified as a "successful" firm based on its:

1) Annual growth in production/sales;
2) Market penetration, including effective national distribution and sales network; and
3) Overall profitability which has facilitated factory expansion.

More importantly, however, Kittab has been able to overcome several obstacles which tend to constrain small businesses, to the point where Kittab no longer faces some of the more serious constraints (e.g., access to credit, training).

The company's adoption of a more decentralized management structure and its fostering of a safe, hygienic and family-oriented working environment has led to very good labor/management relations and a high rate of labor productivity. The pragmatic and outward-looking attributes of its General Manager are apparent as evidenced by his understanding and approach to Kittab's training needs and his insistence that patience is the key word in dealing with Egypt's unpredictable and often illogical legal and regulatory environment.

Finally, and perhaps not so much a "lesson" to be learned but rather a statement of the reality according to General Manager Soliman, "Justice in this country has to be bought. I have lived and worked abroad for over 15 years only to come back to a business environment which often forces me to sacrifice my personal principles. If I refuse to sacrifice my principles (as a businessman trying to succeed in Egypt), I die."

LIKELY FUTURE CONSTRAINTS

Kittab's relative lack of competition since its beginning, coupled with a growing demand for its product has made it fairly easy for the company to achieve sizeable increases in production, sales, and overall growth. While Kittab's current approach to obtaining market information/intelligence appears adequate, the need for more specalized information will grow as its competitors and its consumer clientele become more sophisticated.

CSNo.2*

GAMILA, INC.

BACKGROUND

Gamila, Inc. is a ready-made garment factory located in surburban Cairo. Gamila began operations three years ago with initial fixed assets of LE 100,000. Current working capital assets are approximately LE 100,000. At present, the company employs 25 people and is running at 50% capacity. Gamila is owned and managed by M.N. Maraqa.

COMPANY EVOLUTION AND GROWTH

A relative newcomer to the Egyptian ready-made garment industry, Gamila is currently struggling to survive. While its owner-manager started the company with the objective of producing high-quality clothes and thus deriving a sense of professional accomplishment, the obstacles and problems the company must face on an on-going basis have become so serious that Maraqa is contemplating closing the business, which at this point is running at a loss. At full production, Gamila would employ 50 people and produce approximately 10,000 low-quality mass production dresses under sub-contract with large public sector department stores and 2,000 - 3,000 higher quality dresses for the local Egyptian market. Due to the following constraints, however, the company is currently operating at half capacity.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Labor: On-going problems with labor are the major and most pressing constraint for Gamila. The crux of the problem, according to Maraqa is the severe shortage of skilled labor in the Egyptian ready-made garment industry. Since there are no vocational/training courses offered on various aspects of the garment industry, i.e., design, cutting, finishing, etc., Gamila must train its own employees. Once trained, employees are quick to leave - either to neighboring Arab countries where salaries are considerably higher - or, in the case of younger women, to marry and have a family. Since the Egyptian market is relatively undemanding in terms of fashion quality, Maraqa points to the larger problem of employees' mentality - E.g. even when shown how to do something better, employees' reaction is that she is being too particular. Thus, employees must be watched every minute and, according to Maraqa, all her energy is lost in screaming.

Approach: Maraqa spoke very highly of assistance that has been provided by the Small Industries Program run by Dr. Mazhar at EIDDC. Assistance has been in the form of seminars on management, cost/benefit analysis and technical orientation for employees with certain sewing machine attachments. While the services have been periodic, free of charge and very effective, according to Maraqa, they are not sufficient to address the larger problem of skilled labor shortages facing the Egyptian ready-made garment industry.

In 1984, Maraqa experimented with paying higher salaries (as much as LE 500/month in some cases) in an effort to raise productivity and workers' awareness re product quality. The experiment was halted when Maraqa saw that apparently even money wasn't enough to achieve these objectives.

Despite the assistance Maraqa has gotten, Gamila continues to be beset by extremely high labor turnover - requiring the company to hire new employees every month and in effect forcing Maraqa to start from scratch all over again.

2. Management: Gamila has employed 4 - 5 factory managers in its short 3-year existence - all of whom, have been ineffective in terms of "supervising" employees. Maraqa maintains that none of them have had the right "personality" e.g., strict, authoritative - essential ingredients when supervising her untrained Egyptian staff.

Approach: Though no steps have yet been taken to rectify the problem, Maraqa cited an instance where one of her industry colleagues had hired an ex-Army officer as factory manager - which was working out very successfully. Maraqa considers doing the same since "you have to be like an army here (in Egypt) if you want to maintain effective control over employees."

More importantly perhaps, is an underlying management problem with Maraqa herself. Having admitted to screaming all day long, one could question whether this kind of management interface contributes or hinders an effective learning environment. What positive results can be expected from adult employees who must be treated, according to Maraqa, like "schoolchildren in a classroom."

3. Raw Materials: Side-by-side with Gamila's labor problems are its on-going problems with securing good quality raw materials. Simply put, Maraqa asks "How can a ready-made garment producer be expected to make a quality finished product when the government textile/spinning/dyeing industry which provides the raw materials is back in the 1940's?" Bolts of fabric commonly have 3 or more color shades in the same bolt and government stamps are misplaced, thus resulting in a considerable amount of material wastage. Since Gamila's production for the public sector is only 50% of the company's business, the lack of quality raw materials is a severe constraint to the company's efforts to produce higher quality dresses for area boutiques/retail establishments.

Approach: To obtain raw materials for its higher quality dresses, Gamila buys imported fabric from the black market in Port Said. According to Maraqa, the additional mark-up she has to pay would equate to the required customs duty if imported legally - the additional benefit for Maraqa - no government red tape.

For Gamila's public sector production, Maraqa buys the cheapest materials available and in efect, gives back to the government what the government gives to her - a low-quality cheap product.

4. Legal/Regulatory: "The government is torturing us," states Maraqa. In addition to material wastage/losses incurred from bad quality raw materials, Maraqa views the prices set by the government for raw materials as extremely high. Seventy percent of the cost of production is accounted for by the cost of fabric alone as compared to 25% in the U.S.

An additional operating constraint for Gamila lies in its sub-contract relationship with public sector stores. At the end of a season (summer, winter) unsold merchandise is either returned to Gamila or the company is simply not paid. To counter this, Maraqa buys the cheapest materials available for the company's public sector production and calculates sales/potential profits on an 80% basis - e.g., out of every 1,000 dresses made for the public sector, Maraqa discounts from the beginning sales from 20% or 200 of the dresses which will likely go unsold or be returned to Gamila.

The process of obtaining public sector approval for designs submitted by Gamila (a requirement for private sector producers when producing for the public sector) is a farce according to Maraqa. "Look at the women responsible for making such decisions

- look at what they're wearing - and it is easy to see they have no knowledge or background in the fashion industry at all and thus hardly qualified to make judgments about consumer tastes in clothes."

Approach: Maraqa states that Gamila, like other private sector ready-made garment producers has been fighting for quality improvements in the industry for a long time - in terms of raw materials, labor and government interventions. Last year a group of companies met informally a few times to discuss commo problems and possible strategies to alleviate industry-wide problems. The group disbanded says Maraqa, because there was no regular meeting place and little time to hold such meetings. Sh regrets, however, the dissolution of the group and recognizes as extremely important the opportunity to come together with other industry colleagues.

5. Markets/Distribution - To market its higher quality dresses, Gamila employs 3 salesmen who sell Gamila dreseses to area boutiques/retail shops and are paid on a commission basis. The problem is the stiff competition from other factories in the area who are very active and effective in selling to these specialized shops, thus limiting the percentage of Gamila's sales to these same market outlets.

Approach: Maraqa agrees that establishing a retail outlet for Gamila's production is perhaps the most logical and effective way to boost sales to the private sector. She sees this strategy however, as another big "headache" since Gamila will continue to be plagued by on-going production problems. The company is no currently exporting and while its owner would like to export, she strongly believes that the company's finished product (in terms of material, finishing, etc.) would not measure up to foreign standards.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

According to Maraqa, the Chamber of Spinning and Weaving does nothing for Gamila. She strongly believes that the Chamber is well aware of the problems faced by private sector producers but takes no action to alleviate their problems. She recommended that the Chamber retain on staff someone with design/fashion experience and provide periodic seminars/training for industry personnel. Maraqa had not received the November/84 newsletter or the application*. She says that she only gets information if she

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* In a meeting with representatives of the Chamber of Spinning and Weaving the field team was told that all members are sent a copy of the Chamber's monthly newsletter. A second document, a company information sheet was sent out to all members in late 1982 with responses coming back to the Chamber in 1983 and 1984. Both of these documents are being referred to in the focus interviews with ready-made garment producers in an attempt to get some feedback on the Chamber's outreach capacity, the effectiveness of the information being disseminated, etc.

personally goes to the Chamber and asks for it. Though Maraqa obtains some industry information through periodic travels to foreign exhibitions, she sees a clear need for reliable information on 1) new technologies; and 2) upcoming fairs and international exhibitions. She stressed, however, the most critical need and desire for a training center for the ready-made garment industry.

LESSONS LEARNED

In its current stage of development, the Gamila Company is performing very poorly. Its major production inputs - labor and raw materials - constitute on-going production constraints to a point where the company's owner is seriously considering closing the business. It appears that Maraqa does not want to give up but she wonders how to survive in an industry where middle and upper income consumers are demanding higher levels of sophistication in terms of product quality but for her, as a producer, the requisite inputs and industry support are not readily at her disposal. The strategy of obtaining imported fabric through illegal channels is construed by the company's owner as an act of defiance against a government which does nothing but hinder the company's attempts to produce good quality finished products.

Maraqa cites the Egyptian government's recent attempts to promote exports of ready-made garments as a case in point. "Look at the materials that are supplied in the domestic market and combine that with shortages of skilled labor/non-existence of any training center for the industry, then tell me how can we produce quality clothes that could be marketed in other countries? Until substantive steps are taken to help alleviate industry-wide constraints, it's empty talk", concludes Maraqa.

LIKELY FUTURE CONSTRAINTS

While one of Gamila's strongest attributes is its owner-manager who is quite devoted to producing quality products in a constantly changing fashion industry, its owner manager may also be a major constraint - for Maraqa appears characteristic of many other private sector producers who, when faced with on-going problems - particularly in the area of labor productivity - spend endless hours "screaming" at employees which in the end becomes counter-productive; employees are not responsive and the vicious cycle continues. Unless some forms of assistance on an industry-wide basis are forthcoming - including management training for small-scale entrepreneurs - the Gamila Company would seem a likely candidate for closing its doors.

CSNo.3*

THE SAFARI COMPANY

BACKGROUND

Safari is a ready-made garment company which currently operates two factories, one in downtown Cairo which employs 37 people and one in surburban Cairo with 62 employees. The company started operations in 1958 with initial fixed assets of LE 1,000. Its primary products are men's shirts and safari suits. The company is jointly owned and managed by Mr. A. Hanafi and his partner, A.E. Shabrawi.

COMPANY EVOLUTION AND GROWTH

Safari experienced little growth during the 1960's but since the initiation of the Open Door Policy, the company has substantially increased its overall sales and volume of production to the point where a new 5,400 square meter factory is scheduled to begin operations within 6 months to 1 year in Sixth of October City. Current production in the downtown factory is 200 shirts per day and 800 pieces (shirts and safari suits) per day in the surburban factory. Planned production for the new factory is 2,000 pieces per day and will include a diversification of product lines into children and women's wear. Fixed assets of Safari currently stand at LE 250,000.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Raw Materials: In Hanafi's judgment, the quality of rav materials in the local market is very poor, particularly with regard to color/finishing. He points to the old technologies/ equipment being used by the large public sector spinning/weaving dyeing factories and concludes that these companies are simply r equipped to meet the needs of a modern clothing industry. Similar deficiencies and lack of local quality occurs for accessories - buttons, linings, threads, zippers, etc.

Approach: With regard to fabric defiencies, Safari must cu away defective parts - i.e., mismatched colors - and passes thes losses onto the consumer.

To address the accessories problem, the company has experimented with a "drawback" arrangement with some foreign companies. Under this type of arrangement, foreign companies provide Safari with all necessary fabric and accessories, and sh them to Safari which makes the finished product. Upon completion, finished goods are sent back to the foreign company. Though Hanafi sees this as one way to overcome his raw material problems - there are also disadvantages. A customs bond is required for all imported goods and is held until reexported as finished product. Thus, not only is the company's money tied up - on average for several months - but there are lengthy and complicated import/export procedures to go through which Hanafi identifies as a major "headache."

2. Labor: Safari experiences major problems with labor turnover - as much as 60% on an annual basis. Hanafi points to what he considers as a characteristic industry-wide pattern: He trains his employees on the factory's modern equipment and once trained, employees are quick to leave - either to neighboring Ar countries or in the case of younger women, for marriage and a family. In addition, both Hanafi and Shabrawi cite major deficiencies in Egyptian labor laws - "an employee can leave us a any time but we cannot fire him when we want to." Or, they (employees) have all the rights but no responsibilities."

Approach: To try and keep its skilled labor, Safari pays competitive wages and offers substantial fringe benefits (medica vacations, company collections, etc) to employees. For the new factory in Sixth of October, the company is offering living accommodations as an additional incentive - but cautioned Hanafi he is not sure that even this will alleviate his labor problems in any significant way. In general, Safari owners believe that the deficiency in vocational training is one of the major causes of labor shortages in the industry. While there are 4-5 schools which offer some vocational training in the textile industry, there are none which train laborers in the ready-made garment industry. Pointing to the textile industry-related training tha has been provided to date and partially financed by USAID, Hanaf concludes that such efforts have not been successful because they have been channelled through the public sector.

Finally, Hanafi cites the "low-image" status often associated with the ready-made garment industry as an inherent part of the skilled labor shortage problem. "I can pay my workers three times as much as they could ever make in the public sector, but if that same employee is offered a government desk job - a perceived "higher status" position - he'll take it in a minute. We (as an industry) must begin to change our image and that is facilitated through education and training."

3. Credit: Hanafi maintains that he has never used the Egyptian banking system for obtaining lines of credit. He cites the current high interest rates - 16-18% - as extremely discriminatory towards small businesses and which in effect, disencourage business expansion.

Approach: To finance the company's new plant, Hanafi is taking a step-by-step approach, using his own personal money and excess liquidity from Safari.

4. Legal/Regulatory/Taxes: There is no difference between commercial and industrial tax rates according to Hanafi and this discourages manufacturing activity since the turnover (in sales/inventories) is approximately 3 times greater for a retail establishment than for a larger manufacturing operation.

Approach: To compensate in some way for the inequities in the tax system, Sahara's new factory will be located in Sixth of October City which will result in a 5-year tax holiday for the company.

5. Markets/Distribution - Safari runs a retail operation out of its downtown facility and is also a sub-contractor for several private sector companies in the local market. In spite of its relative success in the domestic market, however, the company owners strongly believe that Safari must tap the export market, particularly in view of planned expansion activities.

Approach: Though small in size, the Safari Company and its management are developing sound export contacts through travels abroad and participations in international clothing exhibitions in France, Switzerland, the U.S. and elsewhere. The company is a member of the National Association of Men's Sportswear Buyers, Inc. (NAMSB - U.S.), and the Egyptian-American Chamber of Commerce; both organizations have produced export leads for Safari. While visiting the company, an overseas inquiry from New York came to Hanafi seeking some sample teeshirts. Hanafi presumes it was Safari's listing in the NAMSB directory that prompted the call.

In addition, Safari has gotten minor forms of assistance from HIPCO on certain export-related problems. Hanafi strongly feels, however, that the country's overall export promotion efforts are not effective. He recommends that a strictly private sector export promotion group be established to promote Egyptian

products abroad - rather than sending a delegation of public sector officials. Or, says Hanafi, at least include private sector producers in official export promotion delegations, something he attempted to do last year; his inclusion as a membe of an official delegation was denied by government authorities.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

Hanafi views the Federation/Chamber of Spinning and Weaving as a public agency and "a good place for people to retire." The Federation itself serves only the "men on top" and many of those currently serving on the Federation and various Chamber Boards are the same personnel who had influential positions in Nasser's time.

With regard to the Chamber's monthly newsletter, * Hanafi's response - "No news is good news" and further explained that the information contained in the newsletter is outdated - E.g. by th time a Chamber member receives information regarding a foreign inquiry for example, 4-6 months have elapsed - making it useless for him or other members to even pursue contacting the inquiring company. Regarding the application, Hanafi did not receive it and estimates that there are probably 3,000 other private sector ready-made garment producers who likewise didn't receive the application.

Hanafi recommended that the Chamber could play a more effective role for the private sector if it explained and helped to simplify government rules and regulations and facilitated contact between Egyptian and foreign manufacturers.

Safari has needs for several specific kinds of information - foreign garment specifications, colors, designs, market buying times in the U.S. and Europe, statistics on changes in domestic tastes, particularly among younger women, etc., but added that while the Federation/Chamber might be the "logical" place to host such an information activity, due to its structure, it would not be an "effective" hosting organization.

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* In a meeting with representatives of the Chamber of Spinning and Weaving the field team was told that all members are sent a copy of the Chamber's monthly newsletter. A second document, a company information sheet was sent out to all members in late 1982 with responses coming back to the Chamber in 1983 and 1984. Both of these documents are being referred to in the focus interviews with ready-made garment producers in an attempt to get some feedback on the Chamber's outreach capacity, the effectiveness of the information being disseminated, etc.

LESSONS LEARNED

One of Safari's greatest strengths lies in its management capability. Although faced with on-going problems of skilled labor shortages and deficient raw materials as are other industry producers, the company continues to grow, albeit slowly, and has taken positive steps to expand its market outreach. Safari's participation in international trade fairs, its membership in several trade organizations and its interaction with various Egyptian agencies assisting the small business sector is reflective of a well-managed company with medium to long-range goals and visions for the company's future.

LIKELY FUTURE CONSTRAINTS

Will the Safari Company be able to tap export markets in a substantial way? According to Hanafi, the company has been developing its foreign contacts for 7 to 8 years and to date, these efforts have only produced a few orders from abroad. He acknowledges that part of the problem lies with Safari's on-going production problems which hinder timely/quality production/ delivery abroad. In its favor, however, is Safari's talented management and energetic staff. The inclusion of this company in any overall program developed to promote Egyptian ready-made garment exports is highly recommended.

CSNo.4*

THE HALSTON COMPANY

BACKGROUND

The Halston Company is a combination ready-made garment and tailoring operation. Started in 1960 with 5 employees and initial fixed assets of LE 10,000, the company now employs 35 people with fixed assets at approximately LE 200,000. A retail outlet is located in downtown Cairo with the company's factory headquartered in an industrial section of the city. The company is co-owned and managed by two brothers - Pierre and Marque Halston. Pierre primarily oversees the retail/tailoring operation and Marque the company factory.

COMPANY EVOLUTION AND GROWTH

Initially begun as a ready-made garment company, the Halston owners decided in the late 1960's to expand operations by specializing in tailor-made menswear items - shirts, safari and business suits. Overall, the company is prospering, particularly in its tailor-made operations, and enjoys an excellent reputation in Egypt for producing fine quality products.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Raw Materials: Poor quality fabric and a limited selection of accessories are cited by the Halston Brothers as an on-going production problem. Most fabric for the company's production is purchased from the public sector - where delays in obtaining materials are commonplace. Halston would like to import some of his materials/accessory needs but points to the extreme difficulty in obtaining an import license.

Approach: The Halston Comoany enjoys a rather exclusive clientele as evidenced by the high prices charged for its products and photos/letters from various dignitaries who are regular Halston customers. Though company owners complain of material/accessory procurement problems, observation of the Halston retail display cases and of the factory's material storage room points to a very high-quality finished product. Thus, while the company may incur some losses as a result of low quality raw materials - it seems more likely the case that compa complaints re raw materials are somewhat empty, i.e., if anyone gets preferential treatment when it comes to procuring the "best of local materials, Halston is probably at the head of the line facilitated by favorable contacts/relationships with influential customers.

2. Labor/Technology: The Halston factory is currently operating at 60% capacity - due to shortages of skilled labor. Pierre Halston points to the serious training deficiencies in th industry - particularly the absence of any vocational/fashion institute which, if established, could begin to turn out industr personnel experienced in cutting, design and finishing. "Young people in Egypt" Halston says "aspire to be government employees and are not interested in working in the 'low-image' clothing industry." Pulling out a copy of the catalogue for a New York-based fashion institute, Halston noted that developing even one aspect of this school's curricula in Egypt would be an extremely valuable step towards alleviating the problem of skilled labor shortages and the overall low image of the industry.

Approach: Halston training is provided in-house and after a follow-up visit to the company factory, it is obvious that employees are not only well-trained but highly productive as wel - productive in a quality not quantity sense. The working atmosphere is relaxed but not lazy and observedly tense with an air of employee diligence and concentration. Working conditions are excellent - very clean, orderly and well-ventilated and thus provide a proper and well-managed environment for the production of quality products. Asked about the predominance of male employees Halston commented that males characteristically stay with the factory longer than do female employees.

3. Credit: Halston last accessed a line of credit in 1970 from the Development Industrial Bank (DIB). The loan amount was LE 50,000 at 8% interest. Halston machinery was required as collateral and overall the company owners considered the transaction to be on very good terms. Now states Halston, interest rates are too high as is the price of the dollar and banks are imposing very difficult collateral requirements.

Approach: Halston has no plans to expand his operation and in view of the factory's current underutilization, there is little need for borrowing money.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

"I pay LE 120 a year in dues to the Federation in return for nothing," states Halston. He perceives the Federation/Chamber of Spinning and Weaving as a public sector agency and strongly insists that the Federation cannot play an effective role vis-a-vis the private sector since it is not "structurally" aligned with the private sector. He receives irregularly the Chamber newsletter* and says while others may benefit from the newsletter he does not. A copy of the Chamber application was not received. Halston is obviously somewhat bitter about the lack of response to his recommendations to the Minister of Industry in 1967 regarding the establishment of a training center for the ready-made garment industry. With regard to the Chamber, Halston claims that his expertise in the fashion industry could be tapped as a resource, but to date nothing has been accomplished.

Halston reiterated producers' needs for fashion/technological expertise/training and information regarding changes in domestic fashion tastes, publication of simplified government policy on raw materials and likely direction of future government policy. He is not aware of any domestic institution/organization which provides such information or assists producers with training/technology needs.

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* In a meeting with representatives of the Chamber of Spinning and Weaving the field team was told that all members are sent a copy of the Chamber's monthly newsletter. A second document, a company information sheet was sent out to all members in late 1982 with responses coming back to the Chamber in 1983 and 1984. Both of these documents are being referred to in the focus interviews with ready-made garment producers in an attempt to get some feedback on the Chamber's outreach capacity, the effectiveness of the information being disseminated, etc.

LESSONS LEARNED

The Halston Company has been extremely successful in establishing a sound reputation for high-quality menswear. The tailoring aspect of the company's business, in particular, facilitates beneficial personal relations with influential customers who undoubtedly provide favors for Halston whenever possible. The Halston trademark is one of quality and in this respect, the Company's success is likely unsurpassed in the Egyptian ready-made garment industry. One can reasonably conclude that the Halston Company does not "suffer" to quite the same degree as other small private sector garment producers. At the same time, however, the old axiom that "customers appreciate good quality" - something that Halston has been very successful in producing - is somewhat reflective of the kind of attitudinal/ image change that the Egyptian ready-made garment industry needs to undergo if it is to thrive and prosper.

While some might dismiss the Halston Company as "elitist" or uncharacteristic of the overall private sector Egyptian ready-made garment producer, the company and its employees reflect that "new" image where one can take pride in this work. This is the lesson to be learned and the kind of domestic expertise which urgently needs to be tapped.

LIKELY FUTURE CONSTRAINTS

The Halston brothers are getting older and one wonders who will carry on - not in terms of the company itself, but rather, how can the expertise of two people who have long been in the clothing industry and producing quality products be transferred to a younger generation. One could envision the elder Halston as an excellent resource for a domestic training institute. Left untapped, this kind of domestic Egyptian expertise is a loss for the industry as a whole.

CSNo.5*

THE GABER ELECTRONIC COMPANY

BACKGROUND

Gaber Electronics is an engineering firm which produces electrical accessories, lampholders and ceramics for electrical use. Started in 1971 with initial fixed assets of LE 100,000, the company now employs 152 people and total assets have grown to LE 1.6 million. The company is owned by Asraf Gaber and managed by his brother Farouk.

COMPANY EVOLUTION AND GROWTH

In its early years of operation, Gaber Electronics developed a rather comfortable market niche - particularly in the area of electrical fuses - and was thus able to grow at a rather healthy pace. More recently, from 1980 onwards, the company has suffered from substantial annual operating losses - attributable to a changing market situation and the inability of Gaber to adapt its product mix. Additional external factors viewed as totally outside the company's control have also hindered this Egyptian company from operating in a truly competitive market environment.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Raw Materials: Nearly all raw materials used for the company's production are imported. In addition to lengthy import/licensing procedures required for each import transacti Ashraf Gaber points to an existing treaty between Egypt, India and Yugoslavia which effectively reduces the ability of privat sector producers to be price competitive in the local market. Under the treaty, public sector companies are able to import required raw materials at half the customs rate applicable to private sector producers.

Approach: Though aware of broader political objectives wi regard to the above-mentioned treaty, Gaber is obviously bitter since the existence of this treaty directly effects his company ability to be price competitive in the domestic market.

To compensate in some way, Gaber requests foreign supplier to "underinvoice" the unit/total prices of raw materials the company is importing. Reportedly a widespread practice, underinvoicing is construed by Gaber as the only way to deal wi unfair customs duties/preferential rates and the unpredictable whims of customs authorities who often make "outrageous" assessments about the value of an imported item.

2. Markets: Gaber Electronics is currently struggling to adapt its product mix - in face of a market supply/demand situation which has changed considerably since the company started production. Particularly in the area of electrical fuses, Mr. Gaber points to recent changes in market demand wher construction/building companies have replaced fuses with circui breakers to a large degree. All of Gaber's production is for tl domestic Egyptian market.

Approach: Gaber states that the inability of the company tc gauge changes in demand has crippled his company at least for tl time being. Losses totalling almost LE 500,000 have been incurred during the last two years alone and are directly attributable to the company's inability to quickly adapt its product mix in a changing market. Gaber points to the very limited existence of information on industry trends and developments and concludes that the lack of such information presents a critical gap for producers like himself trying to sta on top of market conditions.

3. Labor: Gaber considers Egyptian labor to be the "most expensive" in the world and further explained that due to shortages of skilled labor in the engineering industry, companie are forced to provide training in-house. After incurring these training costs, skilled laborers are difficult to keep, particularly since salaries in neighboring Arab countries are considerably higher. Related factors include the regulatory imbalances regarding employer and employee rights - i.e., "If an employee is not productive, it is nearly impossible to fire him."

Approach: Gaber Electronics has utilized the services of the International Executive Service Corps and the expertise of some U.S. technicians to help address the company's training needs, services which have been very effective from the owners' point of view. Due to the high industry-wide competition for skilled labor, however, and the attraction of higher salaries elsewhere, Gaber takes several different approaches to try and keep his skilled personnel. Aware that most young Egyptian males seek to buy a flat, the company advances loans to employees to facilitate the purchase - which effectively serves to bond the employee to the company. Competitive wages are also paid and company owners try to foster a family environment by "helping employees in any way they can." Recruitment efforts for new personnel focus in part on attempts to hire away skilled personnel from other companies in the industry.

4. Management: The company factory, located in an industrial section of Cairo, is managed by the younger Gaber brother, Farouk who is assisted in management by a production manager. Trained in an "old school of thought" according to Ashraf, Farouk is extremely reluctant to delegate authority/ responsibility to other company supervisory personnel.

Approach: Referring to on-going management problems as a "family" affair, the elder Gaber was reluctant to explore these issues further. One can reasonably assume, however, that management problems in this family-owned and managed business are directly related to the capabilities or, lack thereof, of existing management. Recalling Mr. Soliman's (KITAB Co. - CS#!) view that "formal" and "family" are contradictory terms in business - if applied to the present case, it is likely that Gaber Electronics as a business is indeed constrained by complications arising from familial differences.

5. Infrastructure: The cost of land in Egypt is extremely high notes Gaber, and coupled with the lack of new industrial sites, companies are finding it very difficult to undertake expansion activities. Despite government fiscal and legal incentives provided when relocating to new community development cities, Gaber maintaines that these incentives are simply not sufficient for smaller companies.

Approach: In an attempt to expand his company, Gaber purchased some land near the Cairo airport from the government. With title in hand, he proceeded to construct a factory building which was to be the first of several buildings on the property. Once the first building was completed, government authorities came to Gaber and informed him they were taking his land away. The matter is currently in the courts but concludes Gaber, "I'll never buy land in Egypt again. The unpredictability of this environment and the inability of citizens to bring suit against the government puts us (the private sector) on totally unequal footing."

6. Legal/Regulatory: On-going problems with government/ regulatory authorities persist for the Gaber Company, particularly in the area of raw materials procurement. Obtaining import licenses can take anywhere from 3-6 months and requires Gaber to spend 95% of his time "fighting."

Approach: Citing the widespread corruption that exists in the Egyptian environment in general, Gaber's only recourse is to "fight against it." In commenting on the new opportunities for private sector businessmen since the Open Door Policy, Gaber emphatically notes - "It's an Open Door Policy that's Closed-Door minded; liberties are taken, but not given."

FEDERATION ASSOCIATION/INFORMATION/SERVICES

Gaber benefits little from his company's membership in the Federation/Chamber of Engineering and believes that the laws which govern the Federation (particularly those relating to the election of Board officials, etc.) must be changed if the Federation is to develop the capability to take on the problems of the private sector. He perceives the Federation as a public agency and thinks that the Federation/Chamber's most effective role is that of mediator between public and private sector companies/agencies. Gaber stated a strong need and desire for information related to new technologies (including training and technical assistance) and domestic and international market conditions. With regard to the latter, Gaber concluded, "Had my company been able to access information on domestic trends/ developments in the industry, perhaps it wouldn't be in the mess it's in right now.

LESSONS LEARNED

Characterized by its owner as an "unsuccessful" company, Gaber Electronics is experiencing the normal growth pains associated with adapting to changing market conditions. While the inability of the company to adapt quickly is partially due to the lack of good market information, it appears that the company also suffers from strong management deficiencies. Small to medium scale entrepreneurs tend to overlook existing management capabilities as a possible business contraint and in the present case, the existence of a familial relationship renders less likely the possibility that management deficiencies will be corrected anytime soon. Attempts to compete in a business environment which is not truly competitive is an added constraint for Gaber Electronics - albeit a fact of life. Does the owner think about quitting? - "It's too late," says Gaber, "I'm here."

LIKELY FUTURE CONSTRAINTS

The next 12-18 months should in large part determine whether Gaber Electronics can turn its losses around. The changing of the company's product mix will require additional kinds of training/technological inputs and will thus necessitate a large financial commitment on the part of the company. Deficiencies in management, however, may well be the most critical factor.

CSNo.6*

THE DALLAS FACTORY FOR CLOTHING

BACKGROUND

The Dallas Factory is a ready-made garment company which has been in production since October 1983. Located in surburban Cairo, Dallas began with fixed assets of LE 75,000; the company currently employs 30 people. Dallas is owned and managed by Mohamed Zaki and his younger brother, Mahmoud who recently graduated from a local university.

COMPANY EVOLUTION AND GROWTH

Due to its recent entrance in the market, the evolution of the company is still at an early stage. Prior to its start, however, Mohamed Zaki, along with his father, ran an export/import company in Port Said which focused on ready-made garment imports from the Far East and Europe. At the imposition of heavy restrictions on such imports, Zaki closed the Port Said business and relocated to Cairo to establish the Dallas factory. Initially focusing production on children's clothes, Zaki changed the company's product lines to womens' dresses - after employees expressed a reluctance to undertake the detailed work required for the production of children's clothes. Now, at full production, Dallas is producing 6,000 low-quality dresses a month under sub-contract with the public sector.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Markets: When Dallas began operations in 1983, its production was primarily geared to the private sector. Claimi that there simply wasn't enough demand for his ready-made garments in the private sector - only enough to keep Dallas in production for 2 months out of the year - Dallas entered into sub-contract relationship under a special program hosted by th Egyptian government.

Approach: Under this special program, the public sector provides Dallas with all necessary raw materials and pays the factory LE 3.00 per fabric required for the production of one dress. Combined with the cost of the material (an estimated c to the public sector of LE 9.00 - 10.00) and the LE 3.00 paid to Dallas per dress, the public sector puts an additional mark of LE 3.00 - 3.50 on the dress for sale in public sector department stores - the final cost to the consumer - approximately LE 16.50. Finished products, including the fabric itse are of very low quality.

2. Labor: Unlike many of his industry colleagues, Zaki di not complain about shortages of skilled labor. He maintains t most of his employees come to him "trained" but acknowledges t existence of an industry-wide problem of skilled labor shortag

Approach: Dallas employees are paid on a "piece-rate" bas which averages 70 pt - L.E. 1.00 per dress produced. The fact cutter is reportedly paid LE 1,000 per month. After visiting t Dallas factory, one got an overwhelmingly strong impression th while Dallas ia a private sector company, it operates in a "public sector" environment - i.e., the factory is very disorderly and cramped with finished products lying in heaps or the floor; many employees were engaged in small conversational groups; and noone seemed to have his/her mind on their work. Examining the situation more closely, it appears that the Dalla mode of operation is a "comfortable" arrangement for all:

The government provides Dallas with all raw materials and pays the L.E. 3.00 per dress fabric as mentioned earlier. Subtract on average 80 pt (employee wages) and company overheac (minimal due to Zaki's ownership of factory space) and Zaki is left with a unit profit of approximately LE 1.50 - 1.75 per dre At a minimum production of 6,000 dresses per month, company profits likely reach LE 5,000 - LE 7,000 per month. For employees, who are being paid on a piece rate basis, a minimal, perhaps average production of 10 dresses per day would equate t a monthly salary of approximately LE 200 (based on a six-day wo week). The added benefit for employees - few or no requirements for quality production and the liberty of working at one's own pace. Finally, the LE 1,000/month salary for the factory cutte is quite plausible since company profits are directly related t the LE 3.00 per dress fabric paid to Dallas by the public secto The retention of a skilled cutter would thus minimize against t possibilities of material losses/wastage.

3. Credit: Dallas is currently planning to expand its activities into the production of men's suits. This activity will be located in a flat owned by Zaki in the same building.

Approach: Credit needs for new machinery/equipment are approximately LE 30,000 - a loan amount which Zaki has secured from an Alexandria Bank at 18% interest. Zaki noted that when he was established in Port Said, he had a line of credit totalling LE 250,000 with local banks there. Since relocating to Cairo, he has had to "reestablish" himself from a credit point of view.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

Perceived as a public sector organization, the Federation/Chamber of Spinning and Weaving does "nothing" for the Dallas Factory stated Zaki. Pressed further, Zaki reluctantly acknowledged that a trip to Germany to review new equipment/ machinery had been organized by the Chamber - a trip that Zaki assessed as very useful and worthwhile. He receives the Chamber newsletter* regularly but thinks that the information contained therein is usually of a "general" nature and of only average use. Regarding the list of export inquiries included in the newsletter, Zaki responded by saying that such inquiries are generally directed towards the production of public, not private sector companies. Dallas was not established when the Chamber information sheet was sent out, but the owner was requested to fill out the application when the company's initial dues were paid to the Chamber.

Zaki acknowledged a strong need for information on new technology and on domesic producers. With regard to the latter, he stated that he would not trust such information published by the Chamber - i.e., "it's a public sector agency and in order for me to trust the information, I'd have to see it (other factories, operating capacities, etc.) for myself.

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LESSONS LEARNED

In Zaki's view, the Dallas Factory has been very successfu thus far - primarily due to its relationship with the public sector. Dallas' participation in the special public sector sub contract program has produced a relatively comfortable arrangement for all. With little or no emphasis on product quality, the company is able to hire employees with minimal amounts of training/skills who in turn produce poor quality garments at their own pace.

While the Dallas owner states that producing for the priva sector is impossible because of low demand, it is more reasonab to conclude that Zaki does not want to produce for the private sector because he knows that quality requirements would be much higher and given its present mode of operation, impossible for the Dallas Factory to meet. Zaki has a nice and comfortable business and is apparently content to go on producing poor quality mass-produced dresses.

The benefits of this public-private sector relationship are clear - the provision of jobs within the "private sector" and cheap, affordable clothes for a growing low-income Egyptian market. From a different perspective, however, e.g. - the Gamila, Halston and Safari companies - the operation of a privat sector company like Dallas only serves to perpetuate the undesired "poor quality, low-image" status that tends to characterize the Egyptian ready-made garment industry. There ar many private sector producers fighting to change this image - an unfortunately, private sector companies like Dallas are not helping.

LIKELY FUTURE CONSTRAINTS

The arrangement that the Dallas Factory enjoys with the public sector underpins its "success" to date. The absence or dissolution of such an arrangement would undoubtedly spell big trouble for the company - to the point where Dallas would have considerable difficulty in meeting the requirements of a more sophisticated market.

CSNo.7*

THE CAIRO COMPANY FOR ELECTRICAL PRODUCTS

BACKGROUND

The Cairo Company is a family-owned and managed engineering company which produces gas lamps, kerosene stoves, steel shelves and ashtrays. Started by Mr. Sami Manatti in 1940 and located in an old part of Cairo, the company is currently managed by the elder Manatti's five sons. Total current assets of the company are approximately LE 1.25 million. The Cairo Company currently employs a combination of 150 skilled and semi-skilled laborers.

COMPANY EVOLUTION AND GROWTH

The Cairo Company was established in 1940 with total assets of LE 200, a figure which reached LE 100,000 in 1974 and LE 1.25 million in 1984. Monthly sales have grown from LE 25,000 in 1974 to LE 250,000 in 1984. The Company is getting ready to enter into a joint venture with an Italian firm to produce home refrigeration units in the Sixth of October City. Company management attributes much of the company's success to the initiation of the Open Door Policy in 1974 and worries about the discontinuation of this Policy and the Egyptian Government's promises to continue support for private sector enterprises.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Labor and Technology: The availability of skilled and trained labor is very pr-r and the company experiences a high degree of labor turnover (50%). Company management believes tha emigration to Arab countries and higher salaries offered by the new investment companies are principal causes for labor shortages. Labor productivity is also low and directly related to a lack of up-to-date technology/information in the local Egyptian market.

Approach: The company has attempted to hire a greater number of women as management has found that women tend to chang jobs less frequently than men and are unlikely to emigrate once trained. The company has also experimented with hiring young couples (who must work in separate divisions) and this has produced some postive results. In addition, the company offers high and competitive salaries plus fringe benefits (holiday gifts, wedding and birthday presents, etc.).

The factory manager believes that the problem of technology transfer could be solved by international cooperative agreements which would offer training programs to Egyptian industrial leaders, managers and laborers in the engineering field.

Three of the Manatti brothers travel to Europe regularly an attend international fairs and exhibitions to keep up with the latest developments in the industry. They note, however, languag problems and a reluctance to purchase new machinery/equipment through such fairs because of the problem with getting spare parts and the lack of training for employees on the new equipment Foreign companies frequently offer small training programs and a stock of spare parts if the machinery in question is purchased ir volume - an impossibility for the Cairo Company. Management recommended that the Chamber of Engineering could play a major role by getting a number of Chamber members to purchase in volume and thereby become the beneficiaries of the free training provided by foreign companies when their products are purchased in volume.

2. Management: "Egyptian labor is productive only if you watch them all the time."

Approach: The five Manatti brothers interchange management responsibilities at various times and in different divisions of the company. The company's success is directly attributable to the "family" managing of the business. "Nobody cares for capital but its owners," says the older Manatti brother.

3. Raw Materials: Raw material availability and procurement is a major on-going problem for the Cairo Company. Government controls on imports are very restrictive and the company is subjected to monthly import quotas. The time required for the import process is an additional drain on management.

Approach: The Cairo Company uses an import firm which handles all necessary paperwork and government redtape. Once imported, the Cairo company purchases their raw material requirements from the import firm.

4. Legal/Regulatory: According to company management, the Egyptian Government takes control over the engineering industry in a number of ways:

a) Quantity controls on imports
b) Industrial security
c) Quality control
d) Labor social security
e) Taxation

Laws and regulations governing the above five issues are perceived as discriminatory towards the small business sector and are commonly interpreted in different ways depending on the government official in charge.

Approach: Better relationships with government officials would make company operations easier. Bribery and government pay-offs are a very common practice in Egypt and notes company management, "there is no other way."

5. Credit: Collateral requirements for obtaining loans coupled with high interest rates are totally unreasonable for small businesses. "Banks in Egypt are only opened for rich and powerful companies, not to help small businesses like mine," states the Manatti father.

Approach: Manatti started his own finance company by asking all of his friends and relatives to participate. The finance company is reportedly able to offer higher interest rates on savings than the local bank and according to Manatti, the establishment of this finance company has been instrumental in the Cairo Company's expansion plans.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

Cairo Company management perceive the Federation/Chamber of Engineering as a public agency and believe that its (Federation) role was much greater before the Open Door Policy. It was established during the time of President Nasser when the private sector was very small and had to work through the public sector. It (Federation) was the only place to establish better relations between the public and private sectors because at that time, the private sector had no choice but to work through he public sector. Since the initiation of the Open Door Policy, the situation has changed to a point where it is unclear what kinds of services the Federation/Chamber could effectively provide to the private sector. Company management indicated their support for the Federation serving as an informational source on state-of-the-art technology (both domestic and international), and alter-

nate sources of supply for spare parts, equipment, raw materia etc. They cautioned, however, that producers should have easy access to such information and that the "informational center" should not be operated "like other governmental agencies".

LESSONS LEARNED

The Cairo Company can be classified as a successful firm based on its:

1) Long existence since 1940, including its ability to survive before the initiation of the Open Door Policy;
2) Its dramatic expansion since the Open Door Policy; anc
3) Its ability to enter into a joint venture agreement wi a foreign manufacturer.

The company's policy of family management has proven to be highly successful, and finally, the creation of a finance compa to help with the Cairo Company's expansion plans was an innovative approach to overcome existing constraints for small businesses with regard to the Egyptian banking system.

LIKELY FUTURE CONSTRAINTS

Future constraints for the company revolve around the existence of several competitors who are operating "illegally" i.e., avoiding product and quality specifications, taxes, socia insurance, etc. These firms are thus able to sell lower-quality products at cheaper prices and pose a serious competitive threa to the Cairo Company - which is intent on producing a high-qual product. Management concedes that it must build better "relationships" with government officials - even to the point o sacrificing individual principles.

CSNo.8*

THE MISR COMPANY FOR CLOTHING

BACKGROUND

The Misr Company is a ready-made garment factory located in Alexandria. The company began operations in 1960 with 4 laborers and now employs approximately 30 people. Mr. Adel Ansary is the owner and director of Misr and is assisted in the management of his operation by four supervisors who were initially employed by Ansary 25 years ago.

KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Labor: According to Ansary, Egyptian laborers are in great need of motivation and vocational training. "We are doing all that we can do under the difficult circumstances facing the ready-made garment industry." The challenge to the industry is to change the habits and attitudes of people. We have to teach them to respect "working their way up."

Approach: Ansary feels that the key to success in the Egyptian garment industry is people - their training and motivation. From observation and discussions with factory employees, it was obvious that Misr employees have been given both the motive and incentive to work at a productive pace. Ansary's openness and friendliness with his entire organization was highly visible and reflected his excellent handling of human relations. Treating all employees as members of the family, Ansary also helps out newly married employees financially and finances part of employees' annual visits to Mecca.

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2. Management: In the past, Ansary handled all aspects of the company's management which proved to be excessively demandin and unproductive.

Approach: A few years ago, management responsibilities were divided among the four supervisors who began with Ansary in 1960

a) Asst. Mgr. for administration which includes finance, employee relations, attendance, etc.
b) Asst. Mgr. for technical operations, production, design and quality control.
c) Asst. Mgr. for government relations, including taxation, raw material procurement, public sector sub-contracts, labor regulations, etc.
d) Asst. Mgr. for receiving and shipping

3. Productivity: In the past two years, Misr has been operating at 50% capacity for the following reasons:

a) 40% labor turnover;
b) Electricity shortages and failures averaging 3-4 hours at a time and occuring 3-4 times weekly;
c) Lack of knowledge and information about latest technology/developments in the global garment industry.

Approach:

a) Competitive salaries for labor combined with fringe benefits, employee credit, social security, good relations, etc.
b) Consideration of purchasing a stand-by generator (Due to recent contact with city officials, a reduction in the frequency of electricity failures has occurred).
c) A mandatory production incentive by paying employees an incentive wage based on productivity in addition to regular salaries.

4. Credit: Misr's opportunities for obtaining bank credit are very limited due to the high rates of interest on industrial loans (18-20%).

Approach: Ansary borrows no more than LE 50,000 at a time since there are fewer requirements in terms of collateral and assets and interest rates are lower at 13%. Due to existing bank policies and government regulations, Ansary is not considering expanding his operations.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

Ansary has not received any assistance from the Federation/Chamber and views its role as a very limited one. The structure of the Federation must change if it is to represent the challenges facing the private sector in Egypt. Ansary welcomed the idea of an information center hosted by the

Federation but questioned the Federation's outreach capacity and its effectiveness in getting information from its members.

LESSONS LEARNED

Ansary's approach to fostering good employee relations has led to a high degree of responsiveness to management direction and increased labor productivity.

The owner's pragmatic views on operating a business in Egypt requires patience, struggle and political approaches most of the time is in part reflective of the company's success to date.

CSNo.9*

THE RODA CLOTHING COMPANY

BACKGROUND

Formed in 1979 as a Law 43 investment company, the Roda Company started commercial production of mens' and boys' shirts and trousers in 1981. The company was initially capitalized at LE 740,000, of which LE 350,000 was accounted for by fixed assets, a figure which is approximately the same at present. Roda is currently operating at 60% capacity and employs 180 people. The company is managed by a Board of Directors and majority-owned (70%) by two Egyptian-American businessmen.

COMPANY EVOLUTION AND GROWTH

After its formation in 1979, it took two years for the company to begin commercial production. The start-up period was hampered by shortages of working capital and an unsatisfactory technical agreement undertaken with a foreign clothing manufacturer. Ownership of the company has also changed hands during the course its its 5-year existence which has required some readjustments in Roda's overall management structure. Still at a critical stage of development, the Roda Company and its management are struggling to turn the company into a profit-making operation. Current production volumes are 1,500 shirts and 400 trousers per day; management is targeting an increase of these volumes to 4,800 and 1,200 per day, respectively, by year-end 1985.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Labor: Shortages of skilled labor have plagued the Roda Company from the beginning and continue to pose serious operational constraints for the business. Company management cite the following factors as causes for the more general industry-wide labor problem:

a) Lack of formalized training for industry personnel;
b) Bad habits of employees - e.g., non-familiarity with working in a "productive" environment;
c) Low image associated with the Egyptian garment industry;
d) Employees' preferences for government positions, even at lower salary levels; and
e) The onset of "despair" in the absence of skills/training.

Approach: Roda has taken several approaches to deal with its labor problems, some of which have failed dismally:

A) In the beginning, the company hired young girls 15-16 years of age. Wages were extremely low (LE 35 - 50/month plus a minor incentive scheme). Resulting low levels of quality and productivity led to a management conclusion that new hires should have attained at least a high school education.

B) Admitting that wages paid in the beginning were not competitive, Roda experimented with a "step" incentive scheme whereby employees would be paid at increasingly higher rates depending on monthly production levels reached. The program was discontinued after management saw that new and unskilled employees did not "understand" how the program worked; for those who did understand, management objectives of reaching maximum levels of productivity per worker fell short - e.g., once an employee reached a certain production level and attained an individually acceptable corresponding rate for that level of productivity, he/she was not inclined to move onto the next higher scale. The company is currently considering the implementation of a fixed piece-rate incentive policy.

C) More recently, Roda has begun to formalize its training initiatives whereby new and unskilled workers are placed in a three-month probationary training program. Wages have also been increased, but notes the General Manager, Mr. Samy, the company continues to have great difficulties in attracting new employees. "We've tried everything, from advertising in newspapers, local councils and in area mosques." The location of the factory is problematic (some 40 kilometers outside of Cairo) and even with the provision of company transportation, the problem of attracting new hires continues to persist.

Factory conditions appear satisfactory although ventilation definitely needs improvement. The most promising step taken by management to date has been the retention of a U.S. technician who, in effect, has taken on the role of production manager/

supervisor. This technical assistant, Ms. Sarah Lopez, began her duties only three months ago but indicates that progress is being made "slowly but surely." Lopez relayed the first "rule" she laid down: "No screaming!" Increasing worker productivity, Lopez believes, is directly related to fostering good human relations in the factory. The hiring of Lopez was obviously a wise move on the part of company management.

2. Technology Transfer/Technical Assistance: In its start-up phase, Roda entered into a technical assistance agreement with an European clothing manufacturer which was expected to send their factory expertise to assist Roda in its training activities. The agreement was terminated in 1982 after Roda management concluded that the arrangement was a "total failure." The foreign manufacturer reportedly sent incompetent people to do the job and little progress was made with regard to Roda's in-house training activities. - The loss to Roda, LE 500,000.

Approach: Since the termination of the company's first technical assistance agreement, Roda has retained the services of Ms. Lopez - mentioned earlier - and a Taiwanese clothing expert. Two expert machinists from the U.S. are also expected within the next few months. The company is aware of technical services provided through the EIDDC/ITAP programs but has not accessed these services, with the exception of attending a couple of seminars on labor productivity hosted by EIDDC.

3. Raw Materials: Raw materials purchased from the public sector are of poor quality and the company is frequently subjected to long delays re delivery schedules.

Approach: Roda has increasingly turned to private sector producers to purchase its raw material needs. Stressing that material purchased from the private sector can be returned if defective, - which is not the case with the public sector - Roda is currently relying on 2-3 private sector producers to supply its raw material requirements. Present suppliers, however, cannot meet the company's demand for materials and thus Roda is attempting to identify additional supply sources.

Under its charter, (Law 43) Roda is permitted to import certain of its raw material requirements and subsequently engaged in the importation of trouser material in 1982. Imports were halted, however, due to financial problems (working capital shortages) and complicated import procedures.

4. Markets/Distribution: At this time, Roda is overwhelmingly (95%) dependent on sales to the public sector and this is posing serious problems for the company since Roda's production schedule is significantly ahead of public sector demand. Roda is one of the largest private sector garment producers and as such, must seek out volume orders in order to meet operating costs.

Approach: For the past few years, Roda has been attemptir to diversify market outlets, particularly in the export arena. Last year, export orders from a U.S. company accounted for approximately 5% of the company's sales. Additional trial shipments have been sent to another large U.S. retail chain but to date, no business has been transacted between the two companies. Mr. Samy states the the U.S. company was very satisfied with the quality of the Roda product - and the absenc of a specific order relates to the bureaucratic purchasing patterns of the U.S. chain.

Aware of the importance of diversifying export contacts an sales for the future success of the company, Roda has established a Sales Department strictly geared to the promotion of export/private sector sales. Company management acknowledge that finishing/dyeing/fabric widths are all problem areas for exports and has been seeking to fill, without success, a "quali control expert" position.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

The Managing Director, Mr. Saleh, and General Manager, Mr. Samy, strongly state that the Federation/Chamber of Spinning an Weaving cannot be an effective organization for promoting the interests of the private sector since it has no legal authority act. The Chairman of the company, however, is a member of the Federation Board, and Saleh and Samy acknowledged that where Ro is concerned, the Chairman is able to get things done through h (the Chairman's) "own channels." The Chamber newsletter* is received regularly but no comments regarding its usefulness wer forthcoming. Pointing to various support institutions - the Export Promotion Center, HIPCO, ITAP, EIDDC, Samy commented tha the ready-made garment industry does not need academic studies and more "talk." He considered the Kurt Salmon study to be ver good in terms of its overall assessment of the problems facing the Egyptian ready-made garment industry, but noted "No action h been taken!" He cited various USAID-sponsored vocational training programs in other fields - food, chemicals - and strongly recommended that a similar type of training program be established for the ready-made garment industry. "We've heard enough talk; now we (producers) are waiting to see some action."

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* In a meeting with representatives of the Chamber of Spinning and Weaving the field team was told that all members are sent a copy of the Chamber's monthly newsletter. A second document, a company information sheet was sent out to all members in late 1982 with responses coming back to the Chamber in 1983 and 1984. Both of these documents are being referred to in the focus interviews with ready-made garment producers in an attempt to ge some feedback on the Chamber's outreach capacity, the effectiveness of the information being disseminated, etc.

Company management voiced a strong need and desire for information on alternate sources of supply (fabric, accessories, etc.), supplier costs and production capacities/volumes of domestic producers. With regard to the latter, however, both Saleh and Samy agreed that if such information were provided by the Chamber, its reliability would be highly suspect since members often overstate or understate their respective capacities/ production volumes when the information is being provided to a "public" agency. They recommended the establishment of a strictly "private sector" organization which would foster the concerns of private sector producers and give more collective weight to industry-wide problems and recommendations for alleviating them. But, cautioned Samy, "it must be a 'door-to-door' service" - e.g., any initiative that is undertaken to address the operational/ informational needs and problems of the private sector ready-made garment industry must have an outreach capacity to make personal contact with those producers it is seeking to assist.

LESSONS LEARNED

Despite its relative size, its legal status as a Law 43 investment company, and the apparent "management transition" which would tend to exclude the Roda Company from falling within the conceptual definition of a small-scale enterprise (as defined in ADL - Phase I, 1982), the Roda Company faces many of the same on-going operational constraints which characterize small to medium-scale ready-made garment producers as a whole. Or, in other words, while Roda might have the "external" facade of a larger-scale company, it has not yet developed an "internal" capability to perform as one.

In assessing the company's development and performance to date, it seems clear that Roda has indeed suffered from management deficiencies - in spite of the influence and participation of "foreign-trained" management personnel. Reviewing management's approaches to labor problems is a case in point. Initial efforts to hire young, uneducated workers produced disasterous results and points to a naieve assumption on the part of management that the hiring of such employees could provide the basis for operating a large "modern" apparel factory. Furthermore, the company's past lack of success with various outside technical agreements is probably also reflective of weak management /supervision/guidance. In its favor, management has taken recent steps to help alleviate technical/training deficiencies; however, it is not yet clear whether these steps will produce the desired results.

LIKELY FUTURE CONSTRAINTS

How does Roda management view the company's performance to date? - "Look at all the problems we've had to face and then lo where we are now," says General Manager Samy, "and I'd have to we've been successful in spite of the fact that Roda is not yet turning a profit." While this optimistic outlook is certainly the company's favor, Roda has many obstacles to overcome before it becomes a "model of success" for the Egyptian ready-made garment industry. Crucial to the company in the short to mediu term will be its ability to diversify its markets - particularl the export market. This effort will require considerable improvements in both management and employee training and skills upgrading.

CSNo.10*

THE HASSEM MANUFACTURING COMPANY

BACKGROUND

Hassem Manufacturing is an office furniture and equipment company located in an industrial section of Cairo. The company was started in 1969 but has only been producing its current line of products since 1977. Fixed assets of the company amount to LE 300,000 and the company is currently employing 60 people. Hassem is jointly owned and managed by Omar Hassem and Ralf El-Husseini, a Syrian national.

COMPANY EVOLUTION AND GROWTH

When it began operations in 1969 under the Nasser regime, Hassem's principal activities focused on a sub-contract relationship with the government as a provider of blueprints for various engineering products. After the initiation of the Open Door Policy in 1974, the government replaced what Hassem had been providing by importing blueprint machinery from Germany. Thereupon, Hassem decided to start his own production of office machinery and equipment. The company is currently thriving (1984 sales totalled LE 3.0 million) and enjoys a sound reputation in the national Egyptian market for producing fine-quality products. Pointing to a current production schedule which is way behind consumer/market demand, the Hassem Company is in the process of adding two additional floors to its factory in an effort to double current production levels.

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KEY PROBLEM AREAS AND COMPANY APPROACHES

1. Labor: "It's difficult to manage labor here in Egypt," says Hassem, "because Egyptians are lazy. They can be productive however, if they are closely supervised." The company has difficulty in retaining skilled labor and points to the underlying problem of labor migration to neighboring Arab countries.

Approach: The company provides training for new hires at its own expense and attempts to foster a "family" atmosphere by assisting employees financially (medical, fringe benefits, etc.) Company owners point to the "good name" and reputation it enjoys in the market which also helps to attract new employees. In addition to advertising in local newspapers, Hassem regularly instructs employees to go to other factories in an attempt to hir skilled personnel away from competitors.

2. Raw Materials/Legal/Regulatory: Hassem cites on-going probems with raw materials procurement as a major problem area fo the company, particularly with regard to complicated import procedures.

Approach: When asked how he addresses his raw material problems and later his problems with government/regulatory agencies, Hassem responded "I know the right people." He is a member of several of the more exclusive "clubs" in town and maintains that when he faces a problem, he calls on one of his "friends" for assistance in solving the problem. Acknowledging that other private sector producers who face the same problems as his company may not have these kinds of influential "relationships" in place, Hassem concluded that it has taken him several years to build these beneficial relationships. "Other producers will have to do the same."

3. Credit: Hassem never uses the Egyptian banking system except to handle his own personal accounts and strongly believes that existing banking regulations and policies are extremely discriminatory and burdensome.

Approach: The owner cited an example of a loan he tried to secure from the Development Industrial Bank a few years ago. In return for an LE 100,000 loan the bank required Hassem to put up LE 2.0 million in collateral. The application procedure dragged on for three months and in the end Hassem decided that the "hassle" just wasn't worth it.

The company is currently operating on a cash basis and if short-term liquidity is required, Hassem draws from his own personal savings. On new machinery purchases, the company is frequently able to pay by installment credits.

4. Markets/Distribution: Hassem Manufacturing currently enjoys a very envious market position with the company owner pointing to a production schedule which cannot keep pace with market demand. The company has a national distribution network in place and works closely with several independent distributors who market the Hassem products to various retail outlets. Even though the company's products are the "highest-priced" in the market, Hassem attributes the company's success to competing on the basis of quality. The owner is not interested in pursuing the export market since he cannot meet domestic demand and under no circumstances would he consider sub-contracting with the public sector as he fears this would harm the company's good name.

FEDERATION ASSOCIATION/INFORMATION/SERVICES

Hassem believes that "major changes" are required if the Federation/Chamber of Engineering is to become an effective vehicle for promoting private sector interests. Simply put, "it should not be controlled by the Government." Pointing to the Federation during Nasser's time - as an organization which imported all of his company's needs, Hassem believes that the role/effectiveness of the Federation has greatly diminished. He has specific needs for information on technology and alternate sources of supply and welcomed the idea of an "information" center which would provide needed information. The Federation/Chamber could serve as a hosting institution, but noted Hassem, the ability of the various Chambers is closely related to "who's in charge."

LESSONS LEARNED

Hassem Manufacturing is currently enjoying a rather prosperous stage of development due to its success in producing a high quality product and the company's ability to distribute its products through a national sales network.

The "glossing" over of characteristic problem areas, however, coupled with rather adamant boasting of having influential relationships with "the right people" leads to the conclusion that this private sector company is perhaps thriving at the expense of other industry producers - not only in a competitive sense which is acceptable, but also in a highly suspect sense where the name of the game is who you know and how much you can afford to pay.

LIKELY FUTURE CONSTRAINTS

The entrance into the market of additional "good-quality" producers could threaten Hassem Manufacturing's current comfortable market niche. Company management acknowledge that they are not really aware of the overall domestic market situation; they only know that they currently cannot fill local demand and at this time, that amount of information seems to be sufficient. Based on its beneficial relations with key people, the company is likely to continue enjoying its prosperous status.

Case Study # 11*

LUBA, Inc.

BACKGROUND

Luba, Inc. is a ready-made garment factory which produces women's apparel dresses, blouses, skirts and pants. Started in 1969 with initial fixed assets of LE 10,000, LUBA currently employs 80 people and is operating at 80% capacity. Current fixed assets are approximately LE 80,000. Madame Alia Nour and her only son Adel jointly own and manage the LUBA operation.

COMPANY HISTORY AND EVOLUTION

Prior to the establishment of LUBA, Mde. Nour dabbled in designing women's dresses for herself, family and friends. Encouraged in 1967 to participate in a national design competition, Nour walked away with first prize and proceeded to submit a number of designs in a bidding process held by the Russian Commercial office in 1969. Four of Nour's designs were accepted and an order placed for 150,000 pieces with a delivery time of one year. With order in hand, Nour proceeded to establish LUBA, Inc. in a 2-story flat in downtown Cairo. Within 3 months, 27 employees were hired and trained, machinery was purchased, and thus began LUBA's commercial production.

The initial export contract with the Russians was filled on schedule and within 2 years of start-up, LUBA's annual sales reached LE 1 million. Subsequent years were followed by repeat large orders from Russia and, at the same time, LUBA focused on production for the local market. Currently, LUBA's production of 450,000 apparel pieces per year is 50% for the export market, 25% for the private sector Egyptian market and 25% for the public sector.

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In conjunction with the LUBA garment operation, Nour also operates an import (textile machinery, yarn)-export trading company which facilitates the promotion and sales of LUBA products abroad. Nour herself has been a consultant to 4 public sector textile companies and sits on various boards and committees associated with the industry. LUBA, Inc. has made a very good name for itself during its 15-year existence and the company continues to thrive under the Nour management.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - Unlike many other industry producers, LUBA does not experience significant problems with labour, productivity or the retention of skilled personnel. Labor turnover is less than 10% a year and many of LUBA's current employees have been with the company for 5 years and in some cases much longer.

Approach - LUBA is an extremely well-managed operation. Employees are trained in different aspects of the operation so as to permit a wide range of flexibility. The factory itself is well-organized with production units working cooperatively and diligently. Company management tries to promote a sense of "equal footing" among employees while at the same time maintaining a firm management/supervisory role. Worker morale appears to be very high.

Employees are well-paid, with longer-term personnel earning an average LE 500/month. LUBA also provides individual fringes - financial assistance with medical bills, marriages, etc. - all of which contributes to fostering a LUBA "family" work environment. During peak production periods, Mde Nour participates directly in various factory activities and she strongly insists that this contributes to employees' cooperation and willingness in working to achieve company goals.

Due to Nour's many years of experience, she is aware that training and shortages of skilled labour pose critical gaps for ready-made garment producers. She recommends the establishment of a training institute which should be hosted by the public sector but which would actively involve the participation of private consultants. Trainees should be taught various aspects of garment production and once graduated, become available for hire to local factories. Nour proposed a kind of placement service whereby companies employing trained graduates would subsidize the institute for part of the training costs. The institute, in turn, would pay the employing factory a certain fee if the hired employee terminates his/her employment with the factory before a specified length of time.

2. MARKETS/DISTRIBUTION - Information on the domestic ready-made garment industry is not readily available - e.g. According to LUBA management, there are thousands of ready-made garment factories springing up all over the country yet there are no statistics available on current and future demand for different products - shirts, dresses, blouses, etc. by age, size, tastes, etc. The lack of hard industry data results in the current unplanned and unfocused direction for the industry as a whole. Nour points to the present depressed market here in Egypt and concludes that the industry will continue to flounder until producers are provided with better market information.

Approach - Having started its operation based on an export contract, LUBA has relied very heavily on sales to foreign markets. The company hosts periodic fashion shows in Europe and in the U.S. and through these kinds of promotional activities, has been able to market approximately 50% of its annual production abroad. In the past couple of years, however, total export sales have fallen by about 20% which Nour attributes to depressed global market conditions.

For its production to the Egyptian private sector (retail shops, boutiques), Nour states that due to the company's well-known name and product quality, retailers generally come to her to buy LUBA products - i.e. the company does not have its own sales/distribution force - but rather Nour herself sells LUBA products through established marketing contacts. LUBA is considering establishing its own retail outlet. At this time, however, management views the high cost associated with key money/ store space as a prohibitive factor.

3. EQUIPMENT/SPARE PARTS/RAW MATERIALS - Most of LUBA's equipment (approximately 50 machines) is of French origin and the company employs an Egyptian technician to provide periodic service and maintenance. An inventory of frequently consumed spare parts is kept in stock and LUBA experiences minimal problems with equipment breakdown or machinery downtime. As mentioned earlier, LUBA Trading acts as import agent for a French textile machinery company and this relationship facilitates the process of acquiring needed spare parts.

With regard to raw materials, LUBA purchases fabric from both the public and private sector and inspects purchases closely before use. Defective material can be returned, but Nour notes, returning material to the public sector, while possible, is a burdensome process. In general, LUBA's material purchases (particularly good quality local fabric) are greatly facilitated by Nour's extensive contacts with public sector companies and industry producers.

4. CREDIT - When LUBA began operations, Nour accessed a LE 25000 line of credit from a local Egyptian bank. Since then, the company has not borrowed money, but has been building the business by reinvesting profits. LUBA's plans for opening a retail outlet are currently on hold since in management's judgment, the cost of acquiring space is too expensive in view of 16-18% interest rates.

Knowledgeable about some of USAID's credit programs, Adel Nour noted that small companies miss out - i.e., if a company seeks to borrow a small amount - LE 10,000, for example, no bank wants to deal with them. Interest rates on such programs must be lower (below 10%) to enable small companies to meet scheduled loan payments. Only then, Nour says, would LUBA be interested in borrowing. In the meantime LUBA owners are very satisfied with the growth and success of the company to date - a success which - where finances are concerned - has obviously been facilitated by family money.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Alia Nour sits on the board of the Ready-Made Garment Committee within the Chamber of Spinning and Weaving and is very active on various governmental committees under the auspices of the Ministry of Industry. LUBA benefits greatly from these established relationships in terms of information, but as noted earlier, the lack of hard industry data on consumption patterns, present and future demand, etc. continues to pose a critical gap for producers. "An integrated information center is badly needed." With regard to the Federation itself, Nour states that the organization is limited in what it can do for members due to minimal staff and financial capability and the "appointment" system whereby some Federation/Chamber board members are totally mismatched for their positions.

LUBA has had fairly extensive contact with the Egyptian Export Promotion Center (EEPC) and is scheduled to be among the list of companies targeted for assistance under EEPC's new strategy to assist selected garment producers. Adel Nour also participated in a USAID-sponsored seminar on "Export Entry Strategies" held last year in New York. He evaluated the seminar as very worthwhile but added that "follow-up" seminars dealing with more advanced issues would be extremely useful.

LESSONS LEARNED

LUBA, Inc. can be considered a very successful ready-made garment company based on: 1) its ability to tap the export market in a significant way; 2) maintenance of strict quality control standards; and 3) excellent management capability. Despite claims that she is "ready to retire," Alia Nour is the innovative and classy force behind the company's success. Like another industry colleague, - Halston, (CS #4), Nour represents the top of the line in the Egyptian garment industry and reflects the kind of domestic expertise which should be tapped in any broad training endeavor for the industry.

LIKELY FUTURE CONSTRAINTS

The short to medium term outlook for LUBA is excellent. Despite the unavailability of hard industry data, LUBA will contrive to thrive - as a result of well-established contacts both in Egypt and abroad.

Case Study # 12*

The Mansoura Clothing Factory

BACKGROUND

The Mansoura Factory is a ready-made garment operation located on the outskirts of Maadi. The company employs 15-20 workers and fixed assets stand at LE 25,000. Mansoura is currently operating at 90% capacity, due primarily to a large sub-contract arrangement with the public sector. Mr. Sami Nabi is the owner and manager of Mansoura.

COMPANY HISTORY AND EVOLUTION

Nabi started Mansoura in 1973 with one sewing machine. At that time, the factory was located in downtown Cairo and remained at that location until 1980. Concluding that the downtown space was too small with no parking availability, Nabi moved the factory to outside Maadi in 1980. At the new location, employees have averaged in number between 15-20 on an annual basis; equipment currently includes 10 sewing machines, 2 cleaning machines and 1 cutting board. At full production, Mansoura is producing monthly 5,000 women's dresses for the public sector and 1,000-1,500 dresses for the private sector.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. MARKETS DISTRIBUTION - The bulk of Mansoura's production (75-80%) is sold to the public sector (Ministry of Industry) under the same type of program that the Dallas Factory (CS # 6) participates in. For Mansoura, the contract is for 30,000 dresses during a six-month period.

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Nabi's brother, Dawood is responsible for the sales and marketing of Mansoura's production for the private sector. Dawood works as a commission agent for Mansoura and several other ready-made garment producers throughout Egypt. The strategy is to solicit orders from various retail shops and boutiques from the Mansoura samples. Production, in turn, is based on orders actually received, i.e., Mansoura only produces higher quality dresses if orders have been placed.

Problem - Nabi states that while he "doesn't like" his company's dependence on the public sector, it is the only way for him to keep his factory operational for most of the year. Without the sub-contract, Mansoura would be in production only 2 months out of the year. Thus, the government sub-contract is the only way to "stay busy". With regard to dresses being produced for the private sector, Nabi is unwilling to assume the risk of not being able to sell the goods and this is why production is tied to firm orders. He points to the uncertainty and unpredictability of the ready-made garment industry in Egypt and concludes that the marketing of his products is his primary operating constraint. He does not have the financial capability nor the inclination to open his own retail outlet, preferring instead to concentrate his efforts on production.

2. LABOR - Most of Mansoura's employees come to Nabi untrained. Up until a couple of years ago, the owner had rather serious problems with labour turnover, a problem which he attributed to emigration to neighboring Iraq, Libya and Saudi Arabia.

Approach - Labor turnover has now levelled off, partially as a result of the closing of labour markets in the countries just mentioned. Nabi claims that he has a good relationship with his employees and knows how to "handle" them well. Factory conditions, however, are very poor - unorganized, dirty and crammed. Approximately one-third of Mansoura employees are quite young (below 16 years of age) and in comparison with other producers, monthly wages appear low. Two women who are the highest producers - over 1,000 dresses a month - are making less than LE 150 a month. Nabi says he trains employees about the importance of cleanliness, etc. but it does not appear that much progress has been made in this regard. Finished products are dirty.

The owner is not aware of any training programs provided locally for ready-made garment personnel. He would like to see the public sector begin to host such training activities, but

insists that the training must be on-site since he cannot afford to let employees spend time away from the factory. Nabi also recommended that if such training were provided, some type of contractual agreement must be signed and adhered to by benefitting employees.

3. RAW MATERIALS - Like the Dallas Factory, the fabric for Mansoura's public sector production is provided by the public sector textile companies. For its private sector production, Nabi purchases imported raw materials through black market channels in Port Said. Citing the example of silk - which costs LE 11.00/mtr if purchased locally and LE 5.00/mtr if purchased from the black market, Nabi points to the economics of the situation as justification for current material procurement methods.

4. MACHINERY/EQUIPMENT/MAINTENANCE/SPARE PARTS - Most of Mansoura's equipment is of Japanese origin - Jcki - and approximately 5-7 years old. Maintenance is provided twice weekly by a local technician and to date, the factory does not experience any problems with maintenance nor the acquisition of needed spare parts. Nabi anticipates, however, that he may have problems in the future (particularly with spare parts) and he doesn't know how he would address such problems. Information on the source and supply of spare parts is not at Nabi's disposal.

5. CREDIT - Nabi has never borrowed money from the Egyptian banks but has preferred instead to take a step-by-step approach in building his business. He insists that even if bank credit were available at a 1% interest rate, he still would not borrow money because he is uncertain about the market. A bank loan would require regular monthly payments and Nabi is not confident that he could meet a fixed loan repayment schedule. The owner would like to buy some new machinery but the only satisfactory credit arrangement would be if the lending bank accepted finished goods in lieu of cash payment.

ASSOCIATION WITH FEDERATION/INFORMATION SERVICES

The Chamber of Spinning and Weaving has organized a trip for members to an international exhibition in Germany later this month. Nabi will be participating and he views the Chamber's efforts in this regard to be very worthwhile. He does not receive the Chamber

newsletter* and states that the newsletter is geared to the textile - not ready-made garment sector. In Nabi's opinion, the Chamber's role as a service organization would be greatly improved if the Chamber played a direct or intermediary role in purchasing imported raw materials which in turn, could be supplied to local producers. With regard to information, the only items Nabi receives (on an annual basis) are a couple of German and French fashion catalogues which provide him with ideas for new dress designs.

LESSONS LEARNED

Mansoura is indicative of many private sector garment companies which, in the absence of a public sector sub-contract relationship, would probably cease to exist. Such companies suffer substantially from the lack of hard industry data and in the words of LUBA's owner (CS #11), they're "floundering." Uncertain about the market, including present and future consumption and demand, these companies, while desirous of factory upgrading and improvement, are unwilling and/or unable to assume the corresponding financial risks. The imperative for Mansoura and the industry as a whole is to make available a wide range of statistics and data on the ready-made garment sector so that producers can begin to plan futures based on reality rather than haphazard guesses.

LIKELY FUTURE CONSTRAINTS

Like the Dallas Factory, Mansoura's existence is contingent on its public sector sub-contract relationship. Given the Mansoura Company's current limited efforts in sales and marketing and lack of knowledge about the direction of the sector as a whole, cessation of the government sub-contract would undoubtedly render Mansoura's continued existence unlikely.

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Case Study # 13*

INSTANT DESSERTS, SWEETS AND SPECIALTIES CO. (IDSSC)*

BACKGROUND

The founder and head of this family-owned company bought a sweet shop from a Greek in 1966, in downtown Alexandria. He paid 5000 LE for the shop, then bought the real estate for 25,000 LE in 1970. Every two or three years he had added new products to his line and added floors to the building to accommodate the factory and warehouse space. At present, his sales are approaching 1 million LE.

COMPANY HISTORY AND EVOLUTION

The founder and head of IDSSC is Mr. Mohamed Abi. He purchased the shop in 1966 and has since constructed a multi-story building, floor by floor; total investment in the factory is one half million Egyptian pounds. Mr. Abi started the factory based on his belief that the Egyptian housewife wanted ready-to-prepare and in some cases instant drinks, desserts and specialties in small packages with instructions on how to prepare these products.

The total capacity of the plant is about 500 tons/year and the presently used capacity is about 50%. The products are all mixed dried products packed in sizes starting from 10 to 50 gms and going up to 1 kilogram. The products include instant vanilla and chocolate drinks, ready-to-prepare custard puddings, gelatin-flavored desserts (jelly crystals), dried bean flour, small packed spices, corn flour, and baking powder. Considerable hand labor is included in mixing and packaging. All products are for domestic sale but some gelatin desserts (less than 5%) have been exported to Greece and neighboring Arab countries.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - Requirements are 30 women and 10 men. Mr. Abi reports no significant problems with labor as he pays very well: 100 LE/month

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for women and 150 LE/month for men. Women are primarily involved in mixing, filling and packaging work and men do heavy physical labor.

2. MANAGEMENT - Mr. Abi is the owner and general manager and oversees the operation by living in an apartment on the top floor of the factory. One person acts as the company accountant and production manager; another as sales manager, with an additional staff of 6 production people and 6 in sales.

3. RAW MATERIALS - No problems were reported with domestic supplies and ingredients. Principal problems do exist, however, in obtaining good paper, imported printed paper, metal cans and boxes and gelatin from Europe. Mr. Abi spends 5 days per month in Italy, France and Greece - identifying sources of packaging materials and soliciting ideas on new products.

4. TECHNOLOGY - IDSSC's mixing equipment was designed by the owner and is similar to overseas stainless steel motor driven units. Packaging is almost entirely done by hand, filling envelopes (usually manually stapled), check-weighing, placing them in small printed cardboard packages, assembling the packages and shrink wrapping a large number in plastic over wraps.

Operations are quite sanitary by Egyptian standards. Productivity could be increased by purchasing filling and sealing equipment but it would have to have interchangeable parts to accommodate various sizes. Engineering time studies, including study of down time to change sizes and products would have to be made to see how soon the imported equipment would pay off.

5. CREDIT - Abi has attempted without success to access bank credit. Two years ago, he sought a 59,000 DM loan from the Development Industrial Bank (DIB). In return the DIB required Abi to put his entire factory up as collateral - which prompted Abi to walk away. He also tried to borrow funds under one of the World Bank's credit programs. After spending 1½ years on a loan application process - again Abi gave up. The owner would like to buy some new equipment and is seeking a solution to his finance problems. He notes, however, that current high interest rates are problematic. Working capital requirements of the company are 100,000 LE which is obtained through on-going sales revenues.

6. MARKETING - IDSSC's production is tied to orders. The company does not advertise to promote its products but relies instead on its own sales force which travels throughout Egypt to market and distribute the company's products. Abi points to the

good name he has established in the market as the basis for IDSSC's continued success.

7. GOVERNMENT/REGULATORY - Two major problems with government regulatory authorities were cited by Abi as on-going constraints.

1) Current policies of the Import Rationalization Committee require producers to apply for import permission each time an order is required from abroad. This policy costs producers like Abi considerable time and money as he is involved in several different types of products. Currently, a proposal has been submitted to the Committee which, if approved, would allow producers to import needs on an annual basis. The Chamber of Food is supporting this proposal and Abi strongly insists that the policy as it currently stands is killing food producers because by the time permissions are obtained (often 2-3 months), the season is over.

2) When Abi wants to import a certain item, he must obtain a letter from public sector authorities which states that even if the item is currently being produced in Egypt, domestic production is not sufficient; therefore, IDSSC should be allowed to import this item. Abi claims that even in cases where domestic production is not sufficient, it is extremely difficult and sometimes impossible to get public sector officials to acknowledge this in a written document.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

IDSSC receives no assistance from the Chamber of Food; Abi relies on his own contacts and periodic travels to Europe to obtain needed marketing information. The Federation office which is located in Alexandria serves as the headquarters of the Cereals Chamber and as such, Abi reports that little or no assistance is provided to food producers. The Chamber of Food could improve its effectiveness if it were able to provide Abi with information on raw materials, new technology and credit assistance.

LESSONS LEARNED

At this stage of its development, Abi is running a fairly successful operation. Annual sales have grown at a rather healthy pace and the company appears to be well-managed. The present operating capacity (50%), however, is reflective of some deficiencies in the area of technology and perhaps marketing. The virtual absence

of delegation within the company, coupled with the time Abi must spend on matters of government regulations and redtape also affect the company's overall production activities. The ability of the company to access credit may in large part determine the pace at which Abi can improve and expand his operation.

LIKELY FUTURE CONSTRAINTS

To expand its present market and/or product lines, including further penetration of the export market, IDSSC will need various forms of assistance - credit, technical and marketing.

CSNo. 14*

THE HAMANA COMPANY

BACKGROUND

The Hamana Company is an industrial firm which produces gas cookers for residential use. The Company is located in Alexandria and has been in production since 1966. Initial fixed assets were approximately LE 5,000; current fixed assets are now over LE 500,000. Hamana employs 200 people and is currently operating at 50% capacity. The company is a family run business, owned by the father Asraf Hamana and jointly managed by the senior Hamana and his two sons, Mohy and Adel.

COMPANY EVOLUTION AND GROWTH

Hamana entered into business in 1946 and was initially producing steel furniture for office and residential use. In 1966, production was changed to gas cookers - originally 2 and 1/2 burner cookers and since 1976, Hamana has also been producing a 4-burner model. Current production capacity is approximately 30,000 cookers per year; due to depressed market conditions and first quarter 1985 economic policy which halted the company's flow of raw materials, Humana is operating at half capacity. Company owners are aware of the need to upgrade and modernize existing production - either through a joint venture or licensing arrangement with a foreign company or through the provision of local technical assistance; efforts to date in this regard, however, have proven unsuccessful.

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KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. Training/Technical Assistance: Desirous of improving upgrading existing production, Humana sought the assistance of EIDDC - ITAF to: 1) cooperate in producing different types of dies; and 2) work on a design for a new model. Mr. Humana has not received any assistance or cooperation since he first talked to EIDDC officials 6-7 months ago. Regarding the desig assistance requested, EIDDC reportedly asked for an LE 3,000 f which Humana considered exhorbitant and totally unreasonable. The owner is obviously bitter about his company's interaction with EIDDC and is now seeking a foreign partner who could eith take an equity position in the company or provide technology transfer through some kind of technical assistance agreement.

2. Credit: In the first few years of operation (1966 - o Humana based production on orders received. Once an order was placed, Humana required a 10% downpayment from the customer wh in turn was used for working capital purposes. This arrangement enabled Humana to build the business without accessing bank credit. At present, Humana does not enjoy these same facilitie from customers and has instead relied on a short-term credit facility from the DIB. Pointing to USAID-sponsored credit programs, Humana insists that the stipulation requiring borrowe to purchase American-made equipment is a major constraint for small and medium-size businesses since in general, similar European-manufactured equipment is much cheaper.

3. Markets: Most of Humana's production is geared for the Alexandria market, although sales to various wholesalers result in minor penetration of the Cairo market. Approximately 95% of production is sold to the private sector (retail shops and wholesalers). Humana states that his company has 10-12% of the Egyptian market for gas cookers, although demand in the last 8-months has declined. Production remains tied to customer order and occurs in batches on a 15-day cycle. The cessation of need raw material inputs in the first part of this year has also hampered production activities.

Currently, sales revenues are on hold as over 500-800 cookers await certification by the General Organization for Standardization. At the time of our visit, Humana had been waiting for 10 days for the arrival of the government inspector. When he is going to arrive, noone seems to know. The owner woul like to begin exporting but feels that the sophistication of his products must be improved if they are to be competitive and attractive in overseas markets.

4. Technology/Machinery/Maintenance/Spare Parts:

The factory (approximately 2,500 sq. mtrs.) is divided into 4 major areas:

a) Ground floor (largest area) which houses 2 large high-temperature ovens for enameling and drying; 2 state-of-the-art high tonnage press machines and several older cutting machines for sheet metal;

b) 2nd floor primarily used for manual assembly of cookers;

c) 3rd floor - used for torch-welding and touch-up painting; and

d) 4th floor - storage of finished goods.

Factory lay-out could be improved, particularly on floors 2-4 so that finished goods don't end up on the top floor of the building.

Heavy machinery (e.g. 2 - 200 ton presses, high-temperature ovens, etc.) are for the most part of German and Italian origin. Italian presses are fairly new and all foreign machinery is imported with additional spare parts. An Egyptian technician is on call for major equipment repairs with factory skilled labor handling routine service, maintenance and minor repairs. The factory is subject to frequent electricity outages and 5 years ago, a back-up generator of Czechoslovakian origin was installed. Due to extremely high levels of electricity consumption, however, there continue to be some problems in this area.

5. Raw Materials: Primary production inputs are chrome, glass, aluminum, copper (all domestic) and stainless steel (imported). The company has established relationships with a number of suppliers in Cairo and Alexandria and purchases are based on samples, price and delivery times. The same is true for the imported stainless steel.

6. Labor: Humana reports a 30% labor turnover rate and on-going problems with worker absenteeism. Noting that "young people don't want to work hard," Humana says he must constantly "push" employees; rewarding them for a job well done and punishing them when they perform poorly. Wages seem somewhat low, averaging LE 100/month for semi-skilled labor.

The factory itself is a bit dirty but worker morale appears satisfactory. The owner's brother is the factory supervisor and this apparently helps to maintain firm management control.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Humana reports that the Chamber of Engineering has been helpful in solving a few of the company's problems but, for the most part, the company "makes its own solutions." Humana says he gets information about the market and what other producers are doing from the Ministry of Industry and his own customers and does not have any particular need for information from the Chamber. He would like, however, the Chamber to assist him in accessing technical assistance or facilitating contact fo- possible foreign cooperation.

LESSONS LEARNED

While the Humana owner characterizes his company as successful, it appears that the next few years will be critical ones in terms of the company's future course. Product sales have declined in the past few years as stiffer market competition threatens Humana's current share of the market. The company is well aware of the need to improve product quality, but efforts to date in obtaining technical assistance have not produced concrete results. In its favor is an experienced owner who is assisted by two young and energetic sons.

LIKELY FUTURE CONSTRAINTS

The inability to upgrade existing product quality would likely result in a continued deterioration of Humana's market share. The infusion of technical assistance, coupled perhaps with a more aggressive marketing policy is imperative for this company.

CSNo.15 *

YOUNGSTOWN STEEL COMPANY

BACKGROUND

Youngstown Steel is headquartered in old downtown Cairo with its primary factory building located in Mokatem City. The company is currently producing 140 different kinds of stainless steel products (bowls, trays, plates, teapots, etc.) and is operating at close to full capacity. Initial fixed assets of the company (1972) were less than LE 5,000, a figure which has now grown to over LE 500,000. Youngstown employs 60 people, of which approximately one-fifth are skilled technicians. The owner/manager of Youngstown is Mohamed Mousa.

COMPANY EVOLUTION AND GROWTH

When Mousa started his business in 1972, production was focused on copper wires for the local market (plumbing, electrical uses, etc.). At that time, copper wire was in short supply due to high consumption by the Egyptian army. To begin production, Mousa needed a piece of equipment which at that time cost LE 22,000. Unable to afford purchasing the equipment, Mousa "made" his own machine and proceeded for the next 4 years to produce copper wires. Profits from this production line enabled Mousa to purchase a small piece of land and buy some additional equipment to commence production of stainless steel products. Since 1977, Youngstown's production has risen rapidly to a current annual processing volume of over 400 tons of stainless steel per year.

Mousa would like to expand and consolidate his operation (one small building - approximately 200 sq. mtrs. is located in old downtown and another (approximately 3,000 sq. mtrs. is 20 kilometers away in Mokatem City), but due to the lack of industrial sites and the high cost of land, the owner must continue with his operation as is for the time being.

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KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. Credit: Six months ago, Mousa finally succeeded in obtaining an LE 200,000 loan (5 years at 18% interest) from the Development Industrial Bank (DIB) to finance the importation of high-tech equipment from Europe. The loan application process dragged on for 18 months and cost the company considerable time and money. Mousa maintains that he had to "fight" to get the loan and it is clear to him that a producer "must know somebody if he is going to be successful in dealing with a bank like the DIB. To obtain the loan, Mousa was required to put up his enti factory (including equipment) as collateral. This was the firs time Mousa has accessed bank credit and he admits that because his inexperience with the banking system, he "lost his way;" a second attempt to borrow money might be easier. In general, however, the owner feels quite strongly that complicated loan procedures are "killing small businesses."

More problematic for Mousa is his inability to borrow money to finance the importation of raw materials. He ha tried unsuccessfully in the past to import raw materials direct - but due to a lack of working capital - has had to rely on purchasing needed raw materials from local import companies/ suppliers - an arrangement that is more costly to Mousa since tl local supplier adds a commission on every materials order.

From a marketing perspective (particularly the expo t market), Mousa points to his inability to buy dollars at the official rate as a major impediment to export competitiveness - i.e., If the world price of stainless steel is US$ 1,900 a ton, the final cost to Mousa is much greater (e.g. US$ 3,000) because of the exchange rate differential. Coupled with shortages of working capital which force Mousa to go through middlemen, Youngstown at this time is unable to compete in neighboring markets. Thus, Mousa concludes, if he were able to obtain raw materials procurement financing at official rates of exchange, h company's ability to expand and compete in the export arena woul be greatly enhanced.

2. Markets: Currently, all of Youngstown's production is fo the domestic market and 75% of total production is marketed directly to 3-4 public sector department stores. The remaining 25% is sold directly to consumers through Youngstown's retail outlet located in mid-town Cairo. Mousa states that prices charged to both public and private sector customers are the same and that overall, his prices are 30% less than prices for simila imported products.

While demand for Youngstown's products has been good and on the increase (although no specific data or statistics are at Mousa's disposal), the owner acknowledges that Youngstown must begin to export if the company is to survive. Due to current complicatd export procedures and the inability to purchase dollars at official exchange rates, however, Mousa states that he will not expand nor think about exporting until the country's

export problems are resolved. He is unaware of services and assistance provided by the Egyptian Export Promotion Center and states that he cannot pursue investigation of such institutions until larger export-related issues are resolved.

3. Machinery/Equipment/Spare Parts: Youngstown's machinery and equipment can be classified into two categories:

a) low-tech - e.g., hand-press machines primarily of Russian origin; and
b) high-tech equipment originating from Eastern Europe (Czechoslovakia, Poland, East Germany), West Germany, Italy and France.

The recently secured DIB loan will financ a West German (Hermann) high-frequency brazing machine and 4 Italian-made (Mapos Italiana) cutting and polishing machines. The Russian and East European equipment was purchased from the local market and, according to Mousa, at the lowest prices available. The purchase of the high-tech West German equipment has been facilitated by an Egyptian import agent who represents several West German manufacturers.

Youngstown technicians (12), including Mousa himself, service and maintain the low-tech equipment and also produce some needed spare parts in a "workshop" section of the factory. For the high-tech equipment, Mousa is first trained by the equipment manufacturer on maintenance and servicing and this knowledge is in turn transferred to other company technicians. When the most recently purchased piece of equipment arrives from Germany, it will be installed by a German engineer. If major probems develop in the future, Mousa can telex the equipment manufacturer who will send a technician to Egypt to resolve the problem.

In general, Mousa prefers to deal with European equipment manufacturers due to factors of proximity and suplier responsiveness to maintenance and service needs. The company might be interested in U.S. - manufactured equipment and/or raw materials but they have no contact or information on American companies and do not know how to initiate such contact.

4. Labor: The Youngstown Company is currently at full production and minimal problems are reported with regard to labor turnover. Based on observations from visits to the factory (2 locations) and the company retail outlet, employee relations appear very good and the owner Mousa is well-respected. Skilled technicians are well paid (approximately LE 400/month) and Mousa has in place a training program for new hires with 3 area technical schools. Under this program, students (15 years of age on up) spend 4 days a week in practical on-site training in the Youngstown factory and 2 days a week attending academic classes. The students are paid a minimal wage (80 pt./day) plus food, transportation and additional miscellaneous expenses. Once training and academic requirements are completed, Mousa offers the graduate a full-time position with the company.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Youngstown's membership in the Chamber of Engineering has been very helpful, particularly in the area of providing assistance with various exhibitions (e.g., Cairo Fair) and fostering the concerns of private sector producers (e.g., speaking out on behalf of producers in the first quarter of 1985 against former Minister of Economy Mustafa Said's economic "disaster.") Mousa believes that the most effective role the Chamber can play is that of intermediary between private sector producers and government agencies. With regard to information, the company has established supplier relationships in place (primarily European) and thus relies on its own sources to obtai the best prices for imported stainless steel. Mousa would like to see the Chamber import raw materials for its members but he does not believe it is possible - due to various operational constraints on the Chamber. More appealing to Mousa would be assistance in obtaining finance for raw material purchases.

LESSONS LEARNED

The Youngstown Steel Company has come a long way since its start as a small workshop with one home-made piece of equipment. The growth of the company, its continuous upgrading, and its increasing emphasis on product quality and improvement are reflective of the innovative and entrepreneurial talent of the Youngstown owner, Mohamed Mousa. His willingness to endure the cumbersome process of accessing bank credit is likewise indicative of the company's desire for improvement and modernization. Though Mousa is desirous of additional bank credit, it appears he does not clearly understand banking policies/regulations regarding the acquisition of debt at any given time. Finally, the company's approach to labor and training activities vis-a-vis area technical schools has produced very positive results and provides Youngstown with an on-going supply of labor.

LIKELY FUTURE CONSTRAINTS

According to Mousa, demand for Youngstown products has been good and continues to increase. This however, is a perception or "feel" for the market and is not based on actual figures re his company's percentage share of the market. There are other larger producers of stainless steel products in Egypt and as these companies grow and expand, Youngstown Steel will be faced with increasingly stiffer competition in the local market. Tapping the export market might represent a logical move for the company, but due to various factors mentioned above, the owner does not view this strategy as a feasible option at this time.

CSNo. 16*

THE ORABA COMPANY FOR WIRES

BACKGROUND

The Oraba Company for Wires is located in an industrial section of Cairo. Started in 1974, Oraba produces numerous types of wire, nettings, and weavings. Initial fixed assets of the company amounted to LE 200,000, a figure which has now grown to over LE 2 million. A combination of 75 skilled and semi-skilled laborers are employed by Oraba which represents a doubling of employment numbers since the company started operations. Oraba is family-owned and managed principally by the father, Sayed Oraba who has a degree in accounting and his oldest son, Nasser who graduated 3 years ago with a degree in business administration.

COMPANY EVOLUTION AND GROWTH

Oraba's history and evolution is extremely interesting as it centers around one man's struggle against the Egyptian government bureaucracy and his eventual success in turning his company into the major and only private sector producer of wires. When attempting to construct his factory in 1974, Oraba was unable to purchase needed construction materials from the public sector so he proceeded to buy needed materials from the black market and whatever was available in the private sector. After production commenced, the Egyptian goverment continued to allow importation of wires which eventually resulted in a "show-down" between Oraba, import authorities and local banks (See Credit section). In 1981, after years of struggle, the Government restricted the importation of finished products Oraba was producing. These actions subsequently opened the national Egyptian market for Oraba to a point where today, Oraba dominates the Egyptian market in the production and sale of wires.

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KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. Credit: In 1978, Oraba borrowed US$ 1 million (at 9% interest for 5 years) from the Development Industrial Bank (DIB) under a USAID-financed credit program. At that time, imports of wires were permitted, thus limiting Oraba's ability to sell his finished products in the local market. In 1979, payments on the loan stopped as company money increasingly became tied up in unsold finished goods.

Approach: When asked how he survived, Oraba responded that after the DIB foreclosed on the loan, he convinced Bank official that repaying the loan was beyond his control - i.e., his factor was productive, finished products were the proof and his problem centered on the company's inability to sell in the local market because of heavy import domination. Through a series of "personal" contacts and much "fighting," Oraba finally succeeded in getting the government to change its import policy regarding wires. Sales of Oraba products soared and the loan to the DIB was eventually repaid (late 1984). Oraba has since borrowed US$500,00 from the African Development Bank at 16% for 5 years to finance the acquisition of new equipment.

2. Equipment/Machinery: The majority of Oraba's equipment is of West German and British origin. The owner travels to Europe regularly and has established relationships with European suppliers. Spare parts availability and corresponding costs are an on-going problem for Oraba with the owner stating that some spare parts from Japan, for example, cost more than the original price of the equipment itself. Citing another example - an equipment manufacturer that sold 10 machines to Oraba went out of business last year; - to address the problem, Oraba is attempting to make some spare parts in its own factory. Minor repair and maintenance are handled by Oraba himself who claims he knows every machine "inside and out."

3. Labor: Oraba cites the usual problems of skilled labor shortages and emigration to neighboring Arab countries. He experiences high labor turnover (40-50%) and absenteeism and maintains that his workers must be closely supervised all the time.

Approach - The Oraba factory is poorly organized, dirty and noise levels are extremely high. Workers do not use any protective devices for ears or eyes and the owner claims that employees "get used to it" after a day. Oraba insists that the hiring of skilled labor at good salaries poses a problem because existing employees in turn demand an increase in their own salaries. Approximately half of Oraba's employees are female as the owner believes that females are more productive and dependable. "They know they (females) only have a few good years left (before marriage) and they make the best of them." Young men, on the other hand, "have girls and fun on their mind" and are more likely to change positions frequently. Oraba has also

tried to train young boys on an ad-hoc basis - but apparently illegally - as Social Insurance and Welfare authorities have intervened to ensure compliance with government laws. Oraba concludes that his life would be a lot easier if he could import laborers from Korea.

4. Raw Materials: Only one kind of raw material for the production of wire is available in the local market and that from the public sector under quota restrictions. All galvanized materials must be imported and Oraba points to extremely long delays in acquiring import licenses (2-3 months) which in turn slow factory production. He claims that 5-6 months have been required from time to time to process one document alone. "But I'm a fighter," the owner concludes.

5. Markets: As mentioned, Oraba is the major private sector producer of wires and current annual sales approach LE 2 million. The factory is at full production and Oraba is planning to expand operations in a building located next to his present factory. The company exported a small amount of finished goods to Sudan a couple of years ago but was dissatisfied with Sudanese insistence on a barter arrangement. Since the local market is consuming all of Oraba's production, the owner is not interested in pursuing further export opportunities at this time.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Oraba insists that the poorly staffed and low-budget status of the Chamber of Engineering renders it useless to go the Chamber for assistance. He acknowledges that the current Manager of the Chamber tries his best -"but as one man, what can he do?" Oraba has attempted to cooperate with the Chamber on a few occasions (he responded to a recent Chamber request to members on estimates of their raw material requirements, and sent a set of recommendations to the Chamber three years ago regarding the industry in general) but has become disenchanted about the Chamber's corresponding follow-up or lack thereof. Oraba points to the structure of the Federation and concludes that the continued heavy influence of the public sector on the Federation and Chamber boards prohibits the organization from becoming a vehicle for promoting private sector interests.

With regard to information (new technology, equipment suppliers, etc., Oraba goes to the commercial offices of foreign embassies here in Cairo and insists they have the best and most reliable information around. Through his constant travels to Europe, Oraba has also built established relationships with international equipment and material suppliers.

LESSONS LEARNED

In one important respect, Oraba can be considered a very successful company due to its ability to influence government policy - which in turn produced an ideal market situation for Oraba. The company owner is obviously a skillful negotiator as evidenced by his ability to convince the DIB to "wait" for their money. Mr. Oraba complains about many things - government hassles, import red-tape, lazy workers, inactive service organizations (e.g., Chamber), etc. but it is obvious at this point that in terms of market position, the company is "sitting pretty."

LIKELY FUTURE CONSTRAINTS

Oraba does not appear to be a particularly well-managed company with owners' attitudes towards labor reflective of poor insight into labor motivation and productivity. The problem does not appear to be pressing at this time, presumably because of Oraba's heavy penetration of the market, i.e., in the absence of worthwhile competitors, there is little pressure on the company to improve productivity. A threatened market situation would undoubtedly necessitate greater emphasis on productivity improvement.

CASE STUDY 17 *

NILE DELTA FROZEN FOOD COMPANY

BACKGROUND

The Nile Delta Frozen Food Company (NDF), located near Alexandria, packs 21 seasonal vegetables from June through September and marine products from November through February. Export marketing was the initial goal of the owner-manager, Sayed Hamdi, but now about one third of the company's production is being sold in Egypt through Alexandria supermarkets. Initial fixed assets in equipment and machinery were LE 150,000; LE 100,000 in the factory and LE 250,000 for land. The current market value of the land is approximately LE 2.5 million. Working capital is estimated at LE 150,000.

COMPANY EVOLUTION AND GROWTH

Mr. Hamdi started NDF in the fall of 1975 based on his belief that there was an export market for quality frozen vegetable products in Arabian countries and overseas diplomatic customers in Europe. He thought they would especially want oriental vegetables. Over 20 different products were on his sales list and about one third were oriental varieties. Results to date have been very disappointing. The maximum seasonal production capacity is 710 tons per year; current production is 150 tons per year which equates to a present sales volume of only LE 120,000 per year. It is doubtful as to whether enough of NDF's operational problems can be solved to turn the company into a success.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. RAW MATERIALS - The plant does not contract for the purchase of vegetables at commercial processor prices. The owner only buys raw materials after he has received a purchase order for the finished product. He then buys the vegetable on the open wholesale market when prices are lower at the peak season of harvesting. The waiting

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for orders and the peak season glut shorten his packing season and reduce his total production.

2. PACKAGING MATERIALS - Are another raw material problem. If Hamdi sells through self-service stores, the more attractive European packages in many colors, etc. are not available for him to buy because he must pay 150% import tax and go through the cumbersome process of obtaining import linceses, etc. Only plainer packaging materials are available from domestic suppliers.

3. LABOR - NDF's hourly freezing capacity is 3 tons/day, but if the company uses 90 full-time people for the preparation and freezing operation (see technology section), labor costs are extremely high. As an alternative, Hamdi attempts to hire employees, when available, on a part-time basis from neighboring public and private sector plants. The advantage for NDF-lower labor costs and for the part-time personnel, a second source of income. Average labor rates for full-time employees is LE 100/month for females and LE 150/month for males.

4. TECHNOLOGY - As mentioned, NDF's freezing capacity is 3 tons of finished products per day - it takes 14 hours for freezing and an estimated 7 to 10 hours for preparation. E.G., if 8 hours are required for preparation, the rate of finished raw material would be 750 pounds per hour or 12 pounds per minute. If there is 50% recovery as the average, about 25 pounds of starting raw material/ minute would be handled at receiving.

Therefore, small sized batch equipment is used (sizes for hotels and restaurants). Eighty employees might be needed for such small batch equipment. European and U.S. equipment are usually large and can handle from 1 to 5 tons per hour with a maximum of 20 people per line. Even the lower labor rate in Egypt could not compete with the faster equipment i.e., due to inadequate technology and equipment (particularly the freezing equipment which is a major production bottleneck) currently being used, operational costs are extremely high. Moreover, the plant is in dire need of repair and improved sanitation conditions.

4. MARKETING - Hamdi only packs when he has orders. Actual costs are difficult to estimate with open market buying - therefore, it is difficult to estimate selling prices.

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ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Mr. Hamdi is a member of the Food Committee in the local Federation Office in Alexandria. He does not believe that the Federation/Chamber of Food is doing an effective job in servicing members, and insists that changes in the Federation by-laws and structure must be made if the organization is to become a voice for the private sector. For his own business, it would be extremely helpful if the Chamber could provide him with information on raw materials availability, credit assistance and international fairs and conferences.

LESSONS LEARNED

The performance to date of the Nile Delta Frozen Food Company has been very poor. Based on a "hunch" about the potential demand for his products, Sayed Hamdi ventured into this business with totally inadequate marketing information or technology advice. The small and obsolete equipment currently being used has led to gross production inefficiences and high operating costs. Mr. Hamdi is currently evaluating closing the operation and selling his land at a profit to recoup his initial investment.

LIKELY FUTURE CONSTRAINTS AND OPPORTUNITIES

Unless some support is given to the export of oriental vegetables, it will be difficult to see how NDF can effectively compete with European vegetables which could be used for most dishes. Hamdi believes that the Egyptian Government should subsidize agricultural producers whose production would be strictly geared for the export market. This would enable Hamdi to purchase needed raw materials at lower prices as opposed to NDF's current practice of buying on the open market. Even with this kind of indirect assistance, NDF would continue to be plagued by on-going operational and production deficiencies.

Marketing could be investigated for export of complete Egyptian dishes. This, however, would require skilled cooks and much more advanced equipment than NDF currently has.

CASE STUDY 18 *

SUEZ DEHYDRATED VEGETABLE FACTORY

BACKGROUND

After many years experience in onion factories, Mr. Balil Mohamed founded the Suez Dehydrated Vegetable Factory in 1977. His first company was nationalized in 1963; in 1969, Mohamed became the chief engineer for government onion factories. In 1975, after the initiation of the Open Door Policy, Mohamed left the government and again entered private sector business to found the present company in the Port Said Free Zone in 1977.

COMPANY EVOLUTION AND GROWTH

The owner with 14 years experience in the design, engineering and operations of dehydrated vegetables, built the factory and fabricated the equipment in the Free Zone so he could export dehydrated vegetables to Europe, Asia and the Middle East, without the tax restraints of Egypt. As a side operation from time to time, Mohamed has built food dehydration factories in other Arab countries. From LE 100,000 in sales in 1978, current annual sales of the Suez Factory are now approaching 4 million LE per year. Total assets are 2 million LE and working capital is 1 million LE. The total capacity of the factory is 800 tons of finished product per year which includes 100 tons of leeks. The corporation is family owned and 2 sons are assisting with the management.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - Mohamed reported no problems with labor. Female labor is best (they are more dependable) and during the peak season he employs 80 to 100 people. In an attempt to increase productivity and reduce absenteeism, Mohamed pays all workers on a daily basis and penalizes them when absent without reason.

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2. RAW MATERIAL - The company contracts for the acreage of the crops it wants. Mohamed pays the going market price but deducts the cost of seed and other supplies that he advances to each grower. The grower harvests the crop and delivers it in sacks to the plant. His only problem is teaching the farmers new agricultural techniques.

3. TECHNOLOGY - Most of the equipment was designed and built by the founder and the washing and peeling equipment is similar to that seen in Europe and America. The dryers are tray batch type heated by forced air steam-heated pipes. The semi finished product is brought down to about 5 or 6% moisture on shaker dryers. Different size materials are separated and filled into plastic bags inside cardboard boxes.

Dried beans as well as onions are produced. Attempts to produce dehydration carrots have not been successful because of hard center cores. Other carrot seed varieties imported from Holland will be tested.

The owner would like better screening, peeling, and grading equipment and more effective magnets to remove metal pieces from the dehydrated products.

At the time of the visit, the sanitation in and around the plant was not very satisfactory by European and American standards. Perhaps conditions are better during regular operations.

4. MARKETING - The demand for the Suez Factory's products is apparently growing and no serious complaints have been received by customers. All production is for export and promotion and sales are facilitated by a sales office located in Greece - which markets Company products directly to wholesalers.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The owner would offer no comment or suggestions on how the Chamber of Food might improve its services. Having been nationalized in the 1960's, he is obviously very reluctant to criticize the organization for fear it might have direct adverse consequences for his business. In a hurry to leave this discussion topic, Mohamed concluded, "The Chamber is doing great."

LESSONS LEARNED

The Suez Factory has been very successful in terms of production and sales growth. The owner knows his business well and had the foresight to locate in the Free Zone and benefit from various

tax and other business advantages. The establishment of a sales office in Greece is reflective of a sound marketing strategy.

LIKELY FUTURE CONSTRAINTS

If other competitors enter the market, Mohamed may face problems with quality or costs. Due to rather unsanitary factory conditions, the company might also face difficulty if it attempts to export its products to foreign countries which have strict quality control standards. At present, however, the owner is satisfied with the firm's operation.

Mohamed outlined some problems in getting imported ingredients, supplies and equipment, but the company seems to be able to cope with them.

CASE STUDY 19*

ISMAILIA POULTRY COMPANY (IPC)

BACKGROUND

Ismailia Poultry Company is an operation to raise poultry and small animals in the Suez Canal Zone. The Company started operations in 1980 with initial fixed assets of LE 500,000. The Company's main activity is in the business of raising and selling poultry and live hybrid small animals.

COMPANY EVOLUTION AND GROWTH

The Company has grown rapidly over the last five years with a total production capacity in 1984 of over 200 tons/year of poultry. The total sales of the Company in 1984 were LE 1 million, accounted for by 27,000 poultry birds produced in 2.3 cycles/year. The Company plans to build a third poultry house to increase the cycles per year to 3 and have a total poultry capacity of at least 30,000 per year. The Ismailia Poultry Company also raises small mammals for food and produces them at the rate of 24,000 per year. Most are processed but some live hybrid animals are exported for processing abroad and some are used by scientific testing laboratories.

The President of the Company received his practical training in this type of business in Manchester, England for 8 years. IPC employs 50 laborers and 15 office staff.

Total current assets have grown rapidly to 5.5 million LE and 1 million LE in working capital. IPC considers itself one of the fastest growing small businesses in Egypt and the first in poultry production.

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KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. PROCESSING AND DISTRIBUTION - IPC does not have a processing plant but uses hand labor to process its poultry and small animals. It is also lacking a modern transport facility . Considering the status of the rapidly growing market for this type of product in Egypt, it has become necessary for such expanding operations to have modern processing, transport and storage facilities.

Approach: The General Manager of IPC is seeking a joint venture with a foreign company which has the technology and experience in both processing and marketing. He is also seeking finance to begin these two badly needed operations.

2. MANAGEMENT- The Company started out as a family owned operation but many problems developed in managing production, both in the field and in marketing.

Approach: Recently, IPC re-organized itself to have a 6-member Board of Directors, headed by the owner. Reorganization has proven successful and management responsibilities are now divided among the Board members who are not family related, to manage both the field and office operations. This new organization has assisted IPC in moving to implement plans for increasing its production and marketing efficiency. The Cairo Office is responsible for the IPC's marketing in Cairo and Upper Egypt areas.

3. CREDIT AND FINANCE - While the demand for poultry and small animal meat is high and the Company's success is promising, IPC still faces considerable problems with local banks in Egypt to finance its expanding operation due to the high risks associated with such projects. The IPC Manager has been working with Misr Bank to arrange for a loan since October 1984; no decision has been made. Most private enterprises in Egypt face difficulties in dealing with banks in Egypt. "It is too much red tape," said the Manager of the Company, "which forces us to give up". In addition, the banks in Egypt have little experience with financing these kinds of ventures and this contributes to long delays in loan processing.

Approach: The Company recently offered its stock in the market and continues to search for a joint venture partner with more advanced companies in this field.

4. TECHNOLOGY - The Company faces a unique problem in that no one institution in Egypt trains its skilled labor and managerial

staff in this field. In addition, this is a new technology and needs special training.

Approach: The Company has hired 4 foreign experts from England to work with the local staff for a one-year period and this will be the basis for setting up a training center for this type of industry in Egypt.

5. GOVERNMENT REGULATIONS - The Company complains about the Import Rationalization Committee. It takes several months to get permission to import its needs. The process is very difficult and requires going through 4 different committees. Inspite of the fact that IPC's import needs will not be rejected, it still takes several months to obtain the import permission. This adversely affects the project which is based on a seasonal mode of operation, and if the needs of the company are not met on schedule, they are obligated to wait until the following season - which equates to substantial loss of revenue for IPC.

Approach: The Manager of the Company supports a proposal raised by the Businessmen's Society in Egypt regarding a change in current regulations which require producers to obtain import permission for each order. The proposed changes call for the importing firms to receive one permission based on their annual needs. Such a change would dramatically reduce the amount of bureacratic red-tape which producers are currently subjected to.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

According to the Manager, the Federation has not been very effective. He perceives the Federation to be an inactive government agency without prestige or administrative power. Therefore, for the Federation to be effective, he suggests a change of the by-laws and a change in its senior personnel to more prestigious young and active professionals. He supports the idea of establishing a marketing intelligence and information center to serve Federation members.

LESSONS LEARNED

1. Decentralization of Management - This decision proved to be very effective in comparison to initial centralization of management by owners of the project.

2. This type of project is a risky one and is highly affected by weather conditions, diseases, atmosphere, etc. However, it is highly needed to improve diets in poor countries

like Egypt which has a shortage in meat production. Accordingly, international organizations' financial assistance is highly needed to support both production and distribution and overall marketing systems for such industries.

3. Despite the fact that there is little information available about European or American technology in this field, IPC is still operating with a reasonable profit, using elementary processing and distribution methods in its poultry production. Nonetheless, the need for technology transfer in this area is highly needed.

LIKELY FUTURE CONSTRAINTS

The availability of financial credit by banks or other financial organizations is criticial for IPC's continued success. Company management hope that such financial facilities will come from either stocks in the market or venture banks. Receiving such financial assistance will enable IPC to introduce new technologies and increase overall efficiency and profitability.

CASE STUDY NO. 20 *

PYRAMID MEAT PROCESSING COMPANY

BACKGROUND

The Pyramid Meat Processing Company is a small meat processing factory, about 30 minutes from downtown Cairo. The Company was founded about 10 years ago by the owner Mr. Adel Aziz and his wife Mona. The starting years of the operation were apparently satisfactory for Pyramid but at present, according to Aziz, over 100 similar companies are in operation and this is perceived as too many for the present Egyptian market.

COMPANY EVOLUTION AND GROWTH

In 1968, the owner and founder thought there would be private sector marketing possibilities for a company to import frozen meat into Egypt, process it into smoked sausages and ground meat and sell it in frozen form to consumers through supermarkets, hotels and restaurants. He visited Germany, studied the methods of manufacture, returned to Egypt and started to make plans and solicit bank loans. By the middle of the 1970's, a small plant was constructed and German equipment was purchased and installed. Total initial assets of the Company were LE 750,000. Total current investment in the Company approaches LE 2 million.

Because many competitors have entered the market, the Pyramid Meat Processing Company has not had much growth. In fact, about half of Aziz' recent sales have been to the Government and Armed Forces. Stories have been spread that many of the meat processing companies are using pork parts in frankfurters, sausages and meat patties. The owner denies this and his company and 6 others are currently in the process of suing the government (Ministry of Health - Laboratory Testing). Meanwhile, Aziz has "voluntarily"

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shut down his plant and is doing experiments and repairs. He says he needs help or he will be out of business very shortly. In prior years, Company sales were approaching LE 1 million.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - The supply of labor is not good and Aziz reports a turnover figure of 20 times a year. His wife Mona, who has a degree in Agriculture, is the Production Manager. This, together with what appears to be very low wages (LE 100/month) may be part of the reason for Pyramid's severe labor problems. At full operation Pyramids would employ 100 people; due to the factory shutdown, this figure is now down to 40.

2. MANAGEMENT - In addition to Aziz and his wife, the Company also employes a sales and financial manager.

3. TECHNOLOGY TRANSFER AND TRAINING - Most of Pyramid's technology transfer came from Aziz's observations in Germany and with help from German equipment companies. The freezing capacity, which is very low, is 3 tons per day or 900 tons per year. A band saw is used to cut up blocks of frozen meat (frozen beef from England). Ground beef sausage is put into a silent cutter for mixing with spices, etc. The emulsion is put into a pressure sausage stuffer and stuffed into casings. Meat is processed in smoke houses, packaged and frozen. This is standard technology which has been used for many years. Sanitation around and within the plant is not satisfactory.

4. MARKETING - When Aziz started his business, he gathered information from the U.N. Library on Egypt's importation of meat in an attempt to make projections about the domestic market for processed meat. The owner says that 1979-81 were the most profitable years for processed meat producers, but since then, the entrance of several other competitors (many of whom Aziz terms as "incompetent") has glutted the market. In addition, he points to the great lack of information on the supply and demand for processed meat and concludes that this is a severe constraint for producers.

In his operation, Aziz says that since he is unable to compete in price with public sector produced processed meat, which is subsidized, he competes on the basis of quality. The Company has its own refrigerated vehicles (2-3 small pick-ups) which distribute Pyramid products to various retail outlets in Cairo.

For distribution to Alexandria and other governorates, Aziz sells directly to wholesalers. Notwithstanding the current shutdown, Pyramid experiences on-going problems with retaining good drivers and salesmen.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The owner thinks that the Federation should be independent of the government and it should push for clear rules and regulations. It should also seek to eliminate government corruption. Prices of raw and finished products should not be fixed or subsidized. Aziz identifies a need for good marketing information on the processed meats industry and training for industry personnel, particularly in emphasizing the importance of good sanitation.

LESSONS LEARNED

At this point, the Pyramid Meat Company seems to be headed for failure based on its 1) inability to remain competitive in the market; 2) unclear information about its market potential; and 3) the unpredictability of government rules and regulations, some of which may be unfair (i.e., the present charge against the company re pork meat). Despite the validity or fallacy of the present charge against Pyramids, it appears that the Company is not well-managed as evidenced by severe labor problems. The combination of these and all of the above factors would render Pyramids a likely candidate for going out of business.

LIKELY FUTURE CONSTRAINTS

If some companies are using "unclean" meats, the Government should inspect the situation promptly and stop adulteration. Based on short inspection of the plant during an "experimental operation", it is now an unsatisfactory operation by general accepted standards.

CSNo. 21 *

HAWAMEDA DAIRY PRODUCTS COMPANY

BACKGROUND

Hawameda Dairy Co. is a small factory which produces white cheese. When the company was started in 1945 with an investment of LE 500, it was primarily a mannually run operation located in the small town of Hawameda. In 1977, the company moved to its present facility on the outskirts of Cairo. Hawameda is jointly owned and managed by Hussein Baza and his son, Sherif.

COMPANY EVOLUTION AND GROWTH

Growth of the Hawameda Company was very slow during the 1950's and 1960's. Total assets by 1977 amounted to only LE 15,000. In the last eight years, however, the company has experienced good growth to the point where total assets today approach LE 500,000. Current production of white cheese is 1/2 ton per day. Fourteen laborers are employed by Hawameda, of which 5 are skilled. Salaries range between LE 75 and LE 150 per month. Hussein Baza oversees sales and financial matters while his college-educated son manages production activities. Company owners feel that the prospect for expansion is good if more equal treatment is given to private sector producers in the Egyptian dairy industry.

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KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. The Marketing System for Milk:
Due to unfair competition by the public sector in purchasing mi from dairy farmers, it has become extremely difficult for small dairy processing factories like Hawameda to operate. The following example explains how the process works:

Example - Capacity of private sector dairy farmer is 10 to per year. The government agrees to provide 10 tons of animal fe to farmer in return for farmer's 10 tons of milk if the farmer does not sell any of his milk to the private sector. However, contract is actually in place between the public sector and private dairy farmer to buy a specified quantity, i.e., 10 tons At the end of the season, the dairy farmer has 10 tons to sell but the public sector is only willing to buy 5 tons. For the 5 tons the farmer sells, he receives 5 tons of animal feed. Because the farmer was expecting to receive 10 tons of feed, he goes to the public sector and requests that the additional 5 to of feed be sold to him at the government subsidized price of LE 88/ton. Public sector agrees if farmer pledges not to sell his remaining 5 tons of milk to the private sector. With 5 tons of subsidized feed in hand, the farmer turns around and sells it i the open market for $288/ton and throws his remaining productio (5 tons) into the Canal.

This rather complicated system encourages private sector dairy farmers to throw away large quantities of milk since from an individual economic standpoint, a dairy farmer can make more money by buying feed at subsidized prices and reselling it at a substantial profit - rather than simply selling his excess production to private sector dairy processors.

In the present case, the above system causes severe shortages in raw milk supplies. For the country as a whole, the situation is tragic. The opposition newspaper has recently editorialized about this process in an attempt to focus awarenes on its adverse consequences.

Suggested Approach: Owners of small dairy processing factories like Baza's suggest that the government expand its own dairy farms to supply the needs of public sector dairy processin factories. Reduction or possible elimination of the feed subsidies and reevaluation of the current policy is urgently needed.

2. Raw Materials: In addition to the difficulties in obtaining raw milk supplies, there are also shortages of powdere milk, paper, cans, etc. which prohibits Hawameda from operating at full capacity. Current production is 1/2 ton per day; current capacity is 3 tons per day.

Approach: The company substitutes powdered milk for some of the needed fresh milk. In compliance with government laws, they add 10 kilos of powdered milk to every 500 kilos of raw milk to produce the required rate of milk contents (fat, calcium, etc.)

With regard to paper and cans, Baza uses low-quality domestically made containers since he is unable to import higher quality packaging materials. Even though the domestic containers "hurt" the quality of his final product, Baza maintains that "it is better than losing money."

3. Credit: In 1980, Hawameda was able to borrow a loan of LE 30,000 at 7% interest which helped to finance plant upgrading and improvement. At current high interest rates, the company is not able to borrow; this however, is not as problematic since due to the non-availability of raw materials, the factory is only operating at less than one-quarter of its capacity.

4. Marketing/Distribution: The company produces white cheese in two sizes of cans - a 20 kilo can which is priced at LE 20 and a 6-kilo can priced at LE 6.00. Product in the smaller cans is spicy and salty. Two small warehouses are used to store the finished product. Hawameda owns one pick-up truck in which they distribute cheese directly to retailing outlets. In addition, large quantities of the cheese are sold to wholesalers who pick up desired quantities directly from the factory. The owner is not too concerned about marketing and distribution activities since he is at less then one-quarter of his capacity and sells all of his production immediately.

5. Technology: Raw milk is delivered to the factory in large metal containers, then heated and pasteurized for the adding of enzymes. After processing, the cheese is placed in small moulds which have holes in the bottom to allow for water seepage. The entire production process in this small factory requires about 5 hours. There is a production floor laboratory which is very old but adequate for Hawameda's needs. Sanitation is fair. Rusted window screens allow easy access for flies and other insects.

LESSONS LEARNED

The lack of raw material milk supplies is making it extremely difficult for dairy processing firms to operate at full capacity. As stated by the owner, "most of the small processing factories are operating at less than 50 percent capacity." Therefore the importation of raw milk (or milk substitutes) should be expedited without requiring the approval of the Import Rationalization Committee.

It is also essential to allow free competition between the private and public sector dairy companies. Subsidies for animal feed against milk supplies should be stopped because of its negative effects on the industry. In the present case, it does

not seem advisable for Hawameda to make a further investment in factory upgrading until the supply of raw materials is increased which would raise the company's operating capacity.

LIKELY FUTURE CONSTRAINTS

The non-availability of modern dairy production techniques undoubtedly affects sanitary conditions of the final product and in turn effects health conditions of millions of Egyptians. There are thousands of small white cheese factories spread all over the country, particularly in rural areas. Many of these factories are using old equipment and techniques which may effect sanitation conditions of consumers.

Therefore, a credit program directed towards assisting these small producers to upgrade their facilities and improve sanitation is highly recommended. White cheese is consumed in great quantities in Egypt and attention should therefore be given to improving the production process.

CASE STUDY NO. 22 *

THE FRAGRANCE FLAVOR AND FOOD COMPANY (FFF)

BACKGROUND

The Fragrance Flavor Food Company (FFF) is a processing plant located in suburban Cairo which started in 1970. It originally produced ingredients for the food and cosmetic companies largely for export, but has recently expanded to produce food for domestic consumption and the hotel tourist trade in the Near East. The FFF Company originally started with 5 million LE working capital, but now uses 28 million LE for the company's many operations. The General Manager is Mr. Adel Saved.

COMPANY EVOLUTION AND GROWTH

The Egyptian founder (now Board Chairman) studied in the United States in the 1960's as did the present General Manager. The Company started its development first by selling and then producing essential oils from flowers, herbs and seeds using techniques learned in the U.S. and Europe. Originally these oils were exported and used in perfumes, other cosmetics, medical preparations and some foods. The FFF company has grown five times its original size in its 14-year existence and has, during the past year, entered the food business through its own production facilities. All told, the approximately 50 acre plant consists of seven major facilities.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - The 7 facilities employ 600 people year round and a total of 2000 people at top peak production time. Less than 100 people are involved with foods.

Good salaries are paid for key people (management staff and supervisory personnel) and not many key people are used in each facility. On the job training is provided and in each unit,

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key personnel are rotated so that several people learn how to handle each function of the unit.

2. MANAGEMENT - The founder and major stock holder is Chairman of the Board. The General Manager is also on the Board of Directors as are several of the major stock holders. Each unit facility is operated by a manager (who reports to the General Manager) and each manager owns shares of stock in the company.

Approach - When a new facility venture is started, the General Manager finds the best and most able and experienced man in Egypt, hires him, introduces him to company methods of operation, sends him for additional training at equipment companies in Europe, etc. then returns and oversees equipment installation, commences operations and begins to manage the facility.

3. TECHNOLOGY TRANSFER - The following facilities and technologies have been established for a number of years:

a. Essential Oils: 68 different products are produced by pressure cooking, extraction and distillation - including manufacture of 'Absolutes'. More than half of one flower (jasmine) fragrance of the entire world is manufactured by EFF. Minor amounts of the company's fragrances are manufactured into perfume, bottled and sold by them.

b. Synthetics: Large scale chemical unit makes synthetic fragrances and flavors.

c. Soap: Imported tallow and natural coconut oil are major ingredients with lye to make soap. The company produces private-label soaps for hotels and they co-pack for two large U.S. soap companies.

d. Water Treatment Facility: There is an extensive plant to treat, filter deionize and purify water that is used in the above operations and in food processing.

New technologies have been developed to produce the following foods:

a. Jam and Jelly Manufacturing: Primarily Italian equipment is used for these two fruit cooking and extraction processes. There is a separate filling line for small individual jellies (30 gms cups), licensed from a large U.S. firm. Juices are sold under various labels. Production volume of jams and

jellies is approximately 8,000 tons per year.

b. Pasta Lines for Macaroni and Chips for Snacks: This is the newest operation, in production for less than 2 months. Imported wheat flour is processed on Italian equipments; products are cooked to 30% moisture content, then extruded and dried in a long tunnel to 12% maximum moisture and machine packed. FF's production capacity estimate for pasta macaroni is 5000 tons/year. Production of the snack food and chips has not yet started. Finished products will be composed of corn and wheat flour, extruded into chips and dried in FFF's second long tunnel.

4. SANITATION - The large space around the grounds and the clean and well-laid out equipment, etc. would generally meet the U.S. Good Manufacturing Practices Standards and exceed Egyptian practices.

5. RAW MATERIALS - The Manager outlined some problems in getting imported ingredients (tallow, semolina, coconut oil, etc.), supplies and equipment but the Company seems to be able to cope with them.

6. MARKETING - FFF management strongly believes that production (in terms of quality) must be based on export standards if a company is going to be successful. This philosophy has underpinned the company's production to date.

Approach: With the exception of recently introduced food products which will be targeted for the domestic market, the bulk of FFF's production is for export. Initially, the company attempted to hire a local consultant who was knowledgeable about the export market but was unsuccessful in identifying such a person. Consequently, the company established representative offices in Greece, Italy and France which work to promote FFF sales throughout Europe. Currently, the company has minimal contacts with or knowledge of the U.S. market and management identifies this as a critical need.

In the food processing area, FFF has put in place its own distribution network which markets company products to various wholesalers. A 60-day credit is granted to good customers; this policy may be expanded to 90-120 days in some cases.

7. CREDIT: Due to its good reputation in the market, FFF is easily able to access credit at preferential rates (14.5%).

8. GOVERNMENT/REGULATORY - Import-export procedures represent on-going headaches for company management. What is needed, in their opinion, is a stable economic policy and comprehensible explanations of import-export regulations.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The Manager has not sought the assistance of the Chamber of Food, but generally relies on its own resources to obtain required marketing data. FFF, however, would like access to information on the domestic market. In general, company management perceive the Federation as a public agency in which preferential treatment is given to public sector companies. They would like to see a re-organization of the Federation that would make it a strictly private sector entity.

LESSONS LEARNED

The FFF Company can be classified as successful based on its growth in production and export sales. Its success in the domestic food lines is still to be tested. But its stated philosophy regarding quality - "that all of its products must be equal to the best export competition" should make it a leader in any domestic food lines it enters.

LIKELY FUTURE CONSTRAINTS

The difficulties of importing supplies and equipment may present more problems when FFF's food products are sold in Egypt and compete with public sector food companies.

CASE STUDY NO. 23*

THE BABY FOOD COMPANY

BACKGROUND

BFC is a family corporation which produces and distributes baby food. It has been in operation since 1956 and its main targeted marketing area is Cairo with some distribution outside the city. The owner of the Company, Mr. Ismail stated that BFC is a pioneer in the field of baby food which started in Egypt in the 1950's. At that time, no special companies for baby food existed. The current facility of the company is in the ghettos of Cairo, surrounded by a very low-income populated area.

The factory's total annual production is 1000 tons and its recent total sales is approximately 1.2 million LE, with an annual working capital of 200,000. The Company employs 55 laborers, 4 secretaries and 2 clerks and operates on a total land area of 2,000 square meters. Both Mr. Ismail, the owner and his son Mousa, manage and run the operation of the factory. The father also manages the credit and sales department, in addition to his general management responsibilities.

COMPANY EVOLUTION AND GROWTH

The company has a remarkable record of success and growth. In 1959, Mr. Ismail started a little operation in a 2-room apartment with total capital of LE 500; importation was prohibited at that time. The main product of this little firm was rice pudding. In 1962, the company started to add vitamins to this product which raised its dietary value, and demand therefore started to grow. It was in 1970 that the company started to introduce baby formula food into the Egyptian market and in 1975, with the Open Door Policy, BFC started to import modern equipment and machinery and moved to its present location.

The Company's total working capital raised from LE 2000 in 1960 to LE 5000 in 1970 and reached LE 75,000 in 1975. At present, it is approximately LE 200,000; it also owns a factory and building

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valued at about one half million LE. BFC considers itself the pioneer in baby food production and the fastest growing company in this field.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. TECHNOLOGY - The major problem encountered by the company is the introduction of new and modern baby food formula into the Egyptian market where USA and European markets are greatly advanced in this field. Accordingly, technology transfer in this area is highly needed.

Approach: The owner of the company attends international shows and makes contacts where he can become acquainted with new available techniques in this field, as well as the most efficient machines and equipment. A German baby food company was invited by company technicians to visit the BFC in order to start a new technological cooperation. The company is also seeking a joint venture with an American firm in this field.

2. CREDIT - The company received an LE 50,000 loan in 1976 and LE 70,000 in 1977. The interest rate ranges from 7% in 1976 to 9% in 1977. Now the same loan is available at 16% interest rate which the company considers as very high and unacceptable.

Approaches: The company is seeking a loan of 3 million D to import German equipment from Germany, and currently they are negotiating with a financial program offered by the Common Market Countries for less developed nations, at lower interest rates.

When asked whether they are knowledgeable about USAID programs, indication was that such programs deal with "special interest" Egyptian groups. In addition, the USAID financial credit program is a costly one due to the high value of the U.S. dollar accompanied by higher prices for U.S. equipment.

3. IMPORTS, CUSTOM DUTIES - The high custom duties levied on imported products such as paper, milk, vitamins and machinery represent a problem for the factory; the custom duties on these imports are about 40% for powder milk, 20% for vitamins and from 30-50% for imported machinery.

Suggested Approaches: Company officials indicate that this is the role of the Federation of Egyptian Industries - to represent them and act on their behalf with officials and key decision-makers in the Egyptian Government. With regard to imports, the Federation

should work to reduce or eliminate the high customs duties on essential materials. They note the present weakness of the Federation which is attributable to its present structure with its leadership of public sector officials who have no interest in private sector development.

4. LABOR - Labor problems were severe in the beginning when turnover was about 50%. Recently, turnover has been reduced to only 10%.

Approach: From management's experience, it has been proven that incentives and reasonable payments reduce the percentage of high labor turnover. The incentives for the Company's laborers are summarized as follows:

a. An employee completing five years of service with BFC would get 13 months of payment in the sixth year, which would increase to 14 months pay in the 7th year and would continue with an additional one month payment for each extra year of service which would double his starting salary after 17 years of service with the company. This is in addition to cost of living allowances.

b. Employees who have spent 10 years of service with BFC are eligible for a visit, at the Company's expense, to the Holy Land of Moslems in Saudi Arabia during Pilgrammage season. Employees are also granted one month of paid annual leave.

c. BFC also provides special residential quarters for labor hired from outside the Cairo area. Such physical living facilities are an attractive means for strengthening ties between the company and its labor.

5. MARKETING, DISTRIBUTION AND ADVERTISING - At the beginning, the company faced a serious distribution problem. In the last three years, the company has followed better marketing approaches.

Approaches:

a. Export Promotion - This was accomplished by advertising prices and quality in the Moslem Arab States. This approach enabled BFC to sell 25% of their products in Middle East countries.

b. Domestic Market - BFC employs high quality salesmen who can reach the retailing outlets directly and sell BFC products at manufacturing prices. This has enabled the company to compete with imported products, both in price and quality.

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c. Intensive T.V. Advertising Policy - BFC also followed an intensive TV advertising policy directed at middle-class families. As a result, demand for the BFC's products has significantly increased.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The Federation is perceived as an inefficient public sector agency with interest in nothing except paying salaries for their employees. "The Federation does not have any voice," said Mr. Ismail, the General Manager. However, he felt that something should be done to improve the Federation's services to its members. Both the General Manager and Operations Manager approved of the idea of an information center to be hosted by the Federation which would provide information and services to its members and improve its overall image.

LESSONS LEARNED

BFC is a very successful company in this field. Labor policies with regard to payment and incentives have been very effective in reducing the high percentage of labor turnover. The company's marketing and distribution policy has also been revamped and should continue to undermin BFC's success.

LIKELY FUTURE CONSTRAINTS

There are very few firms in Egypt which produce baby food. Therefore, companies like BFC need to expand to cover the growing increase in demand for baby food in Egypt. Thus an advanced European or American company with good experience in this field might add to the success of the firm. Current import demand for baby food is very high. Starting a venture of this type is a great challenge to reduce Egypt's dependence on expensive imported baby food products from Europe. In addition, massive production will assist in lowering prices for consumers and generating demand for baby formula by lower-income families and improve baby dietary conditions.

CASE STUDY NO. 24*

ARABIAN KNIGHTS CANDY AND GUM COMPANY

BACKGROUND

Six years ago a group of businessmen founded the Arabian Knights Candy and Gum Company in the industrial suburbs of Alexandria. They built a 2-story factory on a lot that will allow for expansion of the facility. Total initial investment in the Company was 750,000 LE. The target market is children and therefore the types of candy and subsequent marketing and promotion are geared to the "younger generation."

COMPANY EVOLUTION AND GROWTH

This candy and gum business has grown to a sales volume of 2.5 million LE in a very short time because management has utilized modern methods of production. It advertises directly to children via TV, glamourizing its products through Arabian Knights characters. It does not export its products and during peak candy selling seasons is using all of its capacity. Company management plans to expand its line of products to other confectionaries besides its mint patties, hard candy and chewing gum items.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - Arabian Knights employs 180 people during its peak season (Bairam and Prophet's Birthday, etc.); skilled labor and supervisors are kept year round. The company reports no major labor problems because it pays the following monthly wages for skilled labor 200-300 LE; semi skilled 90-130 LE; and common labor 60 LE.

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2. MANAGEMENT - Mr. Ali Sabri is General Manager of Arabian Knights and he appears to be a modern, successful businessman equal in competence to the manager of the FFF Company (Case #22). His assistants include 3 production managers supported by technical supervisors and 20 skilled laborers. Mr. Sabri says his people are skilled and keep up to date in various aspects of the Company's production.

3. MARKETING - Since there is plenty of competition from "back of the store" candy shops, Arabian Knights' success has largely been attributable to television advertising. All of the company's production is sold to the private sector - both wholesalers and retailers.

Additional marketing information will be required if the company decides to venture into new confectionary products.

4. TECHNOLOGY - The writers did not tour the plant but from what could be seen through the glass partitioned rooms, the equipment was modern, mostly Italian and sanitary. Sabri says his key people keep up to date on manufacturing methods, etc. The plant operates at 80% of capacity annually.

5. RAW MATERIALS - Lack of domestic packaging and wrapping supplies represent on-going constraints in the area of raw materials.

6. FINANCE AND CREDIT - Total assets of Arabian Knights are now 3.5 million LE with working capital of 700,000 LE. The company accesses credit from private banks, although management is concerned about current rates of interest (15%). They do not prefer to deal with government banks as loan application processes can take up to 6 months or longer.

GOVERNMENT PROBLEMS - There are some limits set by the Government on selling prices which the company would like to see lifted. Imported supplies and machinery now take several months to obtain and when licenses are issued they expire in 3 months. The industry would be helped if licenses ran for one year.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Arabian Knights receives little assistance from the Chamber of Food but would welcome marketing information on imports. The Chamber could also assist by persuading the government to amend its regulations on import licenses to allow them to be in effect

for one year. Sabri reasons that the government is able to control imports because it keeps track of the amounts being received at the docks and other import points; therefore, there should be little difficulty in expanding the length of time for licenses.

LESSONS LEARNED

Arabian Knights has very quickly become a "household" name, particularly for children, its target audience. Unlike its neighboring competitor, the Nile Candy Company, Arabian Knights has utilized a modern communications media and this has underpinned the company's rapid success. The existence of a competent and well-trained General Manager is likely to provide the basis for continued growth and profitability.

LIKELY FUTURE CONSTRAINTS

Attempts to improve product appeal through modern packaging and wrapping materials will continue to be hampered by deficiencies in the domestic packaging industry and on-going problems with importing packaging materials.

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CASE STUDY NO. 25*

NILE CANDY COMPANY

BACKGROUND

Fifty years ago the father of this family owned company, Hussein Farouk, opened a small 5-by-5 candy shop in downtown Alexandria. His 4 sons also own shares in the business and it has grown step by step from sales of only LE 200 in 1935 to 2 million LE per year in 1984. Manufacturing is now carried out in 3 separate buildings each within sight of the side walk sitting place where the case was researched. All sales are exclusively for the domestic market.

COMPANY EVOLUTION AND GROWTH

The eldest son, Hamdi, is the General Manager of the firm. Before the initiation of the Open Door Policy, annual sales averaged 100,000 LE. Since then sales have grown 20 times to 2 million LE a year. The latest factory was put into operation about one year ago. Hamdi is assisted by 3 brothers who each run one factory of the business. Chewing gum accounts for 50 percent of total sales and other candies (toffee, caramels) and local Egyptian candies complete the line. On average, Nile Candy is producing 7 tons of finished product per day, or less than half of its 15-ton per day capacity.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - The manager employs between 60-80 people (10 skilled, 70 common) and reports no major problems with labor. Average monthly salaries are LE 100-125.

2. RAW MATERIAL - Obtaining enough domestic sugar (cane) is an on-going problem as quantities are subject to quota restrictions.

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More problematic are the difficulties in obtaining imported paper. The Company can use domestic paper but it slows production and is not as attractive as imported packaging.

3. MANAGEMENT - Hamdi Farouk says he knows how to "get around" problems" and how to work with various government organizations, etc.

4. TECHNOLOGY - It is difficult to buy imported equipment from Europe. European equipment suppliers visit Egypt to sell machinery and help with supplying Nile Candy with new technology but government import rules, regulations and licenses take about 1 year to obtain as do bank loans.

The 5-story narrow building (1 year old) which was visited utilized equipment from Italy, France and Germany and also some non-specialized machinery from Egypt. Sanitation was good by Egyptian standards.

5. MARKETING - Wholesalers come to the Company to buy Nile Candy because this long established firm is well known to them. The General Manager has a "feel" of the market and states he does not need marketing data. In addition, Hamdi says he does not need to advertise because his gums and candy are well known in the national market. When asked about the newer Arabian Knights Company and its methods, he said he was not interested in what their methods of manufacturing or marketing were.

Regarding storage stock for warehousing, the Manager said he only had to store a 2 or 3 day supply of finished product. This greatly reduces the need for large supplies of working capital since the Company is promptly paid (cash on delivery) for picked-up goods.

ASSOCIATION WITH FEDERATION: INFORMATION SERVICES

Hamdi states that the "Federation is too weak to be of much help - they just have meetings." The Chamber of Food could improve its services to his company, however, by providing information on raw materials sources (particularly packaging) and new technology.

LESSONS LEARNED

The manager-owner seems well pleased with his successful company. Until firms such as Arabian Knights Candy and Gum Factory (see Case No. 24) show him that they can cut into his

sales (this has probably already started to occur), profits or create other problems, it does not appear likely that he will change any of his company's current methods of operation. The foresight of accumulating knowledge about his competitors would appear to be a lesson that the Nile Candy Company has not yet learned.

LIKELY FUTURE CONSTRAINTS

The non-availability of good packaging materials in the local market will continue to pose on-going operational constraints for companies like Nile Candy.

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CASE STUDY NO. 26 *

EGYPTIAN BISCUIT COMPANY

BACKGROUND

The Egyptian Biscuit Company (EBC) has been in production and sales for about 9 years. It employs over 150 people, many of whom started working with the company in its first year. Its original assets consisted of 35,000 LE in land and about 100,000 LE in cash. The present assets are over 2 million LE and sales now average 1 million LE per year. EBC is operating at 75% capacity which equates to an annual production of 2,400 tons.

COMPANY EVOLUTION AND GROWTH

Mr. Abdullah Hassan, the founder of the company and its General Manager said that he had been "in training" for this position for over 25 years. He studied engineering at a local university and was interested in manufacturing. He acquired more training and experience by studying and working abroad. For several years he was an engineering and operations consultant in foreign countries.

In 1974 he gave up this consultation work, returned to his Cairo suburban town in which he owned land worth 35,000 LE and he started planning for the construction of a biscuit factory which would meet the growing needs of the Egyptian people. Three silent partners put up cash for this private sector enterprise. The factory and its first production line took two years to build. All his products are sold under his brand name and slogan "YOU GET THE BEST BISCUITS FROM EBC".

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR - Based on the manager's experience, the best workers have been the young "boys and girls" just out of secondary school who were trained on the job by EBC.

Approach: The workers have been treated like a member of the EBC family. A few of his employees are now also hired each year from a local university and the best ones stay and advance

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with the company. The starting monthly salary is 100 LE and raises are awarded every six months on the basis of performance. In 5 years salaries can reach 200 LE/month.

Training Approach: The manager believes that his company and other private sector companies in Egypt need a privately funded, administrated, and instructed polytechnic institute. Each department of the institute would provide university quality training in the sciences, engineering and business which would apply to various key industries. After a student had satisfactorily finished 4 years of study, he/she would receive a Diploma and would be hired as an advanced worker if his fees had been paid for by the hiring company. Mr. Hassan believes that such a method would enable private industry to attract and retain the best young people that could advance the productivity of Egypt. Too many now go through universities in large numbers, in huge classes and have such general knowledge that may or may not be retained; the results: they are not very useful to the industry.

2. MANAGEMENT -

Skilled Labor: Most of the production supervisors are apparently the better trained young men and women who started with the company - of the original group, about 15 men and 30 women are still working for the company.

Company Approach: In the beginning, Mr. Hassan encountered some management-related problems due to the non-availability of trained management personnel. He thus hired 8 college graduates and trained them to assist him in managing the operation in 3 areas: 1) laboratory; 2) production; and 3) administration and credit. At present EBC is well-organized as far as management is concerned.

3. TECHNOLOGY - Approach: Because the manager is a food engineering production man, much of the equipment was designed and constructed under his supervision. We visited the top floor where two lines are used to cool and package the biscuits. One line was partially of imported construction and the other one a company built machine. Hassan's philosophy is to "keep the machine simple" so that they can be easily designed, constructed and kept in running condition without too much down time for repairs and getting spare parts.

A quick inspection of that part of the plant indicated that the sanitation conditions for the design of the equipment was equal to the good manufacturing practices used in the U.S.A. The plant is also completely washed down three times a day.

4- MARKETING/DISTRIBUTION - Production is made on receipt of orders and company expects "cash on delivery". Sales and distribution are handled through:

a. Wholesalers who the manager says "Act like kings".

b. Private Salesmen who represent only this biscuit company and receive a percentage of the sales. EBC advances money to the men to buy their own car or small truck which has "EBC Biscuits" printed on it with the company slogan.

c. Brokers who get a percentage of the sales but also sell other food and grocery products.

Other Approaches: The company hosts its own taste panels of consumers. Participants test new products, fill out questionnaires and then are periodically invited to visit the factory to give ideas for new products.

Mr. Hassan thinks that future marketing information would be helpful if it was price directed.

5. GOVERNMENT/REGULATORY - The government is often the number one problem because companies cannot predict what will happen tomorrow. The private sector should have the same rules to work with for at least one year period of time on import raw material regulations, licenses, finance, etc.

6. CREDIT - Working capital is provided by private banks which allow overdrafts which cost 1% more in interest than the national rate. The company must pay for a certain amount of overdraft even if the entire facility is not used.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The manager says that the Federation is not helpful particularly because it is asked to help both public and private sector businesses. Less than half of the biscuit business is public sector but the government selects the head of the Federation. What is needed is a total professional staff elected by the membership.

LESSONS LEARNED

The manager of this company is running a successful operation because he has first hand knowledge and skills in production and

manufacturing equipment. He uses modern marketing methods and is optimistic about private business in Egypt.

LIKELY FUTURE CONSTRAINTS

EBC's current abilities appear to be adequate to meet the conditions of competition and government constraints. Only the future will tell if EBC staff has been adequately trained to handle delegated responsibilities.

CASE STUDY # 27 *

EL-SOURA COMPANY

BACKGROUND

Located in Alexandria, the El-Soura Company (ESC) is a manufacturing operation which produces aluminum and stainless steel kitchen utensils (cooking pots, skillets, water jugs, teapots, etc.) Initial fixed assets of the company were LE 50,000. Currently, total investment (equipment, building and land) approaches LE 5 million. ESC employs 120 people and is operating at 85% - 90% capacity. The founder of the company, Hussein El-Soura is now deceased; ownership and management rest with his two sons, Moustafa and Sherif El-Soura.

COMPANY HISTORY AND EVOLUTION

When ESC was established by the senior El-Soura in 1963, it employed 10 workers in a small factory occupying 500 square meters. The company was nationalized in 1967 and in 1969, El-Soura decided to try again. His wife reportedly sold all her jewelry to enable him to gather enough money to buy a small factory which housed rather obsolete equipment. Using a lot of ingenuity and creativity, El-Soura rebuilt the used equipment and once again, he commenced production of aluminum utensils. By 1973, El-Soura's two sons had joined the company on a full-time basis. In 1976, ESC entered into a licensing agreement with Dupont (Brussels) to produce non-stick aluminum cookware. Company management report that 1977-81 were high growth years which enabled ESC to move to its present facility (3,000 sq.mtrs.) in an industrial section of Alexandria. The factory is situated on a 3-feddan piece of land which will allow for future expansion. In 1983, production of stainless steel cookware began.

Current annual sales of ESC are approaching LE 5 million, which represents a monthly production of approximately 100,000 pieces. Sales of aluminum products are first (60-70%), followed by stainless steel (20%) and non-stick cookware (10-15%). Demand for ESC products is good (production is 3 months behind schedule) and the company has an established reputation for producing high quality products.

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KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. MARKETING - ESC management report that the years 1977-81 were boom years in terms of demand and sales. On average, orders were 6 months ahead of production. Since 1982, and due to general economic conditions, demand has fallen slightly to where orders are now only 3 months ahead - still an enviable position. Nation-wide ESC products account for approximately 40-50% of the market for polished white aluminum utensils; 90% of the market for non-stick stainless steel; and 30-40% of the market for stainless steel utensils.

Eighty percent of ESC's production is sold to the six largest public sector department stores (Omar Efendi, etc.). The months of May and June are the slowest of the year, however, because public sector stores seek to reduce inventories before the end of their fiscal year. The remaining 20% of production is targeted to the private sector through various wholesalers. Quantity discounts ranging from 10-25% are offered to large-volume customers. Television advertising helps to promote company sales.

In the last two years small quantities of product (less than 5% of ESC's annual production) have been exported to the Sudan and Czechoslovakia. Company management would like to expand export sales but face the same problem as Youngstown Steel (C.S. # 15), i.e., the exchange rate differential on imported raw materials.

The older El-Soura son, Moustafa manages all sales, marketing and credit activities.

2. RAW MATERIALS - Aluminum is available in desired quantities from the local market (supplier factories are located in both Alexandria and Cairo). Stainless steel is a high import item and current supplies are obtained from Germany and France. ESC has no contact with possible U.S. suppliers but is interested in learning more about the U.S. market, including a possible joint venture with a U.S. company which could take an equity position in ESC in return for supplying the company with stainless steel.

The non-availability of packaging materials in the local market poses an on-going constraint. Currently, boxes (color-printed) are being produced by an Alex packaging company but the company is 3 months behind schedule on filling ESC's requirements. In addition, since the Egyptian packaging industry is in its infancy, production and operational costs are extremely high. For example, if El-Soura was allowed to import, he could obtain a printed cardboard box from Germany for 30 pt. The same box produced in Egypt costs ESC 60 pt.

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Altogether, ESC management report that raw materials account for 70% of the total cost of production.

3. TECHNOLOGY - Raw material plates (aluminum and stainless steel) are purchased in various diameter sizes. High-tonnage press machines are used for shaping plates into final products. More complicated pieces (i.e., bundt pans) are shaped one-by-one by a machine which is manually operated. Once shaped, finished products are polished-again one-by-one. ESC has ordered a high-tech polishing machine from Germany which will enable multiple pieces to be polished at one time. Handles (plastic) are also being produced by the factory. In an assembly belt operation, finished products are hole-punched, and handles and screws are machine-inserted. Finishing touches (polishing, packing, etc.) are primarily handled by a group of women.

Much of the machinery is of German and Italian origin. For the automated screw insertion machines, ESC imported one machine from Italy several years ago, copied the model and reproduced approximately 8-10 additional machines.

Service and maintenance on all equipment is for the most part handled in-house. For imported equipment, additional spare parts are purchased with the equipment. For major repairs, ESC can request the services of a company technician at ESC's expense. (i.e., if they fly in a German technician, average costs would be 60 DM/hour plus airfare and accommodations). ESC management prefers to deal with West German equipment suppliers because in their opinion, "the Germans are the best before and after sales."

In general, the factory is well-organized, and clean and ESC management is constantly seeking to improve production efficiency. The major constraint is lack of quality control personnel. If ESC focuses on production, quality suffers; if heavier emphasis is given to quality, production suffers. According to El-Soura, "it is difficult to do both." The company is seeking, without success, to hire a "quality control" manager. Despite these constraints, ESC has developed and maintained a good reputation for quality production. In 1984, ESC received a productivity award from the Ministry of Industry which was given for ESC's introduction (for the first time in Egypt) of a brazing technique for stainless steel.

4. LABOR/TRAINING - Approximately 30% of ESC's labor is skilled and company management report no problems with labor turnover.

(the ongoing threat to retaining personnel comes from ESC's biggest competitor - the Zorba Co. (C.S. # 30), also located in Alexandria.

ESC's ongoing training efforts have been facilitated by assistance from EIDDC. Three years ago, EIDDC approached ESC management, and since then, company personnel have benefitted greatly from training courses hosted by EIDDC. EIDDC workshops and courses (averaging 2-3 weeks in duration) have focused on improved methods for heat treatment, productivity, and practical applications. El-Soura offers high praise for the EIDDC assistance and says that as a result, his workers have been more productive. In addition, the Chamber of Engineering regularly informs ESC about upcoming seminars - e.g. a seminar for aluminum producers is scheduled for the fall of 1985 and will be jointly hosted by Misr Aluminum Company (public sector), the Federation and the Society of Egyptian Engineers).

On a safety note, it was observed that workers wear no protective devices for eyes, face or hands. ESC management report that they bought several different kinds of protective shields (masks, gloves, etc.), but workers "refuse" to wear them. Reportedly, the Industrial Security Department does not strictly enforce factory safety laws and coupled with worker's refusal to use protective shields, management tends to discount the issue as unimportant. Nonetheless, the possibility of a strip of metal flying into a worker's eye appears high.

5. CREDIT - Two years ago, ESC attempted to borrow $200,000 from the DIB. In return, the DIB required the company to post its entire factory (valued at US $5 million) as collateral. Viewing the collateral requirements as "preposterous," ESC halted the application process.

Since 1974, ESC has developed a good working relationship with the Bank of Cairo and has recently borrowed US $500,000 to finance new equipment purchases. In general, El-Soura does not prefer to deal with "government" banks, and after his attempt to borrow from the DIB, including the DIB's lengthy application procedures and unfair collateral requirements, he is not inclined to approach them again.

6. GOVERNMENT/REGULATORY - El-Soura points to the instability of economic policies which serve to harm ESC's relationships with foreign suppliers. In April of 1984, for example ESC placed a large order for stainless steel with a French supplier. One year later, ESC was finally granted permission to open an L/C for the steel. In the interim ESC relations with the French supplier deteriorated, and El-Soura concludes that constantly changing government policies are prompting foreign companies to refuse to deal with Egyptian businesses.

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ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

ESC has had an excellent relationship with the Chamber of Engineering for the past 6 years. The Federation in general is perceived as the only official channel between public and private sector producers and as such, should seek to improve communication among its members. The Chamber keeps ESC informed about various upcoming seminars, and responds to periodic ESC requests for specific kinds of information (e.g. technical) or assistance with government agencies.

Chamber services could be improved by the provision of information on raw material suppliers, new technologies, international fairs and training provided in the United States.

LESSONS LEARNED

The on-going success of the El-Soura Company has been based on the ingenuity and hard-working attributes of its two owners. The two El-Soura brothers inherited a small factory and have turned it into a thriving and profitable operation. The constant emphasis on quality production, coupled with on-going efforts to update and streamline production activities should serve to provide the basis for sound future growth.

LIKELY FUTURE CONSTRAINTS

To retain its current market share, ESC must keep pace with its neighboring competitor, the Zorba Company (C.S. #30). Based on current observations, both companies are likely to grow and expand and will undoubtedly remain arch rivals during the coming years.

Case Study #28 *

THE CATALINA COMPANY

BACKGROUND

The Catalina Company is a small ready-made garment factory involved primarily in the production of swim wear for men, boys and girls. Located in a 2nd floor flat in downtown Alexandria, current fixed assets of Catalina stand at LE 125,000. The factory currently employs 22 people (primarily young women between the ages of 16-20 years old) and is operating at 50% capacity. The owner and manager of Catalina is Mr. Said Hussein.

COMPANY HISTORY AND EVOLUTION

The original Catalina Company was founded by Said's father in 1940. Production started with 7 sewing machines and 10 laborers. The elder Hussein died in 1958 and the factory remained closed until 7 years ago when Said decided to enter the ready-made garment business. At present, Catalina is producing 12,000-14,000 pieces per year, the greatest majority of which are men's and children's swim wear. Growth of the company has been rather slow as current assets amount to only LE 125,000. Catalina is operating at 50% capacity and the owner maintains that he could triple his production if he could find qualified employees.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. RAW MATERIALS - There is only one company in Egypt currently producing lycra and its capacity is not sufficient to meet domestic demand. Nonetheless, Catalina cannot get government permission to import lycra from abroad. In addition, the thread and other accessories supplied in the domestic market, particularly by the public sector, are of poor quality

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Approach: Since Catalina's production focuses on swim wear, lycra is an extremely important and necessary material. Unable to obtain it locally, Hussein substitutes a lower quality stretch polyester material which detracts from the quality of the finished product. The company places great emphasis on quality production, as evidenced by the uniform and neat stitching of sample garments. The owner is visibly upset about his inability to either obtain lycra in the local market or import it and believes that the Chamber of Spinning and weaving should assist him in this regard.

2. LABOR - With the exception of two middle-aged men, Catalina employees are young women between the ages of 16-20. The company experiences great difficulty in attracting new hires which Hussein attributes to the competition from new investment factories which can afford to pay higher wages.

Approach: Hussein trains all new personnel himself and places great emphasis on quality production. After visiting the Catalina factory, it appears that the owner is doing a pretty sound job. The factory, though small, is well-organized and clean, employees are busy, and worker morale appears surprisingly high. Hussein reports that his employees make on the average LE 12-15 per week - perhaps the basic reason why he has difficulty in attracting additional employees.

3. MARKETS - Ninety-five percent of Catalina's annual production is marketed to the private sector. Hussein says that the majority of his customers (principally retailers in Alexandria and some wholesalers from Cairo) come directly to the factory to purchase desired quantities. Pointing to the good name associated with the "Catalina" trademark that his father established back in the 1940's and 1950's, Hussein has maintained the family tradition of quality production and says he has no problem in selling all that he can produce. Hussein is aware of 20-30 other factories which are producing swimwear but states they cannot compete with the quality of Catalina's production.

A small percentage (5 %) has been sold to the publically-owned Omar Efendi stores, but Hussein says that after this season he will not deal with the public sector any more because he has to wait too long for payment.

4. EQUIPMENT/SPARE PARTS/MAINTENANCE - The 21 sewing machines owned by Catalina are a combination of Singer (U.S.), Renaldi (Italy) and Joki (Japanese) machines. Employees are trained to service their machines on a weekly basis. If a major equipment problem develops (reportedly rare), a technician is called from a local import equipment company.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Hussein reports that Catalina has received no assistance from the Chamber of Spinning and Weaving. He does not receive the monthly news letter* nor did he receive a copy of the information sheet. The Chamber could assist him tremendously if they could help him obtain permission to import lycra. The owner would also like information on alternative sources of supply for raw materials and accessories.

LESSONS LEARNED

Despite its smallness, the Catalina Company is a fairly impressive operation. The owner's emphasis on quality production is apparent and he is doing a good job in training his workers well. It is unclear why weekly wages are so low - (Hussein points to the high cost of raw materials and high Social Insurance payments averaging 40% per worker), but this would seem to be an obvious reason for the company's difficulty in increasing production. Catalina's growth has been slow and this is unlikely to change in the short-term.

LIKELY FUTURE CONSTRAINTS

Catalina's greatest asset is its ability to compete in the market on the basis of quality. Its dependence on private sector customers will require a continuing emphasis on quality if the company is to remain in business. If quality deteriorates or, even if it stays the same, Catalina may have a difficult time in competing with larger, more advanced factories which can better handle operational costs by higher production volumes.

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CASE STUDY # 29 *

THE ARUBA FACTORY

BACKGROUND

The Aruba Factory is a small ready-made garment operation located in a ground-floor flat in Dokki. Aruba started production in 1981 with initial fixed assets of LE 7,000. It currently employs 15 workers who produce on average 200 pieces per day (girls dresses and denim and cotton suits for little boys). The factory is managed by Mr. Farouk Mohamed and co-owned by Mohamed and his partner, Ashraf Suria.

COMPANY HISTORY AND EVOLUTION

Between the years 1960-76, Mohamed was involved in another garment operation - knitwear - which was primarily exported to Russia. After cooling of political relations between Russia and Egypt, sales deteriorated and Mohamed left the knitwear business. In 1981, he and Suria established the Aruba Factory with assets of LE 7,000 and 10 employees. Arbua has had marginal growth since that time and is presently operating at 50% capacity. Current fixed assets amount to approximately LE 12,000.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. MARKETING/DISTRIBUTION - When Aruba started operations in 1981, production focused on women's dresses and uniforms (hotel), and marketing efforts were directed to the private sector. Concluding that the competition was "too stiff", Aruba entered into the same program hosted by the Ministry of Supply that the Dallas Factory (CS #6) and Mansoura Factory (CS #12) participate in. Currently 75% of Aruba's production is sold to the public sector. While this sub-contract helps to keep Aruba in business, Mohamed would

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like to increase sales to the private sector and is working with several other small producers to establish a small joint retail outlet.

Two years ago, Aruba was negotiating with Iraq for an export order, but according to Mohamed, the deal "fell through." He has sought without success assistance from the Egyptian Export Promotion Center (EEPC). Eight months ago, Mohamed visited the EEPC in Dokki and was requested to fill out an application form. He has heard nothing from the Center since then but was encouraged to follow-up with a second visit.

2. LABOR - Mohamed reports a 50% labor turnover rate which he attributes to girls who "leave to get married" and men "who don't stay in one place too long and who are likely to emigrate once trained". The manager reports that his biggest problem is he can't fire employees when he wants to and this calls for a change in Egyptian labor laws.

The factory itself is small, cluttered and somewhat dirty. Worker morale appears fair. Mohamed himself is the factory cutter and he also makes all garment designs. Some workers are paid on a piece rate basis and some a monthly salary averaging LE 60-150.

Mohamed cites a great need for training centers for the industry and believes they should be hosted by the public sector. Such training facilities would serve to boost the "image" of the ready-made garment industry which at this point is quite low. Mohamed is unaware of training activities hosted by the Textile Development Center in Alexandria.

3. RAW MATERIALS - Mohamed points to the high cost of fabric in the local market and unacceptable fabric widths as impediments to competitiveness, particularly in the export market.

Approach: To address raw material and other problems as well, Mohamed is attempting to organize a group of 50-100 private sector producers. He is taking the lead initiative and says the group will register itself with the Ministry of Social Welfare. He strongly believes that some kind of collective action is imperative if small producers are going to survive. The objectives of the group would be to take joint action in addressing common concerns and problems.

4. CREDIT - Aruba has not accessed bank credit in the past and current high interest rates are unacceptable to the company. Mohamed referred to President Mubarak's recent promise to provide loans to small businesses at 6% interest and hopes the President will follow through on his commitment.

5. MACHINERY/SPARE PARTS/MAINTENANCE - Aruba equipment is of Japanese (Joki) and French (Renaldi) origin. Eight of the factory's 16 sewing machines are sitting idle so in case of a breakdown, an employee switches to an idle machine. In addition, Mohamed's brother is an import agent for a French equipment company and needed spare parts are easily handled through this relationship.

6. TAXATION - The high cost of Social Insurance (40%) makes it extremely difficult for Aruba to meet operating costs.

Approach: Mohamed reports that in addition to the 15 employees "officially" on the payroll, the factory "sub-contracts" with outside individuals. This approach enables Aruba to by-pass required social insurance payments for these individuals. According to Mohamed, "all the small factories do the same thing. It's the only way we can survive."

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The Federation/Chamber of Spinning and Weaving has a "limited" ability to serve the private sector due to its public sector status. Aruba does not receive the Chamber newsletter* and did not get a copy of the application sheet. The perceived ineffectiveness of the Chamber is one of the reasons why Mohamed is attempting to organize the group of small producers.

The manager cites a strong need for information on alternate sources of supply (particularly accessories) and new models and designs.

LESSONS LEARNED

Mr. Mohamed is a very energetic man and is attempting to make a success out of Aruba - which at this point can be classified as "struggling." Emphasis on quality production is absent and at this point, the factory appears unable to meet the highly competitive demands of the private sector market. While his intentions are good, Mohamed admits that he'll try for "one more year" and if he still faces the same problems he'll close the factory.

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CASE STUDY # 30*

THE ZORBA COMPANY

BACKGROUND

The Zorba Company is a manufacturing operation which produces aluminum and non-stick aluminum cookware. Zorba is located in an industrial section of Alexandria and it employs 200 people. Current fixed assets of the company are estimated at LE 800,000. Zorba's founder and owner is Rafik Zorba; he is assisted in management by his four sons.

COMPANY HISTORY AND EVOLUTION

The initial Zorba Co. was founded in 1956; in 1964, the company was nationalized. In 1968, after a four-year break, Zorba bought an old factory, rebuilt its obsolete equipment and with 20 workers, again commenced production of aluminum cookware. In 1976, Zorba entered into a "purchase" agreement with a French company for teflon and has since been producing non-stick cookware as well. Two months ago, production of stainless steel cookware also began. Reported annual production figures are 500 tons of non-stick aluminum and 600 tons of aluminum products. Information on annual sales was not forthcoming.

In 1982, the Zorba Company was relocated to an 17,000 sq.mtr. facility. The factory and its group of well-furnished front offices is quite impressive by Egyptian standards. In fact, its physical appearance would compare to any modern factory in the U.S. or Europe. Information, learned from knowledgeable sources, however, report that the Zorba company currently has loans outstanding in excess of US $ 8 million.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. MARKETING/DISTRIBUTION - Sixty percent of Zorba's annual production is sold to the public sector; the remaining 40% to

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retailers and wholesalers in Cairo and Alexandria. Private sector sales are facilitated by the company's retail showroom, located at the entrance of the factory. In addition to the display and promotion of its own products, the showroom is also used for sales of imported products (Appliances, glass ware, cleaning supplies, etc.). Zorba is the import agent for approximately 20 European manufacturers.

A critical area for the company's production is packaging - i.e., stainless steel production started 3 months ago but to date the products are not yet in the market due to the lack of boxes. A local Alexandria firm is working on the design and production of the boxes, but company officials report that this process will take several months. In the meantime, finished products are being stored in a warehouse section of the plant.

Zorba reportedly has 50% of the national market for high-quality aluminum cookware and the Zorba trademark appears to be well-known. Promotion and sales are facilitated by regular television advertising. The company's biggest worry is obviously its neighboring competitor, The El-Soura Factory (C.S. #27).

2. LABOR/TRAINING - Management reported no significant problems with regard to labor. The company conducts its own in-house training activities and management states that it is successful in retaining employees because they pay well - including regular overtime.

Management is aware of technical assistance provided by EIDDC but states emphatically, "We do not need them because we are already doing what they do."

3. TECHNOLOGY/EQUIPMENT/MAINTENANCE - This modern factory is of Kirby construction and houses several pieces of high-tech equipment, primarily from Italy, France and Germany. Production activities are similar to those found in the El-Soura Factory - but visibly a bit more organized in terms of straight assembly line production.

All of the Zorbas travel frequently to Europe and thus have established good working relationships with European equipment and raw material suppliers. A five-year supply of major spare parts is purchased with each piece of equipment. Minor spare parts are produced in a workshop section of the factory. Routine service and maintenance are provided in-house.

4. CREDIT - Zorba management reportedly tried twice to access credit from the Development Industrial Bank (DIB), but concluded that the DIB's collateral requirements were totally unreasonable.

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Other than short-term lines of credit with a couple of commerical banks, management stated that it does not access bank credit. Independent sources, however, reported that the company currently has loans outstanding in excess of US $ 8 million.

ASSOCIATION WITH FEDERATION' INFORMATION/SERVICES

Company management initially indicated that the company receives no assistance from the Federation/Chamber of Engineering. "The Chamber only serves certain companies and does not deal with all companies on an equal basis."

One of the Zorba sons, Rami, however, is currently serving a second term as a member of the Chamber Board. When asked why he was serving a second term if the Chamber is perceived as an inefficient organization, Ramy's reply was that the Federation/ Chamber does provide a forum for addressing the mutual concerns of public and private sector producers. He further agreed that if the Chamber could develop a capability to provide information on such areas as alternate suppliers/prices, this would increase the stature of the Federation/Chamber in the eyes of its members.

LESSONS LEARNED

The Zorba Company's success to date has been backed by the over 40 years of experience of its owner/founder. It does have an established reputation for producing high-quality products and company management report that sales are "always increasing." While the company's new and modern factory is quite impressive, its corresponding indebtedness to the tune of US $8 million makes it quite difficult to gauge the "real picture." Based on the fierce rivalry between Zorba and the El-Soura factories, however, it is obvious that Zorba is attempting to "out-class" its competitor in terms of appearances. Only the future will tell if this expensive strategy will pay off.

CASE STUDY # 31 *

WASHMATIC INC.

BACKGROUND

Washmatic, Inc. (WI) is a multiple manufacturing company which produces washing machines, steel furniture and stainless steel catering equipment. The factory, which encompasses 6,000 sq.mtrs. is located in Nasser City. A small retail showroom is located in downtown Cairo. Total investment in the factory (including land which has a current market value of LE 1.5 million) approaches LE 4 million of which LE 1 million is allocated for working capital purposes. One hundred and fifty employees (50% skilled, 50% 'trainees') are currently on the company's payroll. WI is owned and managed by Mr. Rashed Gamal; his three sons, Adel, Mohamed and Hussein are respectively responsible for overseeing production, credit,sales and marketing activities.

COMPANY HISTORY AND EVOLUTION

In 1961, Rashed Gamal, then employed by the Civil Aviation Department in Port Said, experimented with producing an automatic washing machine for his family. Originally started as a "hobby", (Gamal had no background in engineering), the first machine was produced using elementary tools. Encouraged by friends to produce a washing machine for them, Gamal proceeded to establish a "mini-workshop," (the workshop was provided by the Governor of Port Said who also encouraged Gamal to produce for the local market), hired 3 other men and within two years was producing 10 machines per month.

In 1967, after the October War, Gamal relocated to a 400 sq. mtr. factory in mid-town Cairo. By then, production had increased to 40 washing machines per month. The local market was consuming WI machines as fast as the factory could produce then, and in 1979, WI again relocated, this time to a 6,000 sq. mtr. facility in Nasser City. Product diversification began in the mid-1970's as WI started producing steel furniture (file cabinets, desks, etc.) and, more recently, stainless steel catering equipment (insulated storage units, utility carts, large sinks, etc.). Total annual sales are

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now approaching LE 2 million, and the company is planning to expand present activities by the construction of an 11,000 sq.mtr. facility in the 10th of Ramadan City.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. RAW MATERIALS - WI has experienced on-going problems with obtaining "black" steel from the local market. Reportedly, there is only one public sector company producing this type of steel.

Approach: Fed up with "hassling" with the public sector company, Gamal placed an advertisement in "Al-Akhbar" one year ago, in an attempt to focus public awareness on the procurement problems facing private sector producers. Subsequent governmental action made larger quantities of steel available, but in so doing, the public sector company doubled its prices. It is now cheaper for WI to buy imported steel and this is what the company is presently doing. For "black" steel, stainless steel and other imported items (motors, timers, indicator lamps, etc) WI purchases needed raw materials through a local import firm.

2. CREDIT - In view of WI's current expansion plans, the acquisition of credit is an immediate need. According to the laws which govern the new community development cities, WI must pay for the land in the 10th of Ramadan (LE 400,000), construct a factory and begin production within a two-year period of time.

Approach: Gamal has sent a letter to the Minister for New Community Development, requesting that WI be allowed to pay for the land over a 10 to 12-year period. No response to his request has yet been received.

Regarding current interaction with banks, WI now has in total LE 1 million in loans outstanding from the Bank of Cairo and the National Bank of Egypt. An on-going "facility against goods" is also in operation with the Bank of Cairo. A locked materials warehouse is on the WI premises, and as materials are consumed, payment is made to the Bank.

Gamal has attempted to borrow money under a USAID-sponsored credit program through the DIB. Displeased with high and "unfair" collateral requirements and long and complicated loan application procedures, the owner gave up on pursuing the loan further. Gamal concluded by saying that "Yes, I need credit, but I cannot and will not put up my entire company to secure a loan." Specifically with regard to USAID initiatives, Gamal insists that the Agency must

make "direct" contact with owners and halt the complicated procedures of working through government banks.

3. MARKETING/DISTRIBUTION - WI is currently producing 15,000 washing machines per year and this figure represents a government-imposed production limit. Approximately half of its annual washing machine production is sold under contract to the public sector. The remaining 50% is sold to some 300 retailers throughout Egypt. As mentioned earlier, WI also has a retail showroom in downtown Cairo which helps facilitate sales to the private sector.

The production quota on washing machines encouraged the company to diversify in the 1970's. Presently, approximately 50% of WI's production is geared to steel furniture and stainless steel catering equipment. With regard to the latter, company management state that there is an "excellent" market in Egypt for such products. Sales are targeted to hotels, restaurants, hospitals and medical laboratories. Recently WI received a contract from an Alexandria laboratory for the design and manufacture of stainless steel equipment for a new facility.

Future diversification revolves around current negotiations with an Italian company to act as import agent and possibly a technical cooperation agreement which would assist WI in the manufacture or semi-manufacture of additional types of catering equipment.

A few years ago, WI exported a small quantity of its production to the Sudan; export sales have since stopped (as the domestic market is consuming all of WI's production), but the company plans to resume export initiatives during the next few years.

4. LABOR - WI management report no problems with labor. In 1973, the company began to formalize in-house training initiatives by hiring high-school drop-outs between the ages of 14-16. These young boys were placed in an "apprentice" type training program and were taught various aspects of the WI operation. In addition to its own on-going training activities, WI has also received assistance from EIDDC. Employees, for example, have participated in EIDDC training courses on arc welding and metal cutting. Additional EIDDC seminars have benefitted WI's management and supervisory staff.

Depending on seniority (a few of Gamal's employees have been with him since Pt.Said) and skill levels, monthly salaries average between LE 100 and LE 500. Eight to ten senior personnel have use of a company car. Overall, Gamal states that "we're one big family here."

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5. EQUIPMENT/SPARE PARTS/MAINTENANCE - The majority of WI equipment is of European (East and West Germany, Italy, U.K.), Japanese and Egyptian origin. For all imported equipment, a 5-year supply of spare parts is imported at the time of purchase. Information on potential equipment suppliers (including specifications, price, quotations, etc.) is obtained from the import agency which handles all raw material purchases.

Service and maintenance pose no serious problems. Minor repairs are handled in-house; for major repairs, WI calls on one of its "friends" who are full-time technicians in public sector factories.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The owner reports that no assistance has been received from the Federation/Chamber of Engineering. A year ago when Gamal was attempting to build support for his raw materials procurement problems, the owner reports that Federation/Chamber personnel "scurried away like rats." The company is a member of the Egyptian Businessmen's Assn(EBA)and has worked with other private sector producers through the EBA to discuss common interests and work together on common problems.

In the area of information, WI is interested, but a bit frustrated at this point, in initiating contact with U.S. equipment and raw materials suppliers. After participating in the Cairo Fair last year, WI sent a series of correspondence to several U.S. companies. To date, no replies have been received.

LESSONS LEARNED

From starting with literally no capital, Washmatic, Inc. has developed into a large (by Egyptian standards), diversified and successful operation. It is currently the largest private sector producer of washing machines, and although finished products are not overly sophisticated, their retail price (LE 159.00) is an affordable one for Egypt's expanding middle-income population. In addition, WI's diversification into catering equipment underscores sound planning for the future by company management. The operation is well-managed and WI is well-positioned for continued growth and profitability.

LIKELY FUTURE CONSTRAINTS

WI's future looks bright; however the inability to access additional sources of credit may delay current expansion activities.

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CASE STUDY # 32 *

THE BOLO FACTORY

BACKGROUND

The Bolo Factory is a ready-made garment operation located in downtown Cairo. It employes 100 people and annual sales currently approach LE 2 million. Current fixed assets amount to LE 500,000. Bolo is owned and managed by Mr. Sherif Gaber and Mde. Mona Salia.

COMPANY HISTORY AND EVOLUTION

The present company started operations in 1970. Prior to that, a large garment company belonging to the Gaber family was nationalized in 1961. Members of the family then split business activities, including Sherif Gaber who joined with Salia to establish the Bolo Factory in 1970. Bolo was started with fixed assets of LE 20,000, a figure which has now reached LE 500,000 . The company is at full production (with the exception of the first quarter of 1985 economic policies which resulted in a temporary 50% cut in production) and producing 150,000 pieces per year in safari suits, men's and children's trousers and children's wear. Annual sales approach LE 2 million; coupled with a good reputation in the market, Bolo owners are well-satisfied with the company's success to date.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. MARKETS - All of Bolo's production is sold under contract to the public sector. Gaber reports that the company has established sound relationships with the public sector buyers and he is very pleased with the relationship. Bolo is paid for all merchandise delivered within 30 days. The public sector department stores (Omar Effendi, etc.) put a 30% mark-up on Bolo products and, according to Gaber, "all items are sold."

The factory owners are not considering expansion at this time but rather have adopted a "wait and see approach" about the garment market in general. They recognize their high dependence on the public sector but because business is good now, they are not inclined to change current marketing strategy or policies. With regard to the export market, Bolo did have an agreement to

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produce underwear under license with a European company. No explanation was offered as to why the agreement is no longer in place. And last year, negotiations were held with a U.S. jeans manufacturer for a possible joint venture between the two companies. The U.S. company targeted production at 3,000 jeans per day and Bolo owners concluded that the Egyptian market could not consume such high quantities, in addition to the fact that good-quality denim material was lacking in the domestic market. In general, Bolo owners indicate that the level of quality the factory is currently producing would not meet the demands of foreign markets.

2. LABOR - Bolo experiences high labor turnover which the owners attribute to: 1) lack of training for the industry in general; 2) the attraction of higher salaries elsewhere; and 3) drugs. Gaber believes that drugs are becoming an increasing problem for Egypt's youth and in his factory, he attempts to weed out those employees suspected of drug abuse.

Monthly salaries average between LE 100 and 150 and Bolo also provides a number of fringe benefits. Overall, Bolo owners cite a critical gap in the area of training.

3. TRAINING - The factory has received some assistance from EIDCC with Mde Salia participating in a number of EIDCC-sponsored seminars on management training. She evaluated the seminars as extremely effective and up-to-date. Two years ago, EIDCC was willing to provide some on-site training but since Bolo had a German engineer working at the time, they did not pursue the EIDCC offer further. Now, the owners report they do have a great need and desire for training assistance.

4. RAW MATERIALS - Bolo purchases most raw material inputs from the private sector because there is more of a variety and generally materials are of better quality.

5. CREDIT - "Bolo is the bank," says Gaber. The company does not access bank credit (current interest rates are too high) and Bolo owners have a stated aversion to going into debt. If a new piece of equipment is needed, the money would be taken from Gaber's "personal" resources. If a special loan program were set up with 8-10% interest, the owners might be interested in borrowing.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Gaber considers the Federation/Chamber of Spinning and Weaving to be poorly organized and only existing to hold meetings.

He does not attend Chamber meetings because he believes they are "a waste of time." Bolo receives the Chamber's monthly newsletter* but owners believe it is only of marginal use - particularly information which arrives outdated. Gaber would like to see data and statistics on industry capacity, production, etc. incorporated into the newsletter. Needs for information on international prices (raw material and equipment) and new technology were also voiced by the Bolo owners.

LESSONS LEARNED

Bolo does have a well-known name in the market and in view of the Gaber's family history in the garment business, the company has to date been very successful. Bolo owners are not particularly interested in expansion as they are uncertain about the future of the ready-made garment market. "We're going fine and are satisfied to wait and see what happens."

LIKELY FUTURE CONSTRAINTS

Bolo's heavy dependence on public sector sales subjects the company to drastic drops in production if the general economy is depressed, as is the present case. Diversification of marketing activities may help to reduce the possibilities of such fluctuations.

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CASE STUDY # 33 *

THE SIMBEL FACTORY

BACKGROUND

The Simbel Factory is a ready-made garment operation which produces over 150 designs of children's clothes. The factory is located in a 3rd floor flat of a residential building in downtown Alexandria. Simbel is operating at full capacity which equates to an annual production volume of 250,000 pieces and sales of LE 1 million per year. Seventy-five people are employed by the factory, most of whom are young women between the ages of 18-25 years. Simbel is solely owned and managed by Mr. Mohamed Abu Simbel.

COMPANY HISTORY AND EVOLUTION

Simbel initially entered the ready-made garment business in 1965 with an Egyptian partner. In 1969, he decided to open his own factory and began by importing 7 second-hand sewing machines from Beirut; initial fixed assets totalled LE 5,000. Until 1975, company growth was rather slow. Since then, however, production has doubled every three years and annual sales currently stand at LE 1 million. Total fixed investments (approximately 50 sewing machines, 5 steam-press units, cutting room etc.) is now LE 80,000. The owner is planning to move to a larger site within a couple of years which will increase his production capacity by 25%.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. MARKETS/DISTRIBUTION - Approximately 40-45% of Simbel's annual production is sold to the public sector for sale in the Omar Efendi, Chemla and Hannaux department stores. The owner reports that he has established a good relationship with the public sector buyers and is paid for goods within 30 days.

Remaining production is marketed to private retailers and wholesalers in Alexandria and Cairo. Simbel spends one day a week on marketing and promotion activities. Production for the

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private sector is tied to orders and Simbel states that due to the well-known "Simbel" trademark and the company's payment policies (cash or 30 days credit), he has also established good relations with private sector buyers. To increase sales, the owner is thinking about opening a small retail outlet in Alexandria.

2. LABOR - No major problems were reported with regard to labor.

Approach: Simbel has taken a quite unique approach to "supervising" employees. He has installed a video monitor which allows him to watch all employees paid on a monthly salaried basis. The factory includes 6 working rooms, half of which are occupied by employees paid on a "piece-rate" basis. These employees are not monitored. In the remaining 3 rooms, the camera is constantly moving and appears to meet the owner's objective. Though the entire factory space is small and cramped, employees are hard at work and morale appears to be very good.

Simbel is not aware of any training programs for the industry but feels this represents a major gap. Specifically, he would like to train a new cutter and is caught in a bind since his present cutter is unwilling to train someone else for fear of losing his own job.

3. EQUIPMENT/SPARE PARTS/MAINTENANCE - Equipment is of Japanese (Juki) and German (Pfaff) origin. Simbel reports that he has occasional problems with service and maintenance as the technician does not always respond promptly to service calls. Spare parts are at times difficult to obtain and when this occurs, Simbel says he sells the machine and buys a new one.

The owner is interested in purchasing an American-made button-hole machine that he saw on display three years ago at a German trade fair but is having difficulty making contact with the U.S. company.

4. CREDIT - Simbel has never accessed bank credit except for "tax" purposes. Apparently, he received a bank loan at one point, but did not use the funds except to take a deduction on his income tax returns. He would only be interested in borrowing if interest rates were 10% or lower.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

No assistance has been provided by the Chamber of Spinning and Weaving. Simbel receives the monthly newsletter* but states it is no help. When asked why, the owner replied that he's "not interested in reading."

With regard to information, Simbel has needs for information on raw materials (particularly accessories), new designs, and credit facilities.

LESSONS LEARNED

The Simbel owner considers his operation to be successful due to: 1) quality production; 2) good treatment of employees; and 3) credit extension policies for buyers. Unlike many other ready-made garment factories visited, the Simbel Factory is operating at full capacity and is planning to expand. The owner "feels" that market demand is increasing and is planning for the future accordingly. While his video monitor may not be well-liked by employees, it appears that productivity in this particular factory is higher as a result.

LIKELY FUTURE CONSTRAINTS

Despite the absence of hard industry data, Simbel appears to have established a fairly sound business. The concentration of production on children's wear would seem to augur well for this expanding segment of Egypt's population.

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CASE STUDY #34

ALEXANDRIA SWEET CORPORATION

BACKGROUND

Alexandria Sweet Corporation (ASC) is a small factory producing fruit preserves and juices. The company is located in the suburbs of Alexandria and its operation is very elementary. The total production per year is 300 tons of preserved fruits and 500,000 tons of juice. The company employs 3 workers and two staff. In 1985, ASC total assets approached 1 million L.E. with a working capital of 200,000 L.E. The owner of the company manages the business on a day-to-day basis.

COMPANY EVOLUTION AND GROWTH

The owner of ASC, Mr. Hassieb, bought the business in 1970. It was a small factory and sweet shop for candy and cakes. In 1973, the business flourished and he decided to open other small shops in different areas of Alexandria for the sale of candy, cakes and pastries. In 1982, he added a large shop in the Ameriya area. The business has grown significantly in terms of capital volume as Hassieb started in the 1970's with 20,000 LE; investment reached 40,000 LE in 1975 and now approaches 1 million LE in 1985. The owner feels that his business is doing well and plans for expansion and growth will continue in the forthcoming years.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. TECHNOLOGY AND EQUIPMENT AND HIGH CAPITAL INTEREST RATES-- Since 1973, the company has been using elementary methods in producing preserves, such as the use of copper pans and kerosene stoves for cooking; the plant is a health hazard and the possibility of a fire is high because of the nature of cooking on kerosene hand operated stoves. While this method is an economical one as it reduces costs significantly, this type of elementary equipment hinders the factory's capacity for expansion. The company owner is not considering expansion or buying new equipment. The cost of loans is very high and he is not willing to pay 18% for a loan.

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Approach: The owner is seeking a joint venture partner who would be willing to come up with new equipment and new technology as part of his share. "I have the market and my customers, I have the factory and I have a good business," Hassieb said. He believes that locating a joint venture partner will not be a problem because his past record shows a history of marketing and distribution success. He has 200 wholesalers, in addition to 300 groceries all over Egypt from Aswan to Alexandria.

2. CONTINUOUS CHANGES OF RAW MATERIAL PRICES (FRUITS) AND UNSTABLE MARKET - The wholesale market for fruits is highly dominated by a few who monopolize the market. They can make fruits available or scarce at any time. The prices of peaches, mangos, oranges and strawberries, etc. are unstable which makes planning for the future difficult as Hassieb is unable to estimate raw material supply from one season to another.

Suggested Approach: The owner would like to directly contract in advance with wholesalers and farmers. However, contracting with farmers is difficult because of the nature of the Egyptian farmers and farm systems, as well as the legal process in Egypt - enforcing a contractual agreement is a very slow process.

Hassieb suggested that expansion with a joint venture partner should consider the alternative of renting an inexpensive piece of government land with 25 years of credit. He believes that this would be an efficient modern systems approach for his business. Control should start from the production of raw materials all the way to the consumer. Such production control would reduce raw material costs and therefore, final consumer prices.

3. GOVERNMENT REGULATIONS ON EXPORTS - The factory manager feels that he can sell his products at higher prices and quantities to Arab countries, but government red-tape and regulations pertaining to export are difficult and hard so he gave up on the idea of exporting. He would prefer lower profits rather than dealing with the Export-Import Authority of the Egyptian Government.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Mr. Hassieb considers the Federation as neither an effective nor a prestigious government agency, lacking a clear program. "It is just a group of people waiting for retirement," he said. He only deals with the Federation by paying his annual fees. However, Hassieb feels this can be changed with an active program with the addition of educated and well-trained staff. He feels that the Federation's role might improve if marketing information and data would be provided by the

Chamber to its members. This would improve the services rendered by the Federation which might improve its image. He also feels that some other private sector groups should be involved to avoid the problems of government bureaucracy and attitudes.

LESSONS LEARNED

Though the Alexandria Sweet Corporation is a profitable, small factory, its mode of operation is a great health and fire hazard for its labor and its zoned area. ASC has a successful marketing policy and profit maximization is the only factor the owner seeks. However, our evaluation of the factory indicates that the factory is underutilized and profit is minimized by using old techniques and technology. This type of management needs training and education on both technical and administrative skills. The company needs to develop its juice and preserve lines to be based on a modern available technology. This would at least double its production capacity and increase its profits.

LIKELY FUTURE CONSTRAINTS

With the introduction of new technology in the preserves and juice industry, ASC's production might be inferior in the market. In addition, the health and fire hazard problems observed might force city authorities to close the operation in the future. It is our recommendation that the owner begin to develop plans for factory upgrading immediately.

CASE STUDY No. 35*

CAIRO ELECTRIC, INC.

BACKGROUND

Cairo Electric, Inc. (CEI) is producing lighting fixtures with all respective necessary components of steel, wiring, surface, treatment, plastics, distribution sheets and spot lighting. The company is managed by the owner, Mr. Ahmed Naiem, who is assisted by his two college graduate sons - one of whom is Production Manager and the other Marketing and Sales Manager. The company employs more than 500 employees and considers itself as the most successful small electric company in Egypt with reputable, rapid growth and a solid history of development. In this field, CEI competes with five major private sector companies, which are smaller in size and four public sector companies. The company produces about 300,000 lighting fixtures in addition to about one million components per year.

COMPANY HISTORY AND EVOLUTION

CEI started in 1946 as an electric shop in downtown Cairo. The manager and owner, Mr. Ahmed Naiem, assisted by two other employees, handled all shop activities. By 1960, the business had grown and the shop expanded to a little factory with 25 employees-producing some lighting equipment for sale to the local market. In 1970, CEI expanded further and the number of employees reached 80. Working capital then was about 500,000 LE. Currently, the company employs 500 workers with yearly sales of 8 million LE and 5 million LE in total assets.

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. LABOR PRODUCTIVITY - Forty percent of the company's labor are skilled while the remaining 60% are unskilled. "The Egyptian laborers are very demanding", said Mr. Naiem "and they need close supervision". CEI's annual labor turnover is about 25% and productivity is not high.

Approach: The company started a joint venture with an Italian firm to produce its market needs. The owner also started an on-the-

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job training program by utilizing his own facilities and his senior skilled staff. The duration of the program is for two weeks. In addition, company policy requires the importation of any new machine to be accompanied by a foreign expert to stay in the country for a specified period of time to train CEI technicians on all operational issues and problems relating to the new machine. German companies are very cooperative in such field training work.

The company reports they offer reasonable wages for skilled labor and fringe benefits such as social security, health benefit plans and the provision of transportation from the factory to a specified point in the city.

2. CREDIT - Mr. Naiem indicated that Egyptian banks have changed their credit policy. For example, he has been dealing with Citibank in Cairo for the last five years and has established a good credit record. Recently, he tried to apply for a bank loan and was shocked to learn that the bank asked for what he perceives as unreasonable collateral in return for a small loan. Naiem also indicated that the DIB is hard to deal with and its red-tape policy is unreasonable; loan processing takes much too long.

Approach: The owner invited foreign bank officials, both from within and outside Egypt to visit his successful operation and factory. He feels that such field visits by bankers has helped a great deal in processing loans. He also feels that if the loan is used for the purchase of new equipment, the bank should offer the loan with the equipment itself as a collateral and other reasonable financial covers. He does not agree with the recent domestic bankers policy which involves unreasonable collateral policies. "This drives people away," he said.

3. GOVERNMENT REGULATIONS AND RED-TAPE - The major problem with government laws and regulations is the continuous change of policies and regulations governing import, export, foreign currency, etc. Such has created an unstable feeling among businessmen in Egypt, and as Mr. Naiem says " I don't know what will happen tomorrow."

The second problem with the government is the Import Rationalization Committee and import regulations. Decision-makers in these governmental agencies are not knowledgeable about the supply and demand situation and they use their own personal judgment. Naiem indicated that most of the economic policies in Egypt are based on individual judgments of the man in charge. These circumstances hinder CEI's production as the company does not receive needed imported raw materials on schedule.

Approach: Mr. Naiem always seeks to meet the decision-makers in their respective government agencies in Egypt. He indicated that this can be a high or low ranking official. This approach enables him to explain his problems and seek their cooperation.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

Management indicated satisfaction with the services of the Federation/Chamber of Engineering which helped CEI by prohibiting the importation of products similar to those produced by the factory. This helped the company to sell more products in the domestic market. However, Mr. Naiem feels that a great deal of managerial organization is needed to increase the Federation's effectiveness.

LESSONS LEARNED

Cairo Electric Inc. has a reputable name in the Egyptian market and future sales are promising. The company also has taken the initiative of having a joint venture with an Italian firm to keep up with European technology and compete with European products, both in terms of quality and price.

LIKELY FUTURE CONSTRAINTS

At present, CEI is very successful because: 1) the Government prohibits the importation of similar products. The main question is whether the company can be as successful if such prohibition is waived in future. 2) With the continuous increase in demand for CEI's products, will it be possible for the company to expand fast enough to meet consumer demand, taking into account recent credit policies in most banks in Egypt. These two issues represent great future challenges to the company.

CASE STUDY # 36 *

GLOBAL, INC.

BACKGROUND

Global,Inc. is a large manufacturing company which currently produces gas cookers. The company includes 4 factories in Cairo (30 kms from the down town area) and two factories in Alexandria. Reportedly, 2,500 people are employed by Global throughout its six factory operations. The company is owned and managed by Adel Murgi and his four sons.

COMPANY HISTORY AND EVOLUTION

Global was started in 1956 with fixed assets of LE 40,000. Production then, as now, was focused on gas cookers. By 1965, production averaged 1,000-2,000 cookers per month; 5 years ago, this figure had increased to 15,000/month. In the past 18 months, production has fallen by almost 40%, or 8-10,000/cookers which management attributes to depressed market conditions.

During the 1970's, Global was also producing water heaters (30,000/month by 1976). In 1979, the company entered into a technical cooperation agreement with a French company to upgrade the quality of its finished product. According to management, high customs duties on some required inputs have presently forced the company to cease production of this line. Global is working on producing these parts in-house and is planning to resume production of water heaters in the near future.

By the end of 1985, Global plans to start production of washing machines. It is also contemplating entering the refrigerator business but is waiting to see how the market demand for refrigerators develops.

Through the years, Global has heavily reinvested profits in land and equipment. Current estimates in equipment and machinery alone (no figures were provided) are LE 10 million. There appears to be little correlation, however, between the

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acquisition of new equipment and sound planning for the future; - i.e., several pieces of high-tech expensive machinery sit idle while management decides what to do with them. Mohamed Murgi, the oldest son and General Manager, jokingly refers to the company as "our own little Mafia." While Global would fall outside the definition of a small or medium scale business - both in terms of employment figures and total assets, it is beset by a number of management and operational deficiencies which render it any thing but a "model of success."

KEY PROBLEM AREAS, ISSUES AND COMPANY APPROACHES

1. MANAGEMENT - Global is a family-owned and managed company. Management and supervisory responsibilities are interchangeably handled by the four Murgi sons at the various factory locations. The oldest son, Mohamed, appears, however to have a controlling edge over his younger brothers. (The Murgi father is semi-retired but his brother also takes an active role in management).

There are two major areas which point to severe management deficiencies. First, Global continues to grow-on paper-in terms of total assets, yet production activities are lagging way behind invested capital. At present, for example, production activities are focused solely on gas cookers and monthly volumes, in comparison to 5 years ago, are down significantly. At the same time, the acquisition of new and very expensive equipment continues while few plans have been made as to what the equipment will be used for. Comments offered by management that "we may do this or we may do that" points to a marked lack of sound long-range planning.

The second area relates to management's approach to labor and productivity. During the tour of the largest factory, Mohamed commented "They (employees) see me coming and then they start to work." When asked about the effectiveness of production floor supervisory personnel, Mohamed said "They are all the same. Egyptians, by nature, are lazy and if I'm not here to watch over them every minute, they don't work - including the supervisory personnel." The co-owner strongly believes that Global's labor problems, particularly low productivity, are in no way the responsibility of management, nor reflective of "bad" management.

2. LABOR - Global experiences high labor turnover. Company personnel policy focuses on hiring unskilled labor (less than 10% of its reported 2,500 employees are skilled) and showing them how to operate a certain machine. This is basically the extent of in-house "training." Mohamed is aware of training and technical assistance provided by EIDDC but prefers not to have

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employees participate or benefit from such programs, because once they receive more solid training they leave the company. Unskilled employees are reportedly "paid well" - but the average LE 2.00/day figure relayed by Mohamed does not in fact equate to a "well-paid"position.

In general, employee morale is extremely low and, in the absence of Mohamed or one of the other Global owners, work comes to a virtual stand still. Management-employee relations are not good as evidenced by considerable "screaming" and apparent lack of mutual respect.

3. TECHNOLOGY- To its credit, Global is manufacturing many of the needed inputs that it previously bought from the local market or imported (i.e., nuts, bolts, tinted glass, aluminum shelves, etc.). Company management are quite proud of the progress to date in this regard but do not recognize a potential for supplying the local market with some of these raw material inputs. "They would only be useful for other gas cooker producers and we're not about to assist them by supplying some of their needed raw material inputs."

Gas cookers are produced in a "disorganized" assembly line fashion. Sides are enamelled and oven heated in one factory then transported to the largest facility; other inputs, as mentioned above, are produced on site with final assembly occurring in a rather small section of the largest 11,000 sq.mtr. factory. At present, the lay-out of the largest facility is quite inadequate. Approximately 40% of the total area is being used to store "junk" and old scrap. Mohamed reports that Global is in the process of reorganizing to more effectively utilize space and increase efficiency by combining activities at one location.

4. MACHINERY/EQUIPMENT/SPARE PARTS - The majority of equipment is of European origin (Germany, Italy and Switzerland). Global has established relationships with European equipment suppliers and is generally able to pay for new purchases by installment. Global has not participated in any USAID-sponsored credit programs and dislikes the "buy American" requirement as U.S. companies have "no servicing capability." Machinery is serviced in-house and the company is starting to manufacture some spare parts. In case of major equipment failure, Global can telex for a technician from the supplying company to be sent within 2-3 days.

5. CREDIT - Global has short-term lines of credit with the Bank of Cairo and the National Development Bank. In addition, it is able to secure longer term credit at 8% - 13% interest.

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6. MARKETING - Global reports that it has no "competitors," as it bought out 2-3 smaller producers several years ago. Finished products are marketed to both public and private sector and Mohamed reports that production is currently 3 months behind orders.

ASSOCIATION WITH FEDERATION: INFORMATION/SERVICES

The Federation/Chamber of Engineering does "nothing" for Global and only exists "to serve certain people". Since it has "no outreach capability," Mohamed says that when he wants to get something done, he (the company) does it himself. Regarding information, the co-owner has access to information from the Ministry of Industry, General Authority for Investment (GAFI) and private sources and maintains he"knows who's in the market and can put his hands on any information he wants."

LESSONS LEARNED

Despite its abundance of capital assets, Global, Inc. can not be considered a model of success. Serious management deficiencies have resulted in an accumulation of expensive equipment which sits idle and a labor force which observedly has no incentive to work. Global management display somewhat of a "stand-offish" attitude which equates to a "we're on top and we don't need help from anyone" mentality. While they may not need help, it seems likely that unless management begins to "get its act together," this accumulation of capital will have been for naught.

LIKELY FUTURE CONSTRAINTS

According to persons knowledgeable about the market, the quality of Global's production has deteriorated significantly in the past 5-7 years. Coupled with serious management and organizational problems, Global's future course is likely to be quite difficult.

SMALL BUSINESS CAPACITY DEVELOPMENT:

OUTLOOK AND PROSPECTS FOR THE EGYPTIAN PRIVATE SECTOR

VOLUME 2

RESEARCH FINDINGS ANALYSIS

by

Partnership for Productivity/International
2001 S Street, NW, Suite 610
Washington, D.C. 20009

to

Dr. Robert Mitchell
Office of Industrial Resources

In partial fulfillment of

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SMALL BUSINESS CAPACITY DEVELOPMENT:
OUTLOOK AND PROSPECTS FOR THE EGYPTIAN PRIVATE SECTOR

VOLUME 2: RESEARCH FINDINGS ANALYSIS

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EXECUTIVE SUMMARY

As a special task in an on-going world wide contract with USAID, Partnership for Productivity/International provides this report on the prospects for the improvement of the small and medium private business sector in the Arab Republic of Egypt. Sponsored by USAID in Cairo, the objective of the study is to demonstrate appropriate improvements to the support capabilities of the Federation of Egyptian Industries and in other ways to suggest specific and action-oriented mechanisms for service delivery to SMEs.

Our conclusions, borne out by 36 case studies, are that:

1. The SME sector is considerably underserved by existing public and private institutions.

2. Both public and private institutions have the will to increase services but not necessarily the means.

3. For information and services to be credible to and accepted by SMEs, they must originate from institutions which are credible and non-threatening to SMEs.

4. What is missing from this scenario is a fabric for intra- and inter-organizational communication.

The study recommends a general strategy to formalize a network of existing public and private institutions as a coordinating body that provides services to small- and medium-size businesses and to add to their institutional capacities or create new mechanisms as necessary to fill the gap in needed services to SMEs. The key services that need to be strengthened within these institutions, coordinated among these institutions, and/or created are:

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1. Information and communication services;
2. Extension services;
3. Credit and financial assistance;
4. Policy dialogue;
5. Technical assistance;
6. Vocational training; and
7. Special economic activity.

Each service should be pilot tested for the first 6 - 12 months prior to institutional and programmatic commitments over the proposed five-year program. At the end of five years, the coordinating body should be financially independent of USAID, have assisted 60% of the SMEs, have facilitated an average of 5% growth of their fixed assets or LE 46,851,000, and cost approximately $2,613,000 in US currency and $4,560,000 in Egyptian currency.

This study was coordinated by the Office of Industrial Resources, USAID/Cairo, and conducted in the spring of 1985. It represents the efforts of a five person team (a total of 34 person-weeks), and included the participation of Project Sustain in addition to PfP/I personnel and consultants. To arrive at the prospects for Egypt's small and medium private business sector, PfP/I both reviewed existing studies and conducted its own field work. PfP/I conducted 36 in-depth case studies, interviewed a host of organizations involved with supporting the small business sector, and conducted a pre-feasibility assessment of demand for services and analysis of appropriate strategies to assist the SME sector. The results of this study are presented in three volumes:

Volume 1 -- Case Studies
Volume 2 -- Research Findings Analysis
Volume 3 -- Alternatives and Recommendations

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I. INTRODUCTION

A. STUDY OVERVIEW AND OBJECTIVES

Without question, the Egyptian economy has undergone dramatic changes in the past 25 years. The 1960's were characterized by heavy emphasis on industrialization, and despite the fact that the public sector grew at the expense of private ownership in some cases, government policy during the Nasser period succeeded in creating a heavy industry base. In the late 1960's and early 1970's, the burdens of maintaining Egypt's largely socialist economy began to be felt as increasingly higher levels of the government's resources were required to finance its public enterprises and extensive subsidy programs.

Against this background Egypt's Open Door Policy was initiated in 1974 by Anwar Sadat. At the outset, the Open Door Policy was intended to stimulate foreign investment, principally through the introduction of Law 43. Due to later modifications (Law 32 of 1977), Law 43 became the general legal framework for encouragement of the private industrial sector as well as for the reform of public industry. Average annual real economic growth of 8.0% during the 1975-80 period in part reflected renewed optimism about Egypt's long-term economic prospects.

One of the principal challenges to Egypt's economic development in the 1980's is the more effective use of Egyptian capital and human resources to build and diversify the country's economic base. In order to meet this challenge, the economy must make a successful transition from a natural resource and agriculturally-based economy to one able to supply a substantial proportion of domestic manufactured goods demand.

Today, approximately one-third of all industrial output in Egypt is accounted for by the private sector, an increase of 10 percent from a decade ago. In terms of employment, the private sector plays an even greater role in the Egyptian economy, providing somewhere between 55% and 70% of all industrial jobs. In recent years, the Egyptian Government and international donor agencies have placed increasing emphasis on the developmental role which can be played by the private sector.

While the provision of Laws 43 and 32 and subsequent modifications have benefited many large private sector and joint-venture companies, little progress has been made with respect to developing Egypt's expanding small-scale private sector. It is against this background that the present study was requested. Currently, there are no strong programs in Egypt for private sector small business assistance. USAID/Cairo has financed a number of studies relevant to small business problems and constraints. One of the principal objectives of this study is to develop a strategy for assisting this sector.

All Egyptian businesses with assets over LE 5,000 or 25 employees are required to join the Federation of Egyptian Industries. To date, the Federation has not developed the capability to serve the smaller businesses within its membership as to alternative sources of supply, market information, management training, technical assistance and coordination of potential assistance to this sector.

At the request of the Federation of Egyptian Industries, Partnership for Productivity/International was contracted by USAID/Cairo to provide:

1. Case studies of selected Federation members in the Chambers of Food, Engineering and Spinning and Weaving which identify problems of productivity as well as models of success in these sectors;

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2. An analysis of the Federation's current ability to serve the needs of small businesses in the private sector and proposed improvements to meet those needs;

3. The identification of constraints which hinder the utilization of business information and recommended strategies for improved analysis and delivery of this information; and

4. A current inventory of public and private institutions that provide information and services for the small business sector.

Partnership for Productivity/International has assisted USAID missions around the world in designing and implementing programs to support small business development. We believe that the report presented herein provides worthwhile insights into the constraints faced by Egyptian small businesses, offers sound recommendations for improving their development capacity, and represents a growing consensus of relevant actors.

B. ROADMAP TO FINDINGS

This brief section maps the study requirements as stated in the contract to the respondent portions of this report.

Objectives

a) 1. The case studies themselves can be found in Volume 1. Analyses of problems and characteristics of success are primarily discussed in Volume 2, Chapter II.

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2. The FEI analysis is concentrated in Chapter IV and there is additional material in Chapter V and Volume 3.

3. Constraints as related by the case studies are discussed in Volume 2, Chapter II; as reflected in institutions in Chapter III. Recommended strategies for improving the FEI's information capabilities are presented in Chapter V.

4. The institutional inventory is in Volume 2, Chapter IV.

b) The Alternative Strategies and Recommendations are provided in Volume 3.

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II. CASE ANALYSES OF SMALL AND MEDIUM-SCALE ENTERPRISES

A. INTRODUCTION

A key element of this project focused on case analyses of small and medium-scale private sector Egyptian businesses located in Greater Cairo, Alexandria and Port Said. The primary objectives of this field research were:

1. to conduct a series of 36 case studies of selected Federation members in the Chambers of Food, Engineering and Spinning and Weaving (ready-made garments) which identify problems of productivity as well as models of success in these sectors; and

2. to determine which approaches distinguish successful from less successful firms within the Egyptian context and what methods have or could assist the replication of these approaches.

We appreciate USAID's interest in the case study approach that allowed us to inquire into substantive issues that are involved with the day-to-day lives of Egyptian entrepreneurs. Some of these issues are at times overlooked in broader statistical surveys. The opportunity to discuss at length the problems and constraints which SMEs face has contributed to a better understanding of sectoral needs and concerns.

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B. METHODOLOGY

1. Sample Selection

The firms chosen for analysis were based on the specific recommendations of the Chambers of Engineering, Food, and Spinning and Weaving. We appreciated the excellent cooperation of Chamber officials in identifying a representative number of firms within their respective Chambers which fell within the following parameters:

a) businesses which had initial fixed assets of less than LE 350,000;

b) a cross-section of "highly successful," "average" and "inactive" businesses vis-a-vis their respective Chamber membership. (for member feedback on Federation/Chambers, see Chapter IV).

With the exception of two firms, all of the companies began operations with less than LE 350,000. Some have grown very rapidly, particularly within the last 10 years, to a point where today, the size of total business assets would place some of these firms in a category of medium to medium-large scale. With regard to sectoral differences, the studies revealed high rates of growth among engineering and food processing firms and slower growth among ready-made garment companies.

In terms of employee numbers, all sampled firms, with the exception of two, employ less than 200 workers. Sectoral differences accounted for higher employee ranges in the engineering industries (60-200), and lower ranges in the garment sector (15-75). In the food sector, seasonal production periods result in a minor distortion of yearly employment figures; however all sampled food firms employ between 5-180 workers.

In the course of the field research, a recurring question was "What is the definition of a small-scale business?" Numerous definitions abound. A.D. Little (March, 1982) proposed a framework for defining small-scale enterprises as those firms employing between 10-200 workers, less than LE 350,000 in fixed assets, some work specialization and mechanization, average wages close to minimum wage, and management handled largely by the owner. The Development Industrial Bank's current working definition for small-scale enterprises are firms with less than LE 350,000 in fixed assets; semi small-scale enterprises are those with less than LE 285,000 in fixed assets. The Engineering and Industrial Design Center espouses an even broader definition; small-scale industry has come to mean small and medium industry, which in Egypt is really "private" industry.

Taken together, these definitions, as well as others point to the difficulty in establishing a single, unanimous definition of small-scale enterprises. We would suggest that the inability to do so is perhaps not important. In the conduct of the case study field research, we learned that there are a number of constraints and problems which are shared by all private sector companies regardless of size, employee numbers, fixed or total assets, etc. We believe that the sample selection provided a good cross-section of the constraints faced by small and medium scale firms and valuable insights into the determination of appropriate assistance strategies.

2. Research Approach

Prior to the commencement of the field work, and in conjunction with the findings of previous studies on small and medium scale Egyptian businesses, we constructed a list of hypotheses about the problems facing SMEs which effectively portrayed a "Constraints" model for the sector. Some of the hypotheses were presumed to be applicable to all industries under study (F = Food, E = Engineering, G = Garments), while

others were thought to be applicable to only one or two of these industries. The list of hypotheses, together with the notation of its presumed applicability, are detailed below. After each hypothesis, we have made a brief comment relating to the case study findings. More detailed explanations are provided under "CASE STUDY HIGHLIGHTS".

It should be noted that these 14 hypotheses were primarily constructed to facilitate an in-depth focus on the problems and constraints which SMEs face; how and why some firms are able to overcome these constraints and others are not; what factors are illustrative of the "successful" firm as well as the "average" and "failing" firm; and what lessons can be learned and what situations can be improved upon by duplicating the approaches of the more successful SMEs.

Due to the smallness of the sample size, the hypotheses and their accompanying comments can be in no way be interpreted as statistically valid or conclusive for <u>all</u> companies in the three industrial sectors under study. What is intended in this section of the report is to provide the reader with a brief overview of previously documented constraints and our corresponding comments which resulted from the 36 in-depth case analyses. Not surprisingly, several of the comments corroborate the findings of previous statistical surveys submitted to USAID on the small business sector.

<u>HYPOTHESES</u>

1. Lack of information about market demand, coupled with less efficient production methods (e.g., obsolete equipment and/or inadequate production inputs which result in higher production costs) make it extremely difficult for small businesses to compete in markets outside their immediate geographic location. (G)

COMMENT: This hypothesis held very true for garment producers. The dearth of information on market demand, particularly with regard to additional marketing outlets, coupled with poor quality inputs restricts sales and distribution efforts to local areas.

2. Lack of information regarding additional marketing channels and distribution networks impedes the growth of small businesses by restricting competition among producers to limited geographical areas. (G)

   COMMENT: Again, this hypothesis is particularly applicable to garment producers. Public sector domination of the industry as a whole likewise impedes the development of additional marketing outlets.

3. Successful entrepreneurs have access to information about product design and quality control requirements which enables them to reach more specialized market niches. (F, E, G)

   COMMENT: While this hypothesis is true in most competitive market situations, its relevance to Egyptian SMEs is reflected by marked differences among entrepreneurs with regard to accessing domestic and international market intelligence, particularly as it relates to rapidly changing consumer tastes. The more successful Egyptian SMEs are reaching specialized markets, in part as a result of their ability to keep pace with increasingly sophisticated consumer demands.

4. Scarcity of fixed and working capital funds, together with insensitive credit/financial institutions prohibit small businesses from expanding production capacity, thereby limiting opportunities for future growth. (F, E, G)

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COMMENT: Particularly true for engineering and food companies, and less true for garment producers who do not state a high priority need for credit.

5. More successful businesses are reinvesting profits into newer or upgraded equipment and/or factory expansion, thus contributing to increased growth/productivity and expansion of opportunities for competing in more diverse markets. (F, E, G)

   COMMENT: Very true for engineering companies and to a lesser extent, food companies. The lack of domestic market information for garment producers is a current disincentive to expansion.

6. Rising prices for raw materials and scarcities of supply discriminate heavily against small producers who are generally unable to purchase production inputs in large quantities and who are often forced to buy required inputs on an "as needed" basis. (E, G)

   COMMENT: The selection of locally available supplies is perhaps a more important constraint for all sectors. Smaller producers have less purchasing power in obtaining the best of locally produced materials.

7. In face of regulatory constraints, highly successful firms are able to procure their supplies/equipment through extended family or other close business relationships. (F, E, G)

   COMMENT: True for all sectors, with an increasing reliance on close working relationships with import agents or firms to handle needed import purchasing processes.

8. Successful entrepreneurs are able to secure information about improved production technologies and/or improved equipment, enabling them to increase their competitiveness through more efficient production. (F, E, G)

COMMENT: Particularly true for engineering companies which are constantly seeking to upgrade equipment and production techniques.

9. Lack of information about alternative sources of supply or the availability of local material substitutes results in machinery down-time and low capacity utilization. (F, E, G)

COMMENT: True for all sectors, and particularly problematic in view of lengthy import licensing procedures.

10. Firms' inability and/or lack of information regarding how to enter into or initiate sub-contracting arrangements contribute to idle capacity and underutilization of small businesses' resources. (E, G)

COMMENT: This hypothesis did not hold true. In the garment sector, most companies have established contract relationships with public sector department stores and, if anything, many of them would like to scale back these sub-contract relationships and develop additional marketing outlets. In the engineering sector, demand-related contracts are in place with several companies; however, some private producers expressed little interest in a supply-related sub-contract with the public sector.

11. The inability of small firms to meet market wage rates, combined with shortages of skilled workers and lack of information about worker training or skills upgrading pose serious constraints for small businesses' productivity. (F, E, G)

COMMENT: Many of the small business owner/managers interviewed expressed difficulty in competing with the salaries offered by larger companies, particularly the new investment companies. High labor turnover in many small firms can in part be attributed to the attraction of higher salaries and benefits elsewhere, both in Egypt and in neighboring Arab states.

12. Complex government policies and regulations, wide disparities in interpretation and lack of complete information about existing policies impede start-ups of new businesses and constrain the growth of existing firms. (F, E, G)

COMMENT: The inability to understand current rules and regulations and to keep pace with new legislative changes is a major constraint for all SMEs.

13. Firms which concentrate management decision-making among family members limit their potential growth to existing management capabilities. (F, E, G)

COMMENT: The issue of "family" in management would not appear to be an important constraint. Many family-owned businesses are well-run, just as there are family-owned businesses which experience management problems, many of which cannot always be linked to the familial relationship.

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14. Lack of industrial sites and infrastructural deficiencies adversely affect small business growth. (F, E, G)

> COMMENT: Many SMEs cite the problem of space for expansion activities, and in the absence of additional space near their present location, are expanding vertically. A small number of SMEs are relocating to the new community development cities where space is plentiful, but due to the financial costs associated with land acquisition and factory construction, this option would not appear to be a viable one for the majority of SMEs.

All case study interviews were conducted with upper and mid-level management personnel from the firms under study. The analysis of some firms required a follow-up visit to address additional issues and to explore in greater detail information gleaned through initial focus interviews. Subsequent discussion of each firm interview(s) was conducted among field team members to draft the written analyses. A further review and analysis of all case studies was conducted by the entire project team for discussion and synthesis in the final report.

C. CASE STUDY HIGHLIGHTS

Without question, the case studies produced a wealth of information relating to SME problems and characteristics; some of which were common across all industries under study, and others which can be classified as industry-specific. Again, the size of the overall sample does not lend itself to statistical interpretation. However, the qualitative nature of the research provided a substantive basis for identifying: 1) Certain industry characteristics; 2) Common problems related to productivity; and 3) Characteristics of successful SMEs.

1. Industry Characteristics

By sector, the case studies revealed the following factors as characteristic of the sector in general, irrespective of the current position of the sampled firms.

READY-MADE GARMENT SECTOR

a. Little accessing of bank credit: The Egyptian ready-made garment industry is labor-intensive. Once basic equipment has been purchased, additional capital outlays are often the exception rather than the rule. This is not to say that all presently utilized equipment is in excellent condition, nor does it imply that factory owners are not interested in new technologies. What it does suggest, however, is that the issue of credit does not dominate the list of ready-made garment producers' concerns.

This factor would appear to coincide with G. Howe's argument (See "The Structure and Prospects of the Small-Scale Private Industrial Sector in Egypt ...," October, 1984) that it is inaccurate to "homogenize the requirements of the small-scale private sector 'as a whole'." This study agrees with Howe's. Previous analyses of the sector have recommended pouring in credit, and there was little focus on

the specific requirements of various sub-sectors. In the case of ready-made garment producers, for example, it would appear that "pouring in credit" in and of itself is not the solution. Productivity improvements in this sector relate more to in-service training, attitudes towards employees, the development of commercial marketing channels, and improved techniques for satisfying quality standards.

b. An absence of data and statistics on the garment industry makes garment producers uncertain about the direction of the domestic market. "Caution" is the key word, even among the most successful producers. They are at the same disadvantage as other industry producers. As a result, there is little inclination to either diversify production lines or expand current facilities.

c. Critical need for training and skills upgrading: Industry-wide training for garment personnel was cited by all producers as the major priority need. Many acknowledged the "low-image" associated with the industry. They believe that improving the image will primarily be accomplished through formalized training activities. The most frequently cited training needs were cutting, designing and pattern-making. In addition, technical assistance with various sewing machine attachments is also being sought.

The desire to improve production quality is quite high. Yet producers are commonly faced with a workforce mentality which does not grasp the importance of uniform stitching, clean hands and fabric matching. The increasing sophistication of Egyptian consumers and rising middle-class incomes are placing greater demands on final product quality. For the garment industry as a whole, these changing demands require greater emphasis on basic training and skills upgrading for industry personnel. This would concur with the Kurt Salmon report on the Ready-Made Garment/Feeder Industry (3/84) which strongly recommended the introduction of modern apparel management techniques.

d. High dependence on the public sector as both the major supplier of inputs, and the major marketing outlet. In the area of raw materials, public sector textile companies continue to dominate, although some private producers are beginning to offer alternative sources of supply. In general, the quality of fabric being produced by these private companies is perceived as much better and garment producers report that given the comparable price levels and ease of returning defective material, they prefer to deal with private textile producers. However, total production capacity of private textile companies lags far behind the large public sector companies. Thus, the public sector is and will continue to be the dominant supplier for private garment producers.

The growth of the private ready-made garment industry is currently constrained by a lack of corresponding marketing channels. There is heavy dependence on the public sector as a buyer, and in fact, as pointed out in several cases, many small factories would likely cease to exist if it were not for their sub-contracting relationship with the Ministry of Supply. Even among the more successful companies, sizeable percentages of their total production are likewise being marketed to the public sector.

Much of the clothing being produced for the public sector is of a cheap, low quality nature. And certainly, there is a sizeable market for such affordable clothing among Egypt's expanding low-income population. On the other hand, this dependence on the public sector subjects private producers to unpredictable and at times, major fluctuations in production, a situation which cannot be compensated for in many cases because additional marketing channels are virtually non-existent.

e. Owner/manager key to factory's success: While the owner/manager is critical to the success of any business, this factor is more critical in the garment industry. Due to its high labor intensity, the personality and attributes of factory owners correlate closely with an operation's success or failure. From the businesses surveyed in this study, two obvious extremes can be found in the Gamila (Case Study #2) and LUBA (Case Study #11) factories; the first where the owner spends the entire day "screaming" and the second where the owner experiences high labor productivity which she attributes to "fostering good human relations."

f. Current market depression: All factory owners reported that the domestic market for ready-made garments is currently depressed, and this was the major reason cited for underutilized capacity. If the market is depressed, some of the factors may include the following:

- Reportedly, there have been thousands of ready-made garment factories established in the last 5-7 years. Due to a lack of hard industry data, it may well be that the market for certain articles of clothing has reached a saturation point. Or, alternatively, in the absence of diversified marketing outlets, the competition for public sector contracts has become much keener, thus leading many producers to the conclusion that the overall market is depressed.

- A claim has often been made "that everything that can be produced in Egypt can be sold." As mentioned, Egyptian consumers are becoming much more demanding, and due to closer ties with the West, are becoming much more "fashion-conscious." Standards for clothing that were perhaps satisfactory 10 years ago are today considered to be "junk" by many consumers. Producers who cannot meet these rising demands, even for the mass-produced items, may be discovering that the above claim does not hold true.

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- A more general depression of the national economy has possibly led to a production glut. The trend towards reducing and eventually eliminating food subsidies are requiring that greater percentages of income be spent on food. While basic clothing articles can be considered a necessity, higher-priced, more fashion-oriented articles are luxuries, demand for which is subject in most cases to the whims of the marketplace.

ENGINEERING SECTOR

a. High awareness of competition: In contrast to producers studied in the ready-made garment sector, engineering producers revealed a greater awareness about the domestic market in general and their competitors in particular. One obvious reason for this is the greater availability of published data from various governmental sources which provides engineering companies with information on production volumes for different products (both public and private sectors). In addition, the higher capital intensiveness of engineering firms provides a prime motivator for seeking out market information on competitors.

b. Greater accessing of bank credit: Nearly all companies visited have established working capital lines with local banks and/or have borrowed to finance equipment acquisition. With regard to various USAID credit programs, however, concerns were expressed about the requirement for buying American-made equipment. Producers point out that the loan itself may offer an advantage if it can be repaid in local currency; however, the higher costs for U.S. equipment in comparison to European-produced equipment results in little or no net advantage. Stated preferences for dealing with European manufacturers because of their after-sales follow-up and service capabilities would also appear to influence equipment purchase decisions.

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c. Contact with/access to foreign suppliers, information, technology: Larger companies import anywhere from 25-50% of required production inputs and have thus established relationships with several foreign suppliers. In the areas of both raw materials and equipment, the majority of suppliers are European and, to a lesser extent, Japanese. Company owners appear to travel to foreign fairs and exhibitions regularly, and this contributes to their ability to stay in touch with global industry developments, particularly as they relate to new technologies.

d. Little or no contact with U.S. companies: In nearly all cases, producers indicated little or no interaction with U.S. companies. Two perceptions appear to predominate: 1) Several producers indicated a high desire to make contact with/become more knowledgeable about U.S. companies, either as a materials or equipment supplier or as a potential joint venture partner or provider of technical assistance. Some have attempted to make contact, without success, and others are simply unaware of how to initiate contact. 2) The second perception relates to what has been identified as a "distance" problem--e.g., U.S. companies are too far away from Egypt and this makes producers "uncomfortable" about U.S. companies' after sales service and follow-up capability. Geographical proximity to markets appears to be of major concern to industry producers.

e. Diversified marketing channels: Nearly all of the engineering companies visited have national marketing and distribution networks in place. Several have their own retail showroom in addition to a sales or distribution team which covers areas outside their geographical location. Companies which sell high percentages of finished products to the public sector are complementing promotion activities with direct television advertising.

f. Favorable domestic market: Most producers reported that the domestic market is consuming all that they can produce, and in several cases, production is 3-6 months behind demand. Interest in exporting is either non-existent or is perceived as a possible future strategy.

FOOD SECTOR

Due to the relative importance and high priority given to the food sector in Egypt, we deemed it important to provide a macro overview of the sector, in addition to specific industry characteristics which were revealed through the case study analyses.

Macro Characteristics:

Egypt has become one of the world's major food importers during the last decade. With a population approaching 48 million, a nation which was a net exporter of food less than two decades ago now imports about half of its food needs. Underlying this phenomenal growth of food imports are improved economic conditions associated with the return to a peace-time economy, increasing population growth rates, an extensive food subsidy program, and a stagnant agricultural sector.

Egypt's annual population growth rate grew from about 2.1 percent in the early 1970's to 3.2 percent by 1979, and had moderated only slightly to about 2.7 percent by 1982. Simultaneously, Egyptian consumers were enjoying increased purchasing power derived from peace-time conditions; average diets improved to 3000 calories daily, a 20 percent improvement in less than a decade. Meanwhile, Egypt's overall agricultural production stagnated and the food deficit has been made up by ever increasing imports of most basic commodities.

The most significant dilemma in the Egyptian food sector is that by 1983, Egypt overtook Japan and became the third largest wheat and flour importer in the world after the Soviet Union and China. Thus, Japan, with a population of 119 million, imported 5.8 million metric tons while Egypt, with 47 million, imported 6.4 million metric tons. In fact, Egypt has provided the world's third largest wheat market each year since 1979.

Egypt's overall agricultural imports grew from an average of $210 million annually during 1971-73 to about 4 billion annually during 1981-84. Losses in the distribution channel of basic food and agricultural commodities, in addition to weak agricultural production, the lack of a food industrial development base, and the lack of market information have contributed to major deficiencies in the Egyptian food sector. These deficiencies have turned Egypt into a prime and growing market for the world's major agricultural exporters. Increasing levels of finance have been required -- from $175 million in 1974 to about $1 billion in 1983. The latter figure includes about $730 million in concessional financing from the U.S. and over $160 million in concessional EEC financing.

Egypt will still be a major food importer at the end of this decade. In the early 1980's, Egypt's food production increased by an average of 2.2 percent annually, while demand for food increased by 6 percent annually. Indeed, Egypt is not likely to attain food self-sufficiency in the foreseeable future and its "food gap" may actually worsen before it improves. Several underlying trends strongly suggest this scenario. The continuing high population growth rate, combined with increasing per capita consumption of many basic foodstuffs and only modest increases in domestic food production, dictate the country's continued reliance on imported food.

These macro characteristics of the Egyptian food sector suggest the need for quick and decisive action to develop the agro-industrial and food industrial bases in Egypt. Our case analyses of thirteen small and medium-scale enterprises identified a number of specific characteristics and needs which must be addressed if private sector food processing firms are to continue to make a positive impact on overall sectoral performance.

Micro Characteristics:

a. Skilled labor shortages in the food industry represent a major problem. These shortages are a result of:

1. Low wages and salaries for skilled personnel which causes migration to other Middle Eastern countries;
2. Shortages of training centers;
3. The failure of the Egyptian educational system to meet the country's development policy and future needs.

b. Lack of modern up-to-date technology for food distribution activities: The shortage of modern technology in food distribution channels in Egypt has contributed to significant food losses. These losses have reached 40% in some cases. The business activities which require technological improvement are: 1) warehousing and storage; 2) refrigerated transport; 3) grading; 4) packaging; and 5) quality and health control.

c. Governmental intervention: In some cases, governmental laws and regulations have prevented companies from faster growth. Examples are the prohibition of imported packaging materials and lengthy processes associated with dealing with the Import Rationalization Committee. Furthermore, the competitive imbalance between large public sector firms who enjoy governmental subsidies on basic inputs and small-

scale food processing firms who do not enjoy the same advantages, makes it extremely difficult for private sector firms to thrive.

d. Lack of marketing knowledge and information: The lack of knowledge about consumer product acceptance, tastes, affordable prices, paying habits, classified by geographical location, makes it difficult for small-scale food companies to gauge consumer demand. The Ministry of Agriculture has developed an extensive data base of information on agricultural production, but to date, few statistics are available on food processing activities.

e. Insufficient credit and financial programs to meet the challenge of food self-sufficiency: The agricultural credit and development banks offer subsidized interest rates on food security loans. However, the mechanisms for accessing these loans is not clear to many producers. Knowledge and information about credit and financial programs are generally available to larger firms but to a much lesser extent for small-scale enterprises. In addition, lengthy loan application procedures would also appear to limit opportunities for faster-paced growth. In other cases, due to the high risks involved with some food projects, banks are reluctant to extend finance (turkey, poultry, livestock, etc.).

f. Lack of management training institutions to support food industrial development: Managers of agro-industrial and food projects in Egypt are in essential need for training in the area of food processing, grading, canning, packaging, etc. Training for such activities is virtually non-existent. In some cases, food science departments in local universities offer courses in these areas but courses are available only to registered students. The simplification and practical application of such courses through extension activities appears to be warranted.

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g. Limited contact with foreign companies: Many small and medium-scale private sector food processing firms are located in the rural areas of Egypt. Their managers are generally unaware of technological developments in the food industry and they have little contact with larger companies in Cairo or Alexandria or with foreign companies which may be able to provide technical assistance or participate as a joint venture partner.

2. Problems Relating to Productivity

The case studies identified several constraints in a number of key areas which adversely affect SMEs. By major area, we have listed constraints and problems common to all SMEs and where noted, constraints which appear to be industry-specific.

a. LABOR/TRAINING

Shared Constraints:
- Inability to fire employees easily
- 40% Social Insurance rates
- Labor migration
- Lack of vocational training
- Competition from new investment companies.

Garments
- Female preferences for not working after marriage
- Low image associated with the industry

b. RAW MATERIALS

Shared Constraints:
- Lack of availability in local market
- Lengthy import licensing procedures
- Import restrictions on needed inputs (e.g., packaging, fabric, accessories, etc.)
- Procurement delays, particularly when buying from public sector companies

Food
- Seasonal shortages
- Government subsidies

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Garments
- Low quality, including color, finishing, fabric widths, accessories

c. MARKETING/DISTRIBUTION

Shared constraints:
- Inability to forecast demand, resulting in little advance production

Engineering
- Production quotas on some items, e.g., washing machines

Garments
- Limited marketing channels
- High dependence on the public sector
- Relatively high costs for locally produced fabrics

Food
- Inadequate infrastructure (handling, storage, transportation)
- Inability to compete on price basis with subsidized food items

d. CREDIT/FINANCIAL SERVICES

Shared constraints:
- High interest rates
- Lengthy and complicated loan application procedures
- Unfamiliarity with banking procedures
- Collateral requirements which are perceived as unfair

e. TECHNICAL ASSISTANCE/MANAGEMENT SERVICES

Shared constraints:
- Lack of knowledge regarding existing services
- Low credibility associated with government provided services

f. TECHNOLOGY

Shared constraints:
- Lack of information on new technologies
- Poor factory lay-out
- Lack of quality control experts

Food
- Sanitation
- Inadequate packaging
- Non-availability of food technology experts

Garments
- Sanitation

g. GOVERNMENT/REGULATORY

Shared constraints:
- Constantly changing rules and regulations
- Difficulty in understanding current laws
- Preferential customs rates for public sector companies
- Lengthy import licensing procedures
- Lack of incentives to encourage exports
- Import restrictions on needed and desired inputs (e.g., lycra for swimwear) which reduces overall quality and attractiveness of finished products
- Unpredictability of business environment

Food
- Government subsidies
- Price ceilings

h. INFORMATION/SERVICES (Where specifically expressed as such)

Shared constraints:
- Unreliability of government statistics
- Lack of information on: domestic market, alternative sources of supply and price, spare parts, new technologies, credit availability, existing services, training opportunities, export markets, international fairs, and exhibitions

i. SUB-CONTRACTING

Shared constraints:
- Dependence on public sector as buyer subjects firms to wide fluctuations in production schedules, depending on national economic conditions

Engineering
- Perceived lower quality production of public sector companies stifles interest in supply-related sub-contracts

Garments

- Major dependence on public sector as primary marketing channel impedes development of additional marketing outlets

j. INFRASTRUCTURE

Shared constraints:

- Electricity shortages (more frequently reported by Alexandria firms)
- High cost of land resulting in delay of expansion activities
- Key money required for establishing retail outlets

3. Characteristics of Success

Naturally, all of the elements of business, from bookkeeping to general management, are the key characteristics of success. However, some specific features were identified during the case study interviews.

READY-MADE GARMENT SECTOR

The 12 garment factories studied revealed a wide diversity in management styles and operational modes. The following characteristics have been identified as key variables of successful garment companies. Three companies (Case Study #3, 4 and 11) possess all or most of these characteristics.

a. Excellent labor relations: All garment producers cite the lack of formalized training programs. Yet, successful producers have initiated "internal" training programs that work. This is underpinned by a very clear management attitude that given proper guidance and supervision, Egyptian laborers can be trained to be both production and quality-oriented.

Furthermore, the creation and fostering of a "healthy" work environment, where the example set by management is reflected in the attitude of employees, correlates closely with the minimization of labor problems.

b. Wages exceed the industry average: The lowest monthly wage reported was LE 60; the highest 500 (excluding cutters). Compensation is always a major incentive for any employee and the garment industry is no exception. A producer in Alexandria, for example, states he could double his production if he could hire more skilled laborers, yet he is paying a current average salary of LE 60/month. Compensation alone, however, isn't the prime motivator. Labor relations takes precedence and in the more successful factories, there exists the combination of both factors.

c. Quality production: Ironically, all factory managers believe they are producing "quality" clothing, which points to a wide interpretation of the word itself. Though the research team did not include a "quality" expert, there were very distinct differences among factories with regard to finished products. The more successful companies are in fact reaching what might be considered an export standard.

d. Minor dependence on public sector as a marketing channel: As pointed out in "Industry Characteristics," this factor is a crucial one for the industry as a whole. Successful garment producers have diversified their marketing channels, either by establishing their own retail outlet, by developing a rather extensive sales and distribution network or by exporting. The other extreme is reflected by producers who are overwhelmingly dependent on the public sector as a buyer and are either indifferent, financially unable or do not know how they can improve sales by tapping additional outlets.

e. Knowledgeable about existing services/support institutions: Most producers expressed a desire to begin exporting but very few, for example, are aware of the Egyptian Export Promotion Center (EEPC). Owners of the more successful factories are members of various local and international groups (EBA, Egyptian-American Chamber of Commerce, etc.) and are generally more aware of what services/assistance exist and how to access them.

f. Good access to information: Successful producers have established a network of both local and international contacts that provide them with information on available fabric and accessories supply, fashion trends and developments, new technologies, foreign trade fairs and exhibitions, and export/import regulations and procedures.

g. High degree of professional competence: The financial requirements for setting up a garment operation are relatively low. The acquisition of a couple of sewing machines and renting a small flat in an old apartment building often suffices. Producers who follow this route are not necessarily incompetent, but by the same token, many would not be classified as "industry-smart." Of the factories visited, there was an indication that some owners knew very little or nothing at all about garment-making before starting their operation. This lack of knowledge is a limiting factor in employee training and production quality. The three producers who shine above all the rest are industry professionals as well as good businessmen (women).

h. Exporting and/or high potential to export: This success characteristic related both to the level of production quality and the ability of the producer to tap export markets. Again, the ability to stay current in terms of information and knowing what local and international institutions may be able to provide assistance are key ingredients for developing an export potential.

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ENGINEERING SECTOR

In general, the analysis of engineering companies revealed considerably higher growth rates among companies in terms of capacity utilization, expansion activities and market diversification than was the case in the ready-made garment sector. Key characteristics of the more successful companies (Case Study #15, 27, 30 and 31) include the following:

a. Owner's long years of experience: Several of the companies which are prospering today were founded 30-40 years ago. Among these owners, several had their factories nationalized in the 1960's but continued to stay in touch with industry developments and eventually reestablished a new operation, which according to them, grew rapidly after the initiation of the Open Door Policy in 1974. Many of these are family-owned businesses and are moving into the second generation of management and control.

b. Ability to access credit: Though very few of the companies accessed credit for the start-up of their operation, the more successful companies are now succeeding in obtaining credit to finance factory upgrading and expansion activities. Some have endured rather lengthy loan application procedures and others report little problem in accessing credit from local banks and equipment manufacturers. Experiences cited with the Development Industrial Bank (DIB) were predominately negative and there appears to be a marked preference for dealing with private rather than government lending institutions.

c. Expanding and/or equipment upgrading, including the introduction of more efficient production techniques: Many of the older companies visited have already gone through 3-4 stages of expansion; among the newer establishments, companies are planning for a second stage of expansion. With the exception of one company, the case studies

revealed a high level of focus on both physical expansion and equipment upgrading. High-technology equipment is being purchased from Europe and increasing attention is being given to factory lay-outs. In addition, there is evidence of a high degree of creativity and innovation among the entrepreneurs visited. More successful ones are duplicating pieces of imported equipment and beginning to manufacture in-house production components and spare parts.

d. Formalized training activities: All producers cited problems of skilled labor shortages. The more successful ones have established an in-house training program with area vocational schools and/or are receiving technical assistance through organizations like EIDDC.

e. Savvy about competition/local market: As mentioned earlier, engineering companies in general appear to be much more aware of their own market position as well as those of major competitors. Companies which are growing rapidly appear to be particularly well-informed about the domestic market.

f. Product diversification: Many private sector engineering companies are in direct competition with larger public sector companies. In the case of washing machines, for example, producers are subject to production quotas. Thus, the more successful companies are diversifying product lines and, in some cases, are diversifying into areas where the product in question is not being produced by public sector companies.

g. Modern marketing techniques: An increasing use of newspaper and television advertising can be found among high-growth companies.

h. Individualized channels/access to influential government regulatory officials: Complaints regarding government regulations, particularly import policies, run high. Difficulty in obtaining import licenses and restrictions on some items (e.g. packaging materials)

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result in frequent production delays. Producers which have established a network of individual contacts with various government officials and influential individuals report fewer problems with government/regulatory agencies and procedures.

i. Good to excellent labor relations: Labor relations among engineering establishments appear to be less of a factor than in ready-made garments. Nevertheless, the demand for skilled technicians is quite high throughout Egypt and heavy competition for labor exists among engineering companies. Of the companies studied, those which have on-going programs for basic training and skills upgrading, coupled with progressive management attitudes about labor in general, are experiencing fewer problems with labor turnover.

FOOD SECTOR

a. Labor/training Policies:

i. On-the-job training programs that incorporate teenagers of high-school drop-outs have proven to be successful approaches for training skilled labor.

ii. Competitive salaries and continuous salary increases, accompanied by the treatment of labor like part of the "family" reduces labor turnover problems in the more successful companies.

iii. The involvement of middle management by offering stocks in the company is a successful approach for creating company loyalty.

b. Government issues: More successful companies have extensive contact with government officials who assist them in dealing with government policy and regulatory matters. In addition, companies which

are able to reach top officials in the government report fewer problems with government procedures in general.

c. Knowledge and information: Managers and decision-makers who travel abroad and attend international shows and exhibitions are more successful relative to those who do not. Such travels enable them to increase their awareness of new technologies and foreign market developments for both their own product input and output.

d. Credit and Finance: More successful firms have contacts with and access to credit institutions, especially food security loans.

4. A Few Lessons Learned

The 36 case analyses revealed a wide array of company approaches to on-going problems and operational constraints. In Sections II-1 and II-2, we highlighted key constraints, some of which are being successfully overcome and others which appear to fall outside of individual firms' control. In Section II-3, we identified important variables which characterized the more successful firms. Space does not permit the elaboration of all details forthcoming from the case analyses. We have thus chosen to conclude this section of the report with several specific examples of how SMEs are coping in the current business environment.

- Purchasing imported fabric through black market channels in Port Said
- Underinvoicing on imported materials
- Utilizing the services of local import firms to avoid regulatory hassles
- Extending loans to employees for the purchase of flats
- Cutting away poor quality or mis-matched materials and passing the loss onto consumers

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- Unreported sub-contracting with outside individuals to avoid Social Insurance payments
- Purchasing 5-year supplies of spare parts with new equipment
- Offering stock options to company employees
- Paying workers on a daily basis to reduce absenteeism
- Organizing a group of garment producers as a legal entity
- Use of a video monitor to observe salaried employees
- Paying employees to try and hire away personnel from other factories
- Pay-offs to government officials
- Fabricating additional equipment using imported models as patterns
- Advertising in local newspapers to create awareness about government policies
- Operating an import-export trading company to facilitate export sales
- Manufacturing for export using raw materials imported under bonded consignment
- Hiring foreign experts to train key staff, then setting up an internal training center
- Special pay and benefits for long-tenured (over 5 years) employees

III. INSTITUTIONAL SURVEY

A. INTRODUCTION AND SUMMARY

To complement the insights gleaned through the 36 case study analyses, an inventory of institutional support to SMEs was conducted among 21 public and private sector organizations. The institutional interviews were based on a single visit with key representatives of the organization. There were few opportunities to cross-check and verify all the facts, and we therefore apologize for any inaccuracies, errors or omissions. The survey was conducted to provide an overview of current institutional support to SMEs and to focus on existing programs, services and information relevant to small business needs.

On the next page is a comprehensive list of all institutions considered during the study. Some of them, marked "X", were not interviewed, but were referred to by the case study interviewees. Those marked "+" were interviewed at length by the study team and written summaries based on these interviews comprise the balance of this chapter.

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LIST OF INSTITUTIONS

+ American Chamber of Commerce in Egypt
  Central Agency for Public Mobilization and Statistics
+ Development Industrial Bank
  DRPTC/Cairo University
+ Egyptian American Bank
+ Egyptian Businessmen's Association (including US-EBC)
+ Egyptian Chamber of Commerce
+ Egyptian Export Promotion Center
+ Egyptian International Business Center
+ Ein Shams University, Faculty of Agriculture
+ Engineering and Industrial Design Development Center
  GASC/Ministry of Supply
+ General Organization for Industrialization
X Handicrafts and Industrial Products Cooperative
X International Executive Service Corps
+ Ministry of Agriculture
  Misr Iran Bank
+ Nasser Bank
+ Productivity and Vocational Training Department, Ministry of Industry
X Society of Egyptian Engineers
+ Textile Development Center

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B. INSTITUTIONAL PROFILES

AMERICAN CHAMBER OF COMMERCE IN EGYPT

BACKGROUND

The American Chamber of Commerce in Egypt was established in 1982 and is one of 50 American Chambers of Commerce operating outside the U.S.A. The objectives of the Chamber are to promote trade and investment between the U.S. and Egypt; to provide liaison with the U.S. Chamber of Commerce; to provide forums in which American and Egyptian business executives can identify, discuss and pursue common interests; and to work with individuals and organizations in Egypt on matters of mutual concern.

Chamber objectives are carried out through monthly luncheons, special forums and events, and on-going committee work related to specific member interests (e.g., Construction, Finance, Industrial Production, etc.) Chamber activities are overseen by a Board of Governors and day-to-day operations are presently conducted by a staff of 13 in two locations, Zamalek and Heliopolis. The Chamber publishes a monthly newsletter and has just commenced publication of a bi-monthly journal called Business Monthly which is circulated to over 2,000 top corporate executives in Egypt and the United States.

Current Chamber membership totals 325; annual dues are LE 1,000 per year. As a private, non-profit voluntary association, Chamber activities are principally funded by local membership dues.

ANALYSIS AND IMPLICATIONS FOR SMEs

Like the EBA (Egyptian Businessmen's Association), the American Chamber of Commerce in Egypt represents an influential body for promoting private sector interests. The Executive Vice President of the Chamber strongly believes that the economic development of Egypt rests with the private sector. As such, the Chamber supports (along with the EBA and the U.S.-Egypt Business Council) the establishment of a business development center targeted to serve small and medium-scale businesses. The development of small and medium-scale businesses is viewed as an extremely important task which will serve the entire Egyptian and American business community in Egypt. Cooperation and dialogue with these various groups is essential for developing an overall assistance strategy.

DEVELOPMENT INDUSTRIAL BANK (DIB)

BACKGROUND

The Development Industrial Bank of Egypt is a governmental financial institution with paid up capital of LE 34 million as of 1983. The Bank started operations in 1976 with the major objective of financing and developing private sector industrial projects in Egypt, in order to lessen the burden on the Egyptian balance of payments by encouraging the manufacture of locally made machinery and equipment. Additional objectives include:

1. To motivate project development in the new community development cities and in the rural areas of Egypt;

2. To introduce new and appropriate technologies to local industry and the encouragement of new industries;

3. To promote and extend finance to small scale, labor-intensive projects throughout Egypt. Over the past 7 years, 32% of total DIB loans have been extended to small-scale industries; and

4. To activate the stock market in Egypt by promoting subscriptions in shares and bonds issued by projects supported by the Bank.

FINANCIAL RESOURCES

In addition to its LE 34 million in paid up capital, the DIB receives approximately 70-80 percent of its financial resources from international organizations, including the World Bank, African Development Bank, European Investment Bank, German Development Bank, Credit Suisse, and the Islamic Bank (Jeddah), OPEC and USAID.

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DIB FINANCIAL POLICY

1. The Bank extends two types of loans:

   a. subsidized loans for food security projects with interest rates of 7-8%;
   b. loans for all other projects at market interest rates (currently 16%).

2. Medium and long-term loans require that a feasibility study be conducted by the Bank's technical staff. The cost of the study is a percentage calculated on the amount of the sub-loan. For small and medium-size companies, Bank officials report that the cost of a feasibility study never exceeds LE 300. Study costs are refunded to customers if no finance is extended.

3. Short term (less than one year) loans do not require a feasibility study.

4. Loans in excess of LE 500,000 require approval from the appropriate international funding agency.

5. The Bank adheres to a strict collateral policy which depends on the status and financial position of the customer and the Egyptian legal environment.

6. Recently, total loans provided to small-scale enterprises amounted to about 60 percent of the World Bank financing. The World Bank would like the DIB to increase this percentage to 80% of total WB funding. Small-scale enterprises are defined by the DIB as those firms with fixed assets of 570,000 LE excluding land and buildings; semi small-scale enterprises are defined as those firms with 285,000 LE in fixed assets.

ACTIVITIES RELATING TO SMEs

In addition to the extension of credit to small and medium-scale industries, the DIB is also seeking to expand its client services. In collaboration with EIPDC, the DIB is providing technical assistance and advice through field extension activities. Approximately LE 100,000 is currently being spent on this joint effort. The Bank is also assisting businesses to participate in local and international shows and exhibitions.

CASE STUDY FINDINGS

The case study analyses indicated two major complaints about the DIB as a financial institution:

1. complicated and lengthy loan application procedures, requiring more than one year in some cases; and
2. unreasonable collateral policies which require excessive guarantees for significantly smaller loan amounts.

DIB RESPONSE

1. In relation to the first issue, DIB officials indicated that some loans (amounts exceeding LE 500,000 require the approval of the international funding institution in Washington, Europe, etc. Application delays in these cases are thus out of DIB's control. For loans less than LE 500,000, Bank officials report that the application process should not take more than three months. This was not the case reported by most of the companies visited as loan amounts applied for did not exceed LE 500,000. In all cases, the reported length of time was one year or longer.

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2. The DIB's response to the second issue is that since mortgage policies are not in force in Egypt, and much real estate is not legally registered, it is very difficult to place a lien on private property. In addition, legal processes which deal with this issue are very lengthy and complicated. Egyptian businessmen generally have more than one set of business records, one for tax purposes, another for their banker and a third for their own use. Some have no records at all. In such businesses, the Bank seeks to secure its resources by imposing strict collateral requirements.

Finally, Bank officials point out that it is impractical to impose collateral requirements based on half or one-quarter of a building. In the case of loan default, the DIB seeks to recoup its losses by selling any assets at reportedly, well below the actual market value of the assets.

ANALYSIS AND IMPLICATIONS FOR SMEs

The concerns expressed by several of the case study subjects with regard to DIB procedures may suggest the need to expand the Bank's technical assistance program in order to gain further insight into the problems faced by SMEs in their attempts to access Bank credit. The discrepancies between statements made by small and medium scale entrepreneurs and subsequent Bank responses might further suggest that credit and services are not being delivered in a reasonable and timely manner. The DIB is a crucial support institution for the development of SMEs; efforts to improve credit delivery mechanisms would appear to be warranted.

THE EGYPTIAN-AMERICAN BANK (EAB)

BACKGROUND

The EAB was formed as a joint-venture in 1976 between the Bank of Alexandria (51%) and the American Express International Banking Corporation (49%). The EAB offers complete commercial banking services and operates as a local bank in Egypt, able to deal in both local and foreign currency. The Bank is not a major lender to SMEs, and due to its joint venture status, is allowed to participate in only one of USAID's credit programs, the Commodity Import Program (CIP). Out of a total of US $67 million allocated for the CIP last year, the EAB's share, together with Chase National's, was US $5 million. EAB officials report that the majority of the CIP funds are channelled through the DIB and that ultimately, the Egyptian Government and USAID decide what amounts of funds are to be channelled through varicus banking institutions in the country.

ACTIVITIES RELATING TO SMEs

As stated, the EAB is not a major supplier of credit to SMEs. It is limited in its activities because it does not have an extensive national branch network. In an interview with the General Manager of the EAB, Mr. Imran Khan, the discussions thus focused on problems faced by small businesses in accessing credit and general banking issues.

1. Collateral Requirements and Loan Application Procedures: Khan pointed to a frequent occurrence where business records are in the businessman's head but not on paper. Loan applications are, therefore, handled by an investigation department of the Bank which conducts a thorough check on the business itself and the owner's credit reputation with other banks. With regard to

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the latter, Khan says that unlike the U.S., for example, Egyptian banks have not yet developed an efficient cross-referencing system on clients and are therefore forced to spend considerable time and money in obtaining credit information on a prospective client, thus lengthening the overall loan application process. In general, Khan believes that the collateral requirements imposed by Egyptian banks are both warranted and fair.

2. Lack of Industry Data and Information: The absence of or contradictions in available information places banks in a difficult position when attempting to evaluate the credibility and potential profitability of a new project which is seeking to access credit. For example, if a garment producer is seeking to expand his/her factory, the bank is hard-pressed to obtain information on the market for garments, where the market is headed, and whether expansion makes sound economic and financial sense both for the business owner and for the bank. The lack of industry-specific information is a serious problem for the banking system in general, and Khan believes that many banks, including the EAB would support and participate in a networked business and market information system.

3. Lack of "Professional" Bankers: Private sector banking is relatively new in Egypt and the industry suffers from a lack of trained and qualified professionals. There are no educational institutions which currently offer a solid M.B.A. program and this limits the development of the industry as a whole.

EGYPT INTERNATIONAL BUSINESS CENTER
(EIBC)

BACKGROUND

The EIBC was founded in January 1985 as a private sector for-profit (joint stock) company to serve the Egyptian economy. Formerly, the EIBC was known as the Delta International Business Center (DIBC) which had been in existence 5 years prior to the Center's recent reformation and reorganization. The DIBC had a total membership of approximately 200 private sector individuals involved in tourism, manufacturing, trade, business, etc., and it offered a wide range of business, economic, and consultancy services. The organization was solely funded by member dues which were LE 1,500 per year for an individual membership and LE 5,000 per year for a corporate membership.

According to the new President and Chairman of EIBC, the majority of the Center's members (when it was the DIBC) lost confidence in the organization as members began to recognize great imbalances between actual services provided and annual dues. This loss of member confidence prompted the recent change of names to the EIBC and an overall restructuring of the organization.

EIBC's Chairman, former Minister of Tourism, Adel Taher, explained that his first objective is to change the image of the Center and win back members' confidence. With regard to services, the EIBC is planning on offering a diverse range of technical and public relations services which will be provided by EIBC's current staff of 7 professionals. There is, however, a rather severe budget constraint at present; the annual working budget amounts to only LE 10,000.

ACTIVITIES RELATING TO SMEs

Presently, the EIBC has no specific programs targeted to the small business sector. The EIBC Chairman, however, states that a major goal of the Center is to begin working with the Federation of Egyptian Industries and the Egyptian Chamber of Commerce to "bring together" small businessmen and provide a meeting place for discussion of common problems.

CASE STUDY FINDINGS

Only one company (Case Study #1) reported interaction with the old DIBC. This owner attended a DIBC-sponsored seminar on "Packaging", and evaluated it as ineffective because everything but packaging was discussed. Taher reports that the Center's attempts to host seminars have not been very successful. Three months ago, 600 promotions were sent out on a "Management Skills and Development" Seminar; only 6 affirmations were received and the seminar was subsequently cancelled.

ANALYSIS AND IMPLICATIONS FOR SMEs

Despite its current reorganization, the EIBC remains in a precarious stage of development. Regaining members' confidence in and of itself is a formidable task and one which will probably require a long period of time.

In the interim, the EIBC Chairman has an extensive network of government and business contacts. If he follows up on his goal of bringing together groups of small businessmen, and if the organization can develop sounder footing, the EIBC may warrant closer attention as a possible support institution to the sector.

EGYPTIAN BUSINESSMEN'S ASSOCIATION (EBA)

BACKGROUND

The Egyptian Businessman's Association (EBA) is a private, non-profit body which seeks to promote the economic development of Egypt by:

- Creating a suitable economic climate for business;
- Fostering problems and issues faced by Egyptian businessmen, particularly by making recommendations and proposals for positive change through on-going contact with governmental agencies;
- Encouraging a greater role for businessmen in policy and decision-making processes; and
- Developing commercial exchanges and investments with foreign countries.

The EBA has been active since 1979, and in the past two years, has been extremely effective in advancing its stated objectives. EBA functions are carried out by "Action" Committees which seek to study problems and offer recommendations relating to specific economic/business issues -- e.g., import, export, investment, agriculture, taxes and customs, currency policy, legislation, tourism, petroleum services, construction and industry and "Joint" Councils which comprise working groups from Egypt and various foreign countries seeking to promote trade and investment. Joint councils are currently in place with the U.S., Canada, Italy, France, Germany, South America, the Gulf States and Jordan.

The work of EBA's various committees and councils is brought to fruition by regular communication and on-going negotiations at the highest levels of government. Monthly meetings are held with various Ministers and an annual all-day conference is held with the Prime Minister.

Membership in the EBA is somewhat restrictive -- e.g. members must be an Egyptian national, have an established reputation and at least 10 years experience in some economic activity as an owner, chairman, managing director or other position with ultimate decision-making authority. Current membership totals 250 and, simply put, they represent the "creme de la creme" of Egypt's business community. Membership fees are LE. 500 upon approval of an application by the EBA Board and LE 500/year thereafter. The Association recently moved into its new offices in the Nile Tower Building which was paid for by an LE 2000 contribution from each EBA member. Annual dues and member contributions fund EBA's multiple activities.

The EBA has close linkages with the U.S.-Egypt Business Council and the American Chamber of Commerce in Egypt (approximately 70% of the Chamber's members are members of the EBA). On-going dialogue among these organizations serves to give greater collective weight to the pressing issues and problems facing the business community.

ACTIVITIES RELATING TO SMEs

A concept paper proposing the establishment of a "Business Development Center" is currently being fostered by the EBA, the U.S.-Egypt Business Council and the American Chamber of Commerce in Egypt. In brief, the objectives of such a center would be to provide a reliable source of business information and business development skills to the private sector, particularly to facilitate the needs of small and medium size companies. The proposal advocates an independent status for the center but strongly recommends that the ideas, concerns and directions provided by its users and by representatives of various private sector organizations be an integral, on-going aspect of the Center's focus.

CASE STUDY FINDINGS

Two of the small business owners visited are members of the EBA and they offered high praise for EBA's efforts to address concerns of private sector companies. A proposal currently fostered by the EBA to extend the duration of import licenses to one year is recognized as the kind of critical issue which needs to be addressed in order to make the Egyptian business climate more favorable. The adoption of such a progressive policy would directly benefit thousands of small businesses which are presently subjected to losses in both time and money because of current import policies.

ANALYSIS AND IMPLICATIONS FOR SMEs

Though not a large support institution in terms of either members or finance, the EBA represents an important vehicle for the development of the Egyptian private sector. Philosophically, the EBA is committed to the development of the small business sector as assistance to the sector will strengthen both the private sector and the overall business and investment climate in Egypt. The on-going activities of the EBA point to a serious and purposeful attempt to develop the private sector; this organization should be included in any overall assistance strategy for SMEs.

THE EGYPTIAN CHAMBER OF COMMERCE

BACKGROUND

The Federation of the Egyptian Chamber of Commerce was established in 1955 to coordinate the activities of individual chambers which were established prior to 1955. Currently, there are 25 local chambers throughout Egypt which comprise a total membership of approximately 3 million. The Federation is managed by a 25-member Board, 6 of whom are appointed by the Government. The Board elects a Chairman who oversees the day-to-day activities of the Federation office which has a present staff of 80 people.

The network of local Chambers of Commerce is funded by member dues which average between LE 1.00 and LE 10.00 annually. Ten percent of all Chambers' budgets are allocated to the Federation office to fund its on-going activities. Chamber membership is a mix of both public and private sector companies. All Egyptian commercial businesses are required to register with the Chamber; membership, however, is not obligatory.

The stated objectives of the Egyptian Chambers of Commerce are to promote trade and commercial activities among members and to represent members in all fields by trying to influence new legislation before it is put into effect. (Several chamber members are also members of the Egyptian Parliament.) Joint councils have been established with several countries (Greece, Turkey, Spain, U.K., U.S., etc.) and members are reportedly able to access information on trade and the economy from their respective Chamber. At present, however, none of the Chambers' information, including membership rosters, are computerized.

Published information currently includes an annual Trade Yearbook which lists the names, addresses, and telephone numbers of businesses according to sector. The publication of the Yearbook, however, tends to run 2 years behind schedule.

The Cairo Chamber of Commerce is the largest Chamber and has a current staff of 150. (Staff members in the remaining 24 Chambers average between 10 and 12 people.) The Cairo Chamber publishes a monthly newsletter which includes information on import-export regulations and foreign inquiries. Reportedly, 5,000 export-import firms come to the Chamber each month to pick up their copy of the newsletter.

ANALYSIS AND IMPLICATION FOR SMEs

Chamber officials reported no specific activities or programs for small-scale businesses, and the case studies did not reveal any interaction with the Chamber. As an information source, however, the Egyptian Chambers of Commerce represent a key link for any broad business information network.

EGYPTIAN EXPORT PROMOTION CENTER

BACKGROUND

The Egyptian Export Promotion Center (EEPC) is affiliated with the Ministry of Economy; its primary goal is to promote and encourage Egyptian exports. The EEPC was established in 1979 and currently has two offices, one in the suburban area of Dokki and the other in Nasser City. The Center's activities are overseen by a Board of Directors whose Chairman is the Minister of Economy. The Board meets approximately once a year to consider overall policy and direction for the Center; however, considerable autonomy exists in managing day-to-day operations. The Center employs about eighty staff members; Dr. Farouk Shakweer is its Executive Director.

FINANCIAL RESOURCES

The EEPC is partially financed by the Egyptian Government, and due to its very essential role in promoting Egyptian exports, the Center has also received considerable grants and loans from international sources. Recent funding, for example, includes a loan of US $12 million from the World Bank (covering services, technical assistance and administration); an US $8.0 million grant from the Japanese Government; and a US $1.0 million grant from the EEC.

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ACTIVITIES RELATING TO SMEs

Approximately 2000 companies are presently being served by the EEPC. Only ten are public sector companies, but these are industry giants and account for about 50% of the Center's business. Thus, about half of the Center's activities are targeted for the private sector -- small companies which are defined as having somewhere in the range of LE 3 million in capital and medium size defined as firms with capital of LE 5 million and over. EEPC offers the following services.

1. Marketing Information: The EEPC publishes a monthly magazine (Export News) which provides information about foreign export markets for Egyptian products. Regular topics covered include: foreign market prices, international shows and exhibitions, financial institutions related to export credit services, and information about foreign agencies and companies who deal with and/or are interested in Egyptian exports. The above information is compiled and analyzed by a marketing research unit which has 9 researchers working primarily in two major areas: Agriculture (fresh and dehydrated vegetables and fruits, food processing, medicinal herbs and plants, and leather products); and Product Marketing which includes chemicals and medicine, engineering/household appliances, furniture, handicrafts, ready-made garments, carpets and woven products.

2. Assisting and advising export companies in dealing with government agencies involved in export.

3. Technical assistance is strongly provided in the area of packaging as the Center has a packaging institute to help deliver this type of service. Other types of technical assistance include product marketing research.

4. Training: The Center is in the process of setting up a training facility for Egyptian exporters in the Sixth of October. This will be a cooperative program between the governments of Egypt and Japan.

5. Sponsoring participation in international shows and exhibitions: Firms eligible for participation must have at least LE 50,000 in annual sales.

6. Trade Missions: The EEPC occasionally organizes trade missions to other countries. To date 3 missions have been conducted; however, Shakweer indicated that they have not been particularly successful.

7. Regular consultation with the Egyptian Export Promotion Bank to assist EEPC clients in accessing export financing. Dr. Shakweer indicated that one of the EEPC's major problems in delivering services is that currently all information is being stored manually. In addition, the Center has not been able to construct a client directory. Negotiations are presently underway with the Export Promotion Bank to host a joint export information center which would be linked to the International Trade Center in Geneva. This effort will be partially funded by USAID.

CASE STUDY FINDINGS

The EEPC is planning to conduct a pilot program involving 200 companies who are either exporting now or have high potential to become successful exporters. Two of the garment factories visited will be participating in this pilot program and they reported a high level of satisfaction with the assistance provided by the EEPC to date.

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ANALYSIS AND IMPLICATIONS FOR SMEs

Since its inception and particularly in the last two years, the EEPC has developed a good capability to assist Egyptian exporters. The progressiveness of its Executive Director is evident and this should help to foster sound growth for the future. The EEPC is an important support institution and should be included in any overall SME strategy, particularly as:

1. A source of data and information about Egyptian exports, export services and foreign markets for Egyptian exports; and

2. A provider of training programs and seminars for small-scale enterprises involved in the export field.

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EGYPTIAN MINISTRY OF AGRICULTURE

BACKGROUND

The Ministry of Agriculture and Food Security plays an important role as a policy making body for food production in Egypt. Many agricultural crops such as meat, dairy products, etc., are raw materials for the food processing industry. Thus, the success and efficiency of food processing companies depends to some extent on government policies regarding food production. In addition, the Ministry of Agriculture owns 10% of the agricultural land in Egypt in the new, reclaimed areas. This land is cultivated and managed by the Ministry's agricultural engineers, agronomists and technicians.

ACTIVITIES RELATING TO SMEs

The primary focus of the Ministry of Agriculture is on agricultural production. Four years ago, in cooperation with USAID and the Egyptian Government, the Ministry established a "Small Farmers' Project" designed to assist rural farmers to increase their agricultural productivity. The Project is based on a network of agricultural extension officers presently working in three governorates. Credit assistance is an important aspect of the program, and to date, over 25,000 small farmers have received loans totalling LE 35 million. Funds are channelled through local village banks and Ministry officials report a 99.2% repayment record. The overall program is evaluated by the Ministry as very successful as evidenced by a "dramatic increase in productivity in all crop areas since the Project began." Small farmers own 65% of all arable land and 95% of all livestock in Egypt.

CASE STUDY FINDINGS

The analysis of the food companies visited indicated that the Ministry of Agriculture may be able to efficiently supply farm products to private sector food processing companies. The Ministry's larger scale, efficient techniques; better varieties; advanced marketing systems, storage, transport and grading capabilities, could be tapped for improving supply to agribusinesses. The Ministry owns about 0.5 million acres of land distributed among different governorates in Egypt. Some of these lands, for example, produce very high quality fruits and vegetables.

The cases analyzed revealed food processors' interest in directing this type of public farming scheme to be the main source for agro-industrial development in Egypt. This approach would help private sector food processors to improve the quality of their production by using higher quality raw materials, and might also serve to boost food exports, especially in the area of frozen fruits and vegetables.

MINISTRY OF AGRICULTURE RESPONSE

Ministry officials indicated that they have received some inquiries from food processors who have asked the Ministry either to sell its farms or to provide Ministry-produced products to upgrade their overall production quality and expand export potential. The Ministry is in the process of studying such a proposal to help agricultural and food export firms and assist the development of the food processing industry.

ANALYSIS AND IMPLICATIONS FOR SMEs

According to Ministry officials, very little data has been accumulated thus far on the food processing industry. However, the Ministry is the key source of data and information on agricultural production. The Ministry is supported by USAID in a number of projects which generate data and information about the sector which will be useful for the development of small and medium-scale food processors.

EIN SHAMS UNIVERSITY

FACULTY OF AGRICULTURE

BACKGROUND

The purpose of institutional analysis of academic institutions is to study university participation in training programs and technology transfer. The Department of Food Science in the Faculty of Agriculture at Ein Shams University is a relatively advanced department in the food industry. The Department contains about thirty-five faculty members and about 150 students who graduate yearly to take positions as managers in the food industry. The Department is equipped with chemical labs and a food industrial complex which is at present in need of equipment upgrading. This facility is used for the purpose of student training in the areas of meat processing, dairy, preserves and juices. In addition to the undergraduate program, the Department has approximately one hundred graduate students, who are working toward an M.S. or Ph.D. in Food Science.

ACTIVITIES RELATING TO SMEs

Department officials state that most of its research in the area of food science and technology is applicable for SMEs. There is a great deal of applied research in the area of dairy, meat processing, preserves, juices and bacteriology which can be used by food processors to increase efficiency and sanitary conditions in their own factories. These kinds of training require educated managers with a college degree, and the Department does not currently offer training programs to non-university graduates or skilled labor. Department faculty acknowledged that there is a great need for such an activity, but stated that it

would require special programs and funding. They indicated their interest in participating in a program of this kind for training of skilled labor and technicians in the food industry.

ANALYSIS AND IMPLICATIONS FOR SMEs

It was mentioned in some of the cases that technical knowledge and professional and technical training of employees in different factories is needed to increase production and operational efficiency. In other cases, the need to improve sanitary conditions is extremely high. The incorporation of this university into a training program could be beneficial to the agribusiness sector. Such training programs should be simplified to meet the needs of its constituents. In addition, this university might be effective in training SME agro-industrial managers in advanced techniques and practical applications of science to their production processes.

ENGINEERING AND INDUSTRIAL DESIGN CENTER (EIDDC)

BACKGROUND

EIDDC is affiliated with the Ministry of Industry and is one of the prime institutions in Egypt for providing training and technical assistance to small-scale industry. The overall functions and activities of EIDDC have been documented in previous USAID reports (see A.D. Little, Phase I, 1982) so the focus here is on recent EIDDC activities specifically as they relate to the small business sector.

SMALL-SCALE INDUSTRIES DEPARTMENT (SSI)

The SSI Department has been an active part of EIDDC's overall program since 1976. Recognizing the inherent capabilities of SSI to assist small businesses, the World Bank extended a loan of $250,000 to EIDDC in 1979 to develop a pilot project extension service which would provide technical assistance to small-scale industries receiving DIB loans. In 1980, an additional loan of US $1 million was forthcoming from the World Bank, again targeted to increasing SSI's extension service capabilities.

At present, the SSI Department has 7 extension officers in Cairo and 3 in Alexandria. Between September, 1982 and March 1985 (31 months), there were 2,348 field visits; 518 were one-time only visits and 915 were follow-up visits. Total client firms contacted were 1,433. Forty-seven percent were DIB clients. About 75% have 25 or fewer employees, the rest employ between 25-100 persons. During the last month of these statistics (March, 1985), there were 120

totalvisits, 35 of which were new and 85 of which were follow-up visits; 62 of the 120 were DIB clients.

The Industrial Technology Applications Program (ITAP) in EIDDC was originally targeted to serve larger, state-owned businesses. More recently, ITAP has expanded its focus to include private sector companies with fewer than 100 employees.

Since the SSI extension staff is small, about one-third of the businesses do not get follow-up visits; about 100 businesses are visited by a two-member team each month and over 30 new businesses are added each month. This staff should be expanded or supplemented by other extension efforts.*

Philosophically, EIDDC/SSI does not adhere to a strict definition of "small-scale" industry. "SSI has come to mean small and medium industry which in Egypt is really private industry and the fastest growing industrial sector". Therefore, a broad parameter of "up to 100 workers or LE 2 million in invested capital" is SSI's loosely adhered to working definition. Companies larger than this can still receive EIDDC assistance at a higher cost.

SSI services are not free but are priced significantly below the actual cost of delivering the service. For example, a factory requesting assistance on the production of a die would be charged LE 40 which is 40% of the cost of the service. The maximum charge for a feasibility study would be LE 2,000, or about one-fifth of the cost if the same study were conducted by a private firm. The fee structure is based on the size and position of the firm, but in all cases, at least a "nominal" fee is charged which underpins the Department's belief that entrepreneurs place greater value on services and assistance if they have to pay for them.

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* See Appendix for EIDDC/SSI Statistical Summaries.

Funding of SSI is provided by: 1. EIDDC (which includes some matching funds from the Ministry of Industry); 2. DIB (at present LE 100,000 has been allocated by the DIB to EIDDC for providing credit and business assistance to clients); 3. the World Bank; and 4. SSI's own income.

Many of the SSI extension and instruction staff have been trained abroad and the Department is continuously upgrading staff skills. Monthly salaries average between LE 500-700. An on-going problem identified by the Director of SSI is finding good field personnel.

Initially SSI services were targeted to the metal working sector as they represent the largest portion of private manufacturing industry. Other industrial sectors (wood working, leather goods, etc.), have also received SSI assistance. More recently, special attention has been given to the ready-made garment industry. Current plans call for the "specialization" of SSI extension workers in specific industrial sectors.

SSI client contact is made through a number of ways: 1) names forwarded by institutions such as the DIB, GOFI, and the Federation of Egyptian Industries; 2) personal contact through extension visits and subsequent generation of interest by "word of mouth"; 3) the publication and dissemination of EIDDC's quarterly magazine called Industrial Development; and 4) television promotion via a weekly program called "Technology" headed by the EIDDC director, Dr. Yusef Mazhar. With regard to the latter, it appears that many of the case study subjects who have received assistance form EIDDC/SSI first learned of the Center's activities by watching this program.

CASE STUDY FINDINGS

In the 1982 A.D. Little study on small-scale enterprises, one of the "high-priority constraints" identified was the

"... very limited...technical assistance in the form of extension programs. A small pilot program at EIDDC is beginning to provide some technical support, but it is still much too small to have a significant impact on the sector.... Less than 5% of our sample was aware of any technical assistance."

Recognizing that the above conclusion was probably valid 3 years ago, the current case studies revealed a somewhat greater awareness about technical assistance in general, and the EIDDC/SSI program in particular. Though not a statistically valid sample, 9 out of the 36 companies visited have received EIDDC/SSI technical assistance or are aware of the Center's existence and services provided.

Moreover, the feedback form these companies regarding the EIDDC/SSI program was overwhelmingly positive. Factory owners have participated in many of the management seminars hosted by the Center and employees have benefited from short training courses on arc welding, heat treatment, metal working, etc. Several have had on-site visits from the SSI extension teams. With the exception of one factory owner, the EIDDC/SSI services have been evaluated as "very effective" and "very useful".

The one critical evaluation, referred to above, deserves some comment. This particular factory owner (Case Study #14) was seeking EIDDC assistance for the design of a new model for gas cookers. The owner balked when the Center informed him the design would cost approximately LE 3,000. In discussing this situation with Center officials who know the case well, we were informed that the actual cost of producing a new design model is LE 10,000. Further, it was pointedout that the potential increase in sales as a result of the factory's introducing a more sophisticated model would easily cover the "subsidized" cost associated with producing the new design. In summary, the factory owner obviously wanted the assistance to be provided free of

charge. Fortunately, EIDDC/SSI, in its efforts to become self-sustaining, is not a "hand-out" institution. In our opinion, this is exactly the way it should be.

ANALYSIS AND IMPLICATIONS FOR SMEs

The ambitious and determined attitudes of EIDDC/SSI officials to constantly improve their technical assistance and management services programs, coupled with very positive feedback from companies which have received various forms of assistance, renders further strengthening of this institution. In the past three years, EIDDC/SSI has made great progress in assisting the sector and its impact continues to increase. The task at hand is to extend the Center's outreach capability to greater numbers of small and medium-scale entrepreneurs.

GENERAL ORGANIZATION FOR INDUSTRIALIZATION (GOFI)

BACKGROUND

GOFI is a government regulatory agency under the jurisdiction of the Ministry of Industry. One of its primary tasks is to grant formal approval, through the issuance of licenses, to the start-up of any new industrial project or the expansion of existing ones. For projects which have a total cost of less than LE 100,000, the extension of licenses is handled by the Governor in whose jurisdiction the project is located. Joint venture project approvals are handled by the General Authority for Investment (GAFI).

To conduct its review and approval process, GOFI has in place a number of specialized departments divided according to sector. Their job is to: 1) review application documents for completeness; 2) assess the project's viability in relation to the Five-Year Plan; and 3) forward recommendations to the Approval Committee. All new project applications are required to include detailed information about the proposed project: firm name, nature of project, capital, labor, raw materials, building, machinery, equipment, transportation and financial requirements, stages of completion, estimated production volume and capacity, etc. In the case of project expansion, companies must submit information on the nature of the expansion, financial requirements, etc.

ACTIVITIES RELATING TO SMEs

Within GOFI, there is a Small-Scale Industries Department which principally conducts feasibility analyses of projects, primarily in the shoe industry. GOFI officials report that the SSI Department's activities do not include services or information to the SME sector; rather its purpose is to review the viability of proposed projects.

CASE STUDY FINDINGS

In several case studies, interaction with GOFI was cited as but one step in the bureaucratic chain that is required to get approval for raw materials or equipment needs before dealing with the Import Rationalization Committee or the Egyptian Customs Authority. Reportedly, it takes at least one month to obtain such approval from GOFI, and in some cases several months.

ANALYSIS AND IMPLICATIONS FOR SMEs

Due to its regulatory mandate, GOFI represents an important informational source for basic sector-specific information. Beginning in 1985, GOFI will provide a list of all approved projects directly to the appropriate Chamber in the Federation of Egyptian Industries. This sharing of information should assist the Chambers in gathering additional data on the activities within respective industrial sectors.

NASSER BANK

BACKGROUND

Nasser Bank was established in 1972 and lays claim to being the first Islamic bank in the world. As an Islamic financial institution, it does not operate on the interest rate principle but rather, the Bank enters projects on the basis of taking an equity position in the businesses or projects it finances. Furthermore, the Bank deals on an equal basis with the poor and the rich, irrespective of the size of the business. Loans are extended in amounts ranging from several million to only a few thousand LE. The Bank also has a social welfare orientation. On-going social activities include supplementing retirement benefits, and providing grants to university students, to the poor and needy, and to divorced women. In spite of all these social activities, the Bank's financial statement for 1984 indicates a profit of over 27 million LE. Nasser Bank has 24 branches throughout Egypt and a total staff of 2,000.

FINANCIAL RESOURCES

Nasser Bank is a government organization financed fully by the Egyptian Government. It was initiated and started by the late President of Egypt, Gamal Abdel Nasser.

ACTIVITIES RELATING TO SMEs

1) Nasser Bank finances any commercial or trade activity which offers a fast return on investment. The Bank's technical staff (which includes consultants form local universities) studies proposed

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investments and makes a determination regarding their participation within a 1-3 month period.

2) Special Projects

The following are examples of some of the projects which Nasser Bank has initiated or helped to finance:

a. Limousine Services - The Bank owns an 8,000 limousine car service which has become one of the most effective and efficient taxi services between cities in Egypt and within Cairo and Alexandria.

b. Cold Storage Project - The Bank also owns a frozen storage facility with a capacity of 10,000 tons in the city of Tanta. Income from this venture generates additional capital for the Bank.

c. Partnership in Industrial and Business Projects - Recently, the Bank participated in a joint venture project with forty-six companies in several different fields.

d. Loans to Small Businesses which are repaid by installments. Loan amounts range from LE 5,000 on up.

e. Professional Loans - This type of loan is extended to professional people (i.e., doctors, lawyers, dentists) with the Bank taking an equity position in the business. The borrowing individual has the right to purchase the Bank's equity at any time.

ANALYSIS AND IMPLICATIONS FOR SMEs

Nasser Bank is viewed as a closed domestic financial organization which is heavily oriented toward social affairs and small enterprises. It has been very successful in a number of business ventures which ithas

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initiated or helped to finance. There is, however, no clear written document outlining the Bank's policy regarding loans. Each case is treated separately and a final determination is made based on the type of venture and the interest of the Bank in participating. The Bank's contacts with international financial organizations is very limited since they do not deal on the basis of interest rates. Possible participation in any of USAID's credit programs would necessitate careful study and analysis. In any event, the participation of Nasser Bank in any proposed business management and information center might be of mutual interest in exchanging business information related to small business development.

PRODUCTIVITY AND VOCATIONAL TRAINING DEPARTMENT (PVTD)

BACKGROUND

The Productivity and Vocational Training Department (PVTD) was established in 1955 as a branch of the International Labor Organization. In 1956, PVTD was transferred to the Egyptian Ministry of Industry. Today the Department runs the largest vocational training program in the country, operating approximately 37 training centers throughout Egypt. According to the current Five-Year Plan, an additional 28 centers are scheduled to open by 1987. Recently, USAID extended US $17 million to PVTD to establish a training center for copper workers in Alexandria, a garment center in mid-Delta, and a fully equipped audio-visual training center in Cairo.

The vocational aspects of PVTD's activities focus on three types of training. 1) Apprenticeship -- a three-year program whereby trainees spend the first year in academic classes offered by the Department and the second and third years working in an existing company. Compensation is 40 pt./day in the first year and 60 pt./day in years 2 and 3. 2) Accelerated training -- targeted for the welding, sheet metal and blacksmithing industries. 3) Skills upgrading -- designed to improve trainees' awareness of new industry developments. The productivity-related activities include managerial courses for supervisory and mid-level management personnel and a consultancy training institute.

In addition to the Ministry of Industry, PVTD activities are funded by numerous international financial institutions, including the World Bank and bilateral aid agreements with Britain, Germany, Japan, Italy and the U.S.

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ACTIVITIES RELATING TO SMEs

PVTD training is available to both public and private sector employees. At present, however, at least 90% of all trainees are from the public sector. In spite of this imbalance, the Director of the Department does not see a need to target any of PVTD's training activities specifically to the private sector.

CASE STUDY FINDINGS

One case study participant reported that his company has formalized an in-house training program by cooperating with area vocational schools. According to this business owner, the arrangement is working out very satisfactorily.

ANALYSIS AND IMPLICATIONS FOR SMEs

Despite PVTD's extensive vocational training program, it would not appear that SME training needs are being adequately served. Private sector companies have voiced concern about the quality of public sector training, and coupled with the Director of PVTD's admission of "serious problems" within the Department, extensive changes would have to occur before this organization could become an effective support institution to SMEs.

TEXTILE DEVELOPMENT CENTER

BACKGROUND

The Textile Development Center, located in Alexandria, is under the supervision of the Ministry of Industry. The Center was established in 1954 and serves two primary functions: 1) to conduct on-going research activities for the textile industry; and 2) to provide training for ready-made garment personnel. With regard to training activities, the Center has on staff approximately 15 part-time instructors through a cooperative agreement among the University of Alexandria, the Ministry of Industry, and the Center.

Training courses average 3 months in duration and are offered in all aspects of garment-making -- design, patterning, cutting, sewing, fabric technology, etc. Physical facilities include 4 sewing rooms, a design and pattern room, in addition to several standard classrooms. Certificates in garment technology are issued to all participants successfully completing course requirements.

Beneficiaries of the Center's training program have predominantly been employed by public sector companies which pay a nominal fee of LE 200 per employee per three-month course. Private sector employees could participate in the same training courses for a much higher fee -- LE 600 per course, or request a tailored course to address individual needs. To date, however, only a couple of private sector companies have sought training assistance from the Center.

CASE STUDY FINDINGS

None of the 12 ready-made garment companies visited are aware of the Center's training activities, nor are they aware of any other institutionalized training activities in the country.

ANALYSIS AND IMPLICATIONS FOR SMEs

The Center's heavy orientation towards public sector employees in its various training activities renders it an unlikely organization for addressing the needs of small private sector garment producers. The mere mention of "private sector" to Center officials resulted in several negative comments relating to the "selfishness and greed" of private producers in general and pointed to a perceived dislike for assisting the sector in any way.

Further, the Center's location in Alexandria is problematic for the thousands of ready-made garment producers in the Cairo area, particularly small producers who have a stated preference for on-site training assistance.

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IV. THE FEDERATION OF EGYPTIAN INDUSTRIES AND SME DEVELOPMENT

A. INTRODUCTION

The Federation of Egyptian Industries (FEI) and its system of 12 industrial Chambers is the largest parastatal institution in the country. It is the only official institution in Egypt where all public and all private sector companies with greater than LE 5,000 in assets or more than 25 employees, share common membership. One of the primary objectives of this study was to analyze the Federation's current ability to meet the needs of its private sector SME constituency and suggest improvements for meeting SME needs.

Throughout the course of the study, Federation and Chamber officials have been extremely helpful in meeting with and providing information to study team members and in facilitating the selection and appointment scheduling of case study participants. We appreciate the Federation's cooperation and would especially like to acknowledge the time and support provided by the Federation liaison for the study, Eng. Adel Schoeib.

B. OVERVIEW AND ANALYSIS OF THE FEI

To facilitate our analysis of the FEI's current capability to serve SME needs, we focused on three of the 12 industrial Chambers -- Food, Engineering, and Spinning and Weaving, in addition to the main Federation office. The following provides an institutional overview and analysis of the FEI and, where appropriate, information regarding the status of the 3 Chambers under study.

1. Organization and Governance

The Federation of Egyptian Industries and its 12 industrial Chambers were officially formed in 1958 by Presidential Decrees.* The Federation's purpose is to coordinate the activities of all Chambers with various industrial sectors. The Chambers are directed to work on behalf of their member's welfare and to represent them at public authorities.

The FEI is administered by a governing Board comprised of one elected delegate from each chamber and five members appointed by the Minister of Industry. The Chairman of the FEI Board is also appointed by the Minister of Industry. Each Chamber has a board of 15 members, two-thirds of whom are elected from among members; the remaining one-third of Chamber boards are appointed by the Minister of Industry. At present, the composition of some Chamber boards (e.g., Spinning and Weaving) are such that over 50% of Board members are public sector officials. Decisions taken by Board vote can be challenged by the Minister of Industry; the challenge may be overridden by 2/3 of the Board members.

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*See Appendix 2 for translated Decrees establishing the FEI and its Chambers.

Each Chamber board is responsible for appointing a Managing Director who oversees the Chamber's day-to-day operations. This position is a three-year appointment, but historically, it has maintained stability. (The Managing Directors of the Chambers of Engineering, Food, and Spinning and Weaving have occupied their present positions for 15, 10 and 16 years, respectively). The Managing Director is the most visible person vis-a-vis member interaction and influences to a considerable extent the quality and level of Chamber activity.

Because of its organizational Charter and the quasi-governmental status of the FEI and Chamber Boards, there is an implicit bias towards the government's position and public sector business concerns. Members' influence on decisions appears to be proportional to their size. There is no mechanism for aggregation of the concerns of small private sector businesses. Strictly speaking, there appears to be little overlap of the Federation's principal responsibilities and the interest of small private sector business, the subject of this study and report.

2. Market

The total market for the FEI is all Egyptian industrial establishments -- at present, approximately 30,000 firms. The target market is the Federation's membership: each industrial establishment with over 25 employees or assets over LE 5,000 is required to become a member of the appropriate Industrial Chamber. New joint-venture companies are also required to join the FEI; however, Federation officials report that this policy has not yet been fully implemented.

Current Federation membership totals about 9,000 establishments. Less than 2% are public sector companies, but because of their size and influence, they tend to dominate the interests of their respective chambers.

The number of firms in each industrial chamber and the total number of members' products are shown in the following table:

CHAMBER	NUMBER OF MEMBERS	NUMBER OF PRODUCTS
Spinning and Weaving	1,766	68
Engineering	1,083	386
Food	574	78
Printing	753	14
Wood Working	261	27
Cinema	375	1
Cereals	133	15
Petroleum/Mining	48	47
Metallurgy	47	29
Chemical	567	235
Building/Construction	360	21
Leather	2,940	30
TOTALS	8,907	951

3. Services

Beyond general statements of mission and purpose, little is written about the actual services provided by Chambers for their membership, or services requested by the membership. Federation and Chamber officials report that a primary service or role of the FEI is to act as a mediator and problem solver for members vis-a-vis government agencies. Additional services reported by Chamber officials include those listed below.

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Chamber of Engineering:

- Respond to member inquiries
- Periodic notices to members regarding local seminars and conferences
- Monthly price trends information sheet to approximately 50 of the largest members
- Facilitation of meetings between materials-producing companies and end-users of materials who are Federation members

Chamber of Spinning and Weaving:

- Publication of a monthly newsletter which is mailed to all members. Regular topics include articles on legislation affecting membership and export inquiries
- Facilitating contact for members regarding export-import requests
- Organizing member trips to foreign fairs (The most recent trip was scheduled during June, 1985 to Cologne, Germany).

Chamber of Food:

- Respond to member inquiries
- Mediate on behalf of members with government agencies

Our research of 36 case studies gives some indication of service needs and fulfillment, which are reported in a later section of this chapter.

Of the three Chambers being studied, only one (Engineering) has an organized system of member records, but little data is available to characterize the membership as a whole, much less the constituency of particular interest to this study -- small private sector firms. There appears to be no consistent method of accounting for receipt of dues, nor of matching membership status with service requests.

Presently, there is very little outreach capacity; prospective clients must seek out help in the Chambers. The quality of current services, with a few exceptions is regarded as poor. There are no resources of staff, time or budget available for internal training programs.

One significant Federation product is the Yearbook, a compendium of statistics regarding the industries represented by Federation members. A full analysis of the Yearbook with recommendations for improvement appears in Chapter V of this volume.

4. Finance

The 12 Industrial Chambers are funded solely by membership dues which are calculated on the basis of fixed assets. The minimum subscription is LE 25/year,the maximum LE 1,000. By law, each Chamber must give 40% of its income to the Federation to cover services rendered such as legal, public relations, production costs for the Yearbook, etc. In addition, as 60% of the Federation's staff budget is said to be providing shared administrative services to the 12 Chambers, the latter split this cost among themselves. The result is that each Chamber is left with 40-50% of their original dues income as working capital.

5. Staff Resources

The Federation has approximately 135 full-time staff members working in its various departments: Finance, Legal, Personnel, Statistics (Yearbook), Public Relations and Industrial Relations. In the 3 Chambers under study, staff figures were reported as follows: Engineering -- 4 secretaries; Food -- 1 agronomist, 2 secretaries and 2 office boys; Spinning and Weaving -- 2 professionals, 2 secretaries, 2 clerks and 2 office boys. Monthly salaries were reported as LE 40-60 for secretaries and LE 70-100 for mid-level staff.

6. Institutional Relations

The Federation itself has formal relationships with two government agencies. One is CAPMAS, which provides a significant amount of data published in the Federation's Yearbook, and which reviews the finished product. The other is the Industrial Control Department. Various Chambers have informal working relationships with other government agencies, and some are quasi-formal in that a Chamber officer may also be on the board of another group. An example is the Engineering Chamber Managing Director's membership on the EIDDC board.

Evidently, there are very sparse relationships between the Federation and Chambers on the one hand, and any of the private-sector institutions on the other.

C. MEMBER PERCEPTIONS AND FEEDBACK

The opportunity to solicit members' feedback regarding their respective Chamber membership was principally provided through the case study interviews. The involvement of Chamber Directors in the selection process was deemed necessary in order to obtain a balance between "active" and "inactive" members. During the actual interviews, company representatives were asked a series of questions relating to their company's membership in the Federation/Chamber; what services and/or information are provided to them and how would they evaluate these services; what specific needs do they have with regard to information and services; and what could or should the Federation/Chamber do in order to improve its servicing capability.

It is worth reiterating that the size of the case study sample does not lend itself to statistical interpretation. Furthermore, a cross-checking of members' status, including services received, with Chamber Directors after the field interviews indicated that more services have been provided by the Federation/Chambers to these SMEs than member comments would suggest. For the full text of member feedback, see Volume 1, CASE STUDIES.

1. General Perceptions of the Federation

Most of the 36 case study participants perceive the Federation as a public agency. Due to the heavy influence of public sector officials on the Federation/Chamber Boards, interviewed members for the most part do not believe that the FEI, as it is presently structured, is an effective organization for promoting private sector interests. The inability of the FEI to implement recommendations emanating from Chambers and members was cited by several interviewees as a serious organizational constraint. In brief, member comments about the Federation in general reflected a marked desire for changing the organizational status of the

FEI, in order to improve its capacity to respond to and serve the majority of its members, private sector enterprises.

2. Chamber of Engineering

SERVICES/INFORMATION PROVIDED:

Of the three Chambers studied, the Chamber of Engineering would appear to be the most active in supplying services to members. Some of the services/information reported by members interviewed included:

- Problem solving;
- Assistance with exhibitions (e.g., Cairo Fair);
- Fostering concerns of private sector producers;
- Disseminating information on local seminars, conferences;
- Responding to specific requests for information (e.g., technical);
- Providing forums for addressing mutual concerns of public and private sector producers;
- Assisting in the restriction of imported products being produced by members.

Approximately half of the engineering companies reported that their company has a good to excellent relationship with the Chamber of Engineering. The Chamber responds to specific request for information and has played a useful problem-solving and mediator role. Additional requests for services and information included the following:

REQUESTS FOR SERVICES:

- Mediate between public and private sector companies
- Facilitate contact with foreign companies
- Import raw materials for members
- Assist in obtaining finance for raw materials

REQUESTS FOR INFORMATION:

- New technologies
- Training
- Technical assistance
- Domestic/international market conditions
- Alternate sources of supply (spare parts, raw materials, equipment)
- International fairs and exhibitions

3. Chamber of Spinning and Weaving

SERVICES/INFORMATION PROVIDED:

The Chamber of Spinning and Weaving is the largest industrial Chamber with approximately 1,800 members. Chamber officials consider it to be one of the most active Chambers, particularly among spinning and weaving companies, many of which are the largest public sector textile companies. Approximately 15% of the Chamber's total membership is comprised of ready-made garment producers. During the visits with 12 garment companies, producers reported receiving the following services:

- Participation in Chamber-organized trips to foreign trade fairs
- Monthly newsletter*

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*The Chamber of Spinning and Weaving publishes a monthly Newsletter which is mailed to all members. Less than half of the garment companies visited reported receiving the newsletter on a regular basis. Of those who do receive it, they evaluated the newsletter as only marginally useful. A recurring comment related to the newsletter's orientation towards textile companies rather than ready-made garment producers. In addition, some of the information contained in the newsletter, particularly as it relates to export inquiries, is often out-dated by the time members receive their copy.

REQUESTS FOR SERVICES:

- Retain fashion/design expert
- Provide periodic seminars/training for industry personnel
- Explain and simplify government rules and regulations
- Import raw materials for members
- Facilitate import permission on restricted items

REQUESTS FOR INFORMATION:

- New technologies
- International fairs and exhibitions
- Foreign market specifications
- Market buying times
- Domestic market trends
- Likely direction of future government policy
- Alternate sources of supply and price
- New models and designs
- Credit facilities

4. Chamber of Food

SERVICES/INFORMATION PROVIDED:

The Chamber of Food would appear to be the least active in terms of member interaction and services. The current Managing Director of the Chamber of Food reports that the ability of the Chamber to act on behalf of the private sector is quite limited. He acknowledges the need for an extensive restructuring of the organization, including the elimination of the appointment system.

Of the 13 food companies visited, only one reported receiving assistance; and this related to the mediator role of the Chamber in helping to address a company problem with regulatory authorities.

REQUESTS FOR SERVICES:

- Simplify rules and regulations

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- Seek to eliminate government corruption
- Training (e.g., food technology)
- Assist in amending regulations on import licenses

REQUESTS FOR INFORMATION:

- Raw materials (packaging)
- New technologies
- Credit facilities
- International fairs and conferences
- Marketing information on processed meats industry
- Domestic market

5. Concluding General Comments

Approximately half of the 36 companies interviewed indicated that their respective Chamber could improve both its image and service capability by providing the requested services and information outlined above. The remaining companies voiced doubt about their Chamber's ability to provide services and particularly information in an effective and timely manner. Among this latter group, some producers stated that even if the Federation/Chambers provided information, particularly as it relates to the domestic market, they would be skeptical about its validity and credibility, a concern which relates back to their perception of the Federation as a public agency.

V. IMPROVING INFORMATION SERVICES FOR SMES

A. INTRODUCTION

This chapter discusses the information needs of SMEs in two different contexts. In the first, we look at the need for improvements in information services currently being provided by the Federation of Egyptian Industries. Specific recommendations are provided in this chapter rather than in the ALTERNATIVES AND RECOMMENDATIONS volume for several reasons. First, we were specifically asked to provide advice and guidance for improvements to the Federation's information systems. Secondly, the recommendations outlined herein should provide improvement to Federation performance in general, not just to SME services. Finally, the improvements recommended would probably be necessary regardless of what alternative is chosen in improving the delivery of information services specifically targeted for SMEs.

In the second part of this chapter we look at the generic information needs of SMEs, without discussing alternatives as to how these needs should be met. This is left to Volume 3, ALTERNATIVES AND RECOMMENDATIONS.

B. FEDERATION INFORMATION SYSTEMS AND SERVICES

In the first few sections of Chapter V, we make a strong case for the improvement of information systems and services in the Federation and its chambers. However, these recommendations are made with several reservations.

From what we have seen in our on-site visits, we have serious concerns about the ability of the Federation to sustain and effectively utilize any non-trivial improvement in the information services area. It appears to us that in fact there are far more pressing needs in terms of management, staff and facility improvements. There are exceptions in specific chambers, of course; and the level of technology recommended herein is sufficiently robust to operate in a relatively adverse environment. But it would be a waste of money to improve the Federation's information systems without a concomitant improvement in the organization and facility required to transform an information system into an effective information service.

A more serious concern relates to the delivery of information services. The improvements recommended herein would no doubt greatly improve the quality and quantity of written responses to incoming mail requests. However this assumes that all clients know what the right questions are and how to ask them, and that all know how to use the answers provided.

The FEI tends to work in a response mode; i.e., when a letter or call comes in, the appropriate Chamber finds the information and responds. This is only a minute part of SME information needs. It is understandable that larger businesses use the FEI while smaller businesses tend not to. From our case studies of small businesses in Egypt, as well as in implementing programs throughout the developing world, small business owners do not always know what their real problems

are and hence, what information they really need. Further, the information has to be digested and made appropriate for the use of the small business owner. This requires a personal presence in the field which would necessitate a major refocus of the FEI's organization and management. In Volume 3, we make recommendations as to how the FEI can use such a field presence for smaller businesses without resorting to structural reorganization.

C. FEDERATION YEARBOOK

The Federation of Egyptian Industries has the responsibility of preparing an annual Yearbook, a report which summarizes statistics for each Chamber in the Federation, provides an overall assessment of the industrial economy, and includes a section giving basic demographic and socio-economic statistics for the country.

The process of preparing each yearbook edition begins when Federation staff gathers statistics from the providing agencies:

- CAPMAS
- Ministry of Industry
- Ministry of Planning
- Industrial Control Department
- Ministry of Finance
- Ministry of Agriculture
- Central Bank of Egypt
- Ministry of the Judiciary

With these inputs, the Federation's Economic Department compiles separate sets of statistics for each Chamber. It is then up to the staff of each Chamber to prepare and type its part of the Yearbook report in 15 copies (photocopy or stencil). Of these, 10 go to the Federation, which assembles the Yearbook, adding the general sections

which are written by Federation staff. In final typed draft form, the Yearbook is reviewed by CAPMAS. Following that approval, the book is translated and a typed English manuscript is prepared. The Arabic and English editions are then sent out to a contractor for offset printing, directly from the final typed copy.

To prepare the following material, we examined the 1980 and 1981 English-language editions of the Yearbook, and the 1981 Arabic edition. The Yearbook has not been published since 1981 due to reported "legal difficulties" with the printer. At the present time, it is planned to summarize the 1982 edition, and to publish a combined 1983-84 edition.

1. Analysis of Present Yearbook

In this section we will comment on the Yearbook at two different levels -- format and substance. With respect to its actual content, the Yearbook appears to contain many useful and relevant macro-economic statistics which give an adequate picture of Egyptian industry. But in terms of meeting the needs of the small private sector businessman, the Yearbook would be more useful if it broke out production statistics by sector (public and private) and by size of business. Additionally, it would be useful if per-capita consumption calculations were performed, especially if this were able to be done for each governorate.

There appears to be little information concerning the number of business establishments, the amount of capital invested, or the number of workers employed, on an industry-by-industry basis. With such information -- again, broken out by sector, business size and governorates -- it would be possible to produce productivity indicators such as return on capital invested and amount of goods produced per worker hour. Likewise, if the real number of establishments currently engaged in the production of goods were known, the small businessman could know how many competitors he had, and the average amount of

products made by each. We observed too few pages of productivity figures in the entire Yearbook -- page 362 of the 1981 edition, in the Spinning and Weaving Chamber section, is a good example.

All of the above would be even more useful if all the products could be classified according to the Egyptian equivalent of the U.S. Standard Industrial Classification Codes. If well-defined year-to-year categories were used, then, after time, longitudinal studies of production could be depicted in the Yearbook -- for instance, total number of private sector meat packing houses each year 1975-1985.

A full understanding of the statistical requirements of small private sector enterprises is beyond the scope of this report, but we do recommend that the Federation pay attention to the need to introduce major improvements in the substance and utility of the Yearbook for the benefit of this sector. In our opinion, the recommendations made above, together with ideas from others, should be seriously considered for implementation as the most important part of a Yearbook improvement program.

Having outlined what we feel is the top priority, let us turn to matters of presentation. It will be useful if each Chamber were to add commentary and interpretation to the statistics which they record. An examination of the 1980 and 1981 editions of the Yearbook reveals that most of the "commentary" is merely a verbal, space-consuming recitation of the same facts which are presented in adjacent tables. In some of this material, percentages are given, but it would be more efficient to add a percentage column to the table, and, either eliminate the verbose commentary entirely, or replace it with substantive comments. Of the material which we examined, Section I and the first three parts of Section II were the worst in the above respect.

An example is provided below based on page 43 of Section I of the English edition of the 1981 Yearbook. It uses 21 full-width lines to describe the production of processed crude oil (18 in the Arabic edition). In the example below, we have rendered the prose as a table. If it were typed on a 12-pitch typewriter it would occupy about 1/4 page -- a half-column width, 17 lines long. Based on this example and many similar pages in the 1981 edition, and assuming a two-column per page format, we estimate that the information content of the Yearbook could be presented in a volume 1/2 to 1/4 of the thickness of the current Yearbook. This assumes no change of technology other than the use of 12 vs. 10-pitch typewriter.

Section 1 page 43 extract, reformatted:

2. Production of Processed Crude Oil

The net quantity of oil refined in all categories of products produced increased from 1979 to 1980. It is expected that these gains may cover the increasing needs of petroleum products needed for the country.

PRODUCTS	Tons (000) 1979	1980	Percent Increase
Net oil refined	12259	13834	12.8
Butane/butagaz	96	139	40.4
Benzene	1768	1983	12.2
Kerosene/terpene	1629	1979	3.1
Solar/diesel	2310	2521	9.1
Mazout	5533	6417	16.0
Asphalt	212	282	13.0
Other basic	89	102	14.6

Note that arithmetic errors appear in the above table: the butane and kerosene percentages should be 44.8 and 21.4 respectively. These same errors appear in the original Arabic edition. By contrast, errors in the text on page 92 of Section II of the 1981 English edition can be corrected by inspecting the matching table on p. 93. As these errors do not appear in the Arabic edition, we must assume errors in translation.

As the preparation process of the Yearbook does not lend itself to tight quality assurance procedures, and as our spot checks have revealed errors in each case, we conclude that the many concerns which we have heard expressed about the reliability of Yearbook figures are well-founded. This conclusion is reached even before we consider the more important question regarding accuracy of reporting private industry statistics to a government agency.

By contrast to the Engineering Chamber section, the one on Spinning and Weaving presented an acceptable balance of tables and interpretive comments. The section on Food Industries is also much better in format,

and as well includes the beginnings of some of the substantive improvements discussed earlier, e.g. productivity, statistics (pp. 362, 365) and longitudinal tables (pp. 312-318). The table and discussion on pp. 400-401 is an interesting contrast of population vs. production, but even though the data are available, no per capita computations were used. Of the three Chambers' sections, the Food section seemed to be best overall.

2. Yearbook Automation

Following the pattern above, at this point we will treat prospects for automation of both the substance and format of the Yearbook. First, for the reasons already stated, in our opinion it would be inadvisable at this time to launch an effort to totally automate Yearbook production. Before the design of such a program could begin, many important conceptual design and content issues need to be addressed. The outcome might result in significant changes; efforts to automate production of substantive portions of the present work would thus be wasted.

Instead, we recommend that the Federation adopt an incremental approach to Yearbook automation, focusing initially on some of the format, production and quality control issues. Here are some preliminary thoughts on the steps of such a program. Of course these could be modified to meet the real situation at the time of implementation.

1. Select a Chamber or two as a test for a pilot project -- for example, the Engineering and Metallurgy Chambers. Plan to automate the mechanical production only of the Yearbook sections for these Chambers. The goal is to produce sample "dry run" sections, or to publish them as part of a regular edition on a test basis, soliciting user comment.

2. Using a small amount of consulting assistance from a designer who is familiar with both publications and micro-computer capabilities, redesign the general format and layout of the section.

3. Acquire a business-oriented micro-computer such as the IBM PC or one perfectly compatible with it such as the Sperry/Leading Edge/Mitsubishi PC. Equip it with an appropriate letter-quality printer, giving Arabic characters as well as English, and other hardware options required to support word processing and spread-sheet operations.

4. Enter all original tables (from CAPMAS et. al.) into the spread sheet program. Use the flexibility of the spread-sheet program to cross-tabulate and check all tables, and to automatically perform percentage calculations where required. Then print a draft copy of the tables for the benefit of the staff analysts responsible for development of the commentary.

5. Enter all the commentary text into the word processing program. Depending on the Arabic language capabilities of the selected software, the merging of the text and tables could be entirely automatic, or may require manual steps.

6. Once the analysis and commentary is complete, print a draft copy of text and tables for CAPMAS review. Incorporate their changes and suggestions using the word processor and spread-sheet programs.

7. In all likelihood, for tables of each section, alternate character sets for numerals and alternate headings can be defined in the spread-sheet program such that both Arabic and English tables could be printed from the same data base. Assuming that is so, at this point in the process, work could begin on preparation of the English edition, greatly facilitated by automated table production

and the word processing capability to support the narrative translation process.

8. Upon final approval of each edition, have the computer print final 2-column, 12-pitch fully formatted camera-ready copy suitable to go directly to the printing contractor.

9. Repeat steps 4-8 annually, using the magnetic discs saved from last year's work as a basis for working on the current-year edition. Extend the scope of the project to other Chambers until the computer facilities are fully engaged. Replicate the facility as necessary; two or three sets of equipment should be adequate to produce the present Yearbook design, for all Chambers.

Implementation of this program could begin immediately, with useful results being available within 30 days of installation and testing of the initial equipment and software configuration. Initial costs are estimated below. These estimates should be regarded as preliminary, and they assume the availability and cooperation of existing Federation staff who are knowledgeable about the use of micro-computers, and who can be trained to carry on after the initial installation and consultative period has ended. Prior to embarking on such a program, a detailed planning and system design should be performed to provide a formal schedule, goals statement, and costs. The preliminary estimates below are based on U.S. sources, and cover transportation and per diem where appropriate. It is assumed that there will be no import duties on government-acquired equipment.

Planning and design phase consulting, including transportation and per diem	$ 5,000
Computer	4,000
Arabic adaptation	1,000
Printer	2,500
Software	2,500
Special programming, consultant and local sources	3,000
Supplies and maintenance, first year	5,000
Project management, systems integration, training, on-site coordination, consultant & local sources	8,000
	$31,000

Such an approach offers the following advantages:

a. It is a modest and affordable pilot program requiring a small resource commitment and no permanent change in procedures.

b. It provides near-immediate benefits in terms of productivity and quality control.

c. It is in any event a prerequisite to a more elaborate scheme, especially as a learning experience.

d. Changes are spread over time, reducing disorientation of Federation/Chamber staff and the book's users.

e. It provides a defensible economic justification for the eventual acquisition of multiple computer units for which there are a multitude of other useful applications (as will be shown later).

f. It fully preserves all options for future systems, including: i) networking to a centralized computer systems at Federation headquarters; ii) using computer photo-typesetting to reduce size and improve quality; iii) vertical integration via telecommunications with CAPMAS automation plans; and iv) networking with other institutions and/or private sector organizations to exchange public information, etc.

D. FEDERATION/CHAMBER INFORMATION SERVICES

In this section we begin by relating the essence of what was reported to us during our Federation interviews. As stated earlier, one of the principal functions of each Chamber is to answer questions posed by members. A broad range of subjects is raised. Examples from the private sector are: specific technical help, assistance in locating spare parts, help in finding a joint venture partner, and arrangements to attend trade fairs. In addition, government questions occasionally need to be answered: how much trade with a certain country, what is the total authorized capacity to produce a certain commodity, and so on. Public-sector industry may ask if a sub-contracting center may be established to aggregate the outputs of a commodity from several small private-sector concerns to meet domestic or export needs. Other countries may ask about the possibility of exporting certain goods, or foreign investors may inquire about business opportunities.

In short, through its Chambers, the Federation needs to be an information center, not just a data bank, to produce knowledgeable responses to incoming inquiries. The Federation views itself as the most appropriate place for information from the public sector and the private sector to be brought together and made available.

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The principal information handling task of each Chamber is retrieval and reporting. Each Chamber has voluminous paper files and books which comprise their respective information resources. Of the three Chambers studied, all have quite limited staff and especially outreach capability; only one periodically volunteers information (via newsletter); and only one has computer facilities. It is our understanding that information handling at the Chamber of Engineering is at least as well-advanced as that of any Chamber. For this reason, and because of its size, importance, complexity, high quality of management and other factors, we will examine the Engineering Chamber in detail in the following section.

1. Information Resources and Case Work Handling

The Engineering Chamber has about 1100 members. Each member has a paper file, maintained in file folders in conventional filing cabinets, in order by member number. In addition, paper files are maintained on about 250 subjects of recurring interest; most of these originated in response to a specific member request. Eight 4-drawer file cabinets contain all of these files.

The computer facility consists of an Apple 2+ micro-computer, equipped with two 1.2 megabyte 8-inch floppy disc drives. The computer supports two indices. One, ordered by member name, provides a ready means of access to the paper member files described above. Each member index record contains business name and address, name of contact person, telephone number, type of products, and authorized production capacity. The computerized subject file is used to access the paper subject files described earlier. In addition to the paper files and computer indices, standard reference materials, buyers guides and equipment catalogue comprise the reference collection.

Two hypothetical and exemplary cases of response to incoming queries were described to us. The first concerns a request for all companies which produce a certain item in Egypt. As for almost all non-trivial requests, this one comes in a letter. The Chamber Director personally inspects all incoming mail, and assigns correspondence requiring action to various staff members. The person assigned to handle this query uses the Apple computer to perform the indicated retrieval, and she writes a letter responding to the request. The letter with its attached details goes to the Director for his inspection and signature before mailing.

The second case concerns receipt of a request for information on a part -- for example, rubber motor mounts. The Director inspects the request, annotates it with suggestions as to how the research should be done, and assigns it to a staff member for action. She would look up details on the part in a reference book (the German BDI), and prepares form letters addressed and hand-delivered to the commercial officers of the German, British, Swiss and French Embassies asking for nomination of possible sources of supply. When the replies are received, the staff person prepares a reply to the inquiring member, and here again it goes to the Director for approval and signature.

On the average, 15-20 inquiries a day are handled in this fashion. Four secretaries, one of whom is a college graduate, handle the office workload. The usual telephone, telex and typewriter equipment is available for communication. Each of the secretaries can type both Arabic and English, and operate the telex; three can operate computer programs. The Director is training all of them to be multi-faceted, so that each can move from one job to the next.

2. Automation Recommendations

Several factors are thought to justify the use of automation to meet the present information handling needs of this Chamber: it has a large workload, the member-clients are a critical and under-served group, there are certain kinds of requests which cannot at present be answered due to information or equipment limitations, and there is a proven aptitude and willingness to adopt computer technology.

Based on the foregoing, we recommend the creation or improvement of the following five information system applications:

a) Membership file management: The present file was created by repeated mailing and follow-up of a member questionnaire. This procedure should be repeated, and the Chamber's Managing Director feels that the following data items (the first five items were previously being gathered) should be included:

- -Name and address
- -Contact person
- -Telephone number
- -Type of product(s)
- -Authorized production capacity
- -Number of workers (full time equivalents)
- -Sales by volume of product - total, and by:
  private sector
  public sector
  export
- -Export volume by country

-Raw materials required and volume for each:
  commodities
  sub-assemblies
  fixture
  components

The present computer could be programmed to produce address labels from the current files, if indeed this has not been done already. Also it could produce the questionnaire itself, printing in the proper spaces the known information, and asking the respondent to fill in the blanks. As before, follow-up mailings could be used to bring the response percentage closer to 100%, and a combination of field work and telephone calls could be used to supplement the mailings.

b) Subscription fulfillment: As a natural step from the membership file management application, it would be relatively simple to add data fields regarding the payment of dues by each members. This would enable the Chamber to remind those who were late to remit, and to limit services to members in good standing. Combining the dues file with the member information file also eliminates duplication and increases the accuracy of the resultant dual-purpose data base.

c) Subject index: As less details of the nature of this file were available, we cannot make detailed recommendations at this time, beyond suggesting that the indexing terms should be multi-dimensional, and that the computer data base management technique or system selected to do the work should lend itself to change of the indexing scheme without necessitating changes to the base data file. This will prove to be necessary as use of the resource broadens. Another general recommendation is to increase the scope of the subject index so that it references all sources of substantive information in the Chamber, not just the 250 files described previously.

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d) Service tracking file: A simple program to prepare and preserve a record for each information service request received by the Chamber would be quite useful for: a) tracking outstanding requests and their resolution; b) assigning and monitoring staff workload; c) providing a method to gather quality control and effectiveness data, especially with telephone follow-up -- "Was our information useful to you?"; and d) analysis over time of the most frequently-asked questions, leading to focus on what area(s) of the information resources need improvement.

e) Newsletter support: Using many of the same techniques previously described in the Yearbook section, word processing software on the computer normally used for data base maintenance and retrievals could be used to prepare articles for a regular chamber newsletter. We strongly recommend that each chamber prepare and distribute to its membership a regular newsletter, even if it is only once or twice a year.

While the foregoing discussion refers specifically to the Chamber of Engineering, there is every reason to urge its replication in each of the other chambers. This is not to say that 12 sets of micro-computer equipment would be necessary or justified for these applications alone. The smaller chambers may wish to share a computer system, or, perhaps manual filing systems would continue to be the appropriate technology in some instances. It is safe to say, however, that the three Chambers on which we focused in this report could readily justify having their own systems.

If, on the other hand the Yearbook preparation task is added to each Chamber's workload, and if any remaining time on the computer were available for everyday word processing functions, it is likely that all 12 chambers could justify adding a micro-computer system to their office operations.

3. Other Considerations

To perform the human side of this information service improvement project, it is likely that additional staff resources will be needed, especially during the first year or so of data base growth. There is no way to automate the meticulous and time-consuming work involved in coding, indexing and abstracting data to go into a computerized data base management system.

Based on a limited exposure, the physical environments of Chamber offices may not be suitable for a micro-computer installation. Individual site surveys will be required; upgrading of available space, power source, and environmental controls may be necessary.

The amount of disk storage available on typical micro-computer floppy disk drives might not be sufficient for larger chambers. So-called "hard disk" storage units in an appropriate range of sizes are available as options, in the range of $2000 to $5000 each (FOB New York).

E. CHAMBER LIBRARY AND REFERENCE SERVICES

1. Definition of Needed Resources by Chamber

The Engineering Chamber Managing Director has stated that the reference materials in his and other Chambers are in need of considerable improvement, both in terms of extension and organization. To establish the level of need in detail, a survey should be done in each Chamber. Perhaps Library Science graduate students from a local university could perform the basic fact-gathering, write up their findings, and share copies with experts in the respective fields who could advise what items need to be added.

2. Acquisition and Cataloging of Materials

Adequate provisions must be made for clean storage of the books and periodicals to be acquired. Here again a professional librarian or knowledgeable student should be used to specify the exact steps to be taken, and the recurring procedures for ordering and retaining periodicals, clippings, professional papers, and a host of informal publications which are some of the "gems" in such a special library. Retrieval services are paramount. Ideally, the above-mentioned computerized subject index could be extended to include this reference collection, but the initial and ongoing workload of indexing and abstracting is likely to overwhelm most of the Federation staff, even if extra help is available during setup. A more practical recommendation might be to build a simple subject index file using conventional index cards and storage.

The Managing Director has suggested that, to strengthen its reference collection, the Chamber should receive from the Library of Congress some of their relevant publications and periodicals upon payment of the requisite subscriptions. To facilitate this, contact with the Library of Congress and with other sources of guidance on availability of specific items should come through the external assistance recommended below.

Technologically not possible today would be the sharing of all of the Library of Congress' information resources with the Arab Republic of Egypt. However worthwhile a goal, there is no practical way to accomplish this today. Work being done by the Library of Congress holds the promise of someday being able to distribute the entire contents of the library on a small number of optical storage discs. The technology to do this, while on the horizon, is still at least a decade away.

3. External Assistance During Establishment

As suggested above, temporary expert assistance would be needed during the establishment or extension of such special libraries. Perhaps help could come from the International Executive Service Corps. Advice and guidance on how to proceed would of course be available from the Library of Congress, the American Library Association, the Special Library Association, the U.S. National Commission on Library and Information Science, among other institutions in the U.S. with special competence in this area.

F. GENERIC INFORMATION NEEDS OF SMES

Previous in-depth and statistically valid studies which have been conducted on the needs of SMEs were cited in Chapters I and II of this volume. The 36 case studies on which this report is in part based are not a statistically valid sample. Nevertheless, they do seem to corroborate the findings in these earlier studies, at least with respect to the information needs of SMEs. One might argue which of the information needs is more important than another, or that different industry sectors have different priorities. Here our purpose is to move toward a definition of the specific kinds of information systems and services which can help SMEs. For this purpose it is not necessary to know the priorities exactly, but to get a sense of what tools would be needed to meet the mainstream needs.

In looking at the case studies as a whole, patterns of needs emerge. To develop a "global" view of these needs, a member of the study team who was not involved in the execution and documentation of the case studies read each of the 36 written case study reports, seeking to develop a list of generic needs based on what was reported, and what the reviewer (an experienced management consultant) felt was needed.

The draft list was then reviewed and correlated with the findings of Chapter II. We found the results to be consistent with the previous studies cited in Chapter II. Through this process, SMEs' information needs were clearly identified. Here is the resulting list of generic information categories:

CREDIT: where and how to get bank credit, for both short term and long term loans;

MARKET INTELLIGENCE: domestic marketing information regarding market size, consumer tastes, competitive activity;

RAW MATERIALS: sources, alternate sources, imports, quality control, which covers commodities plus accessories and supplies;

TECHNOLOGY: for both process and design improvement; quality control; locating experts in particular fields;

EXTERNAL CONTACTS: who can help with exports, imports of raw materials, industrial technology; attendance at or participation in foreign trade fairs and conferences;

REGULATIONS/RED TAPE: a catch-all for effects of government intervention; import licensing and restrictions, especially on scarce commodities and spare parts; preferential quotas; regulatory problems; production quotas; social security tax; need for facilitation in dealing with government;

TRAINING: for factory workers in production and quality control skills, or for supervisory and middle-management personnel; entry-level and continuing education for both;

OUTREACH/EXTENSION: expressed needs for field worker assistance; reaching to unexpressed needs and filling them;

EXPORTS: how, where and what; includes the export portion of market intelligence, and desire for information on consumer standards of product acceptance;

MANAGEMENT SKILLS: covers obvious but rarely admitted management shortcomings, and labor relations skills;

PACKAGING: special marketing problem related to availability, design, and import of packaging materials.

The most important items are near the top of the list, based on comments in the case studies, observer and consultants' perceptions, and on the previously-cited in-depth studies. Given this list of generic information categories, we then turn to the question of who are the providers.

G. INSTITUTIONAL INVOLVEMENT

In keeping with our interest in this section with the development of generic and non-specific ideas, we reviewed the list of institutions considered in the study (see Chapter III), to produce a grouping by kind of institution. We wanted to identify the information providers' current roles and functions. The institutional groupings we suggest are:

PROMOTIONAL: includes chambers of commerce, promotional and businessmen's associations;

TRAINING: academic and vocational training organizations;

ASSISTANCE: government or government-sponsored (i.e., perceived by the SMEs as government) but non-regulatory organizations;

INFORMATION: governmental agencies who do not directly assist or regulate SMEs, but who do or could supply useful information;

REGULATORY: government agencies which have a direct administrative, persuasive or (at least effectively) regulatory role;

FINANCIAL: banks, both private and public.

Given these lists, institutional groupings and information categories, we present our interpretation of the present supplier-information relationship with the following matrix. The marks indicate whether a given institutional category is, or is chartered, to function in a given information category.

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Information Category	Institutional Category					
	Promo-tional	Train-ing	Assis-tance	Infor-mation	Regul-atory	Finan-cial
Credit	x					x
Market Intelligence	x			x		
Raw Materials			x	x	x	
Technology		x	x			
External Contacts	x		x			
Regs/Red tape	x		x		x	
Training	x	x	x			
Outreach/Extension			x			
Exports	x				x	
Management skills	x	x				
Packaging	x					

Without singling out any particular institution or category, it is our conclusion from this study that, in general, SMEs are inadequately served with information relevant to key needs they have identified. But even without a graphic depiction of how strongly or weakly some of these services are being provided, certain critical gaps emerge from inspection of the chart. Some of these gaps can be directly filled with

A P P E N D I C E S

EIDDC/SSI STATISTICS/SUMMARIES

SUMMARY
SECOND QUARTERLY REPORT
DECEMBER 17, 1984 - MARCH 17, 1985

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SUMMARY
TRAINING PROGRAMS
December 18, 1984 - March 17, 1985

TRAINING FOR SMI ENTREPRENEURS

Period	Training Program	Place and Venue	No. of Participants Satisfactorily Completed the Course
Jan. 13-16, 1985	Production Planning & Control for SMI	Alexandria at San Stefano Hotel	26
March 4-6, 1985	Product Costing & Cost Analysis.	Cairo at Nile Hilton Hotel	78
March 24, 1985	Efficiency & Quality Improvement for Ready-Made Garment Manufacturer	Cairo at EIDDC Conference Hall	48

ON STAFF TRAINING AND DEVELOPMENT

1. Fellowship for four (4) Extension Officers arranged with the Italian Cultural Centre in respond to offer of Italian Government to finance a training course for participants from developing countries on Development of SSI Project.

2. Arrangement for the attendance of Dr. Yusef K. Mazhar to a joint program on EFMD, Annual Conference and INTERMAN Symposium in ILO Geneva, May 12-17, 1985.

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SUMMARY

CONSULTANCY WORK
MANAGEMENT SERVICE GROUP
December 18, 1984 - March 17, 1985

Consultancy Work	Proponent	Status of Work
1. Feasibility Study, Electronic Ballast	Mr. Osman Aly	60% completed
2. Feasibility Study, on Automatic Washing Machine & Dish Washer	Mr. Ahmad Hindy	60% completed
3. Feasibility Study, Technical & Financial For Ready-Made Garment	Export and Import El Nasr Company	Market Study being undertaken by proponent
4. Guidance on Setting-Up a one-machine ready-made garment shop	Mrs. Rawya Abdel Manam	Gave her estimates of investment required and expected cost and profit for the one machine shop
5. Reviewed feasibility study on concrete hollow-block manufacture	Mr. Samir Shalaby	Gave proponent guidance on how to prepare his projected cash flow, break-even analysis, and return on investment computation
6. Visit to Okto Plastic company	Mr. Ahmed Ibrahim Hassan	Gave advise on how to improve his production planning, plant layout and plant organization
7. Visit to El Ters Factory (Elec. Heaters)	Mr. Kammal	Gave advise on product costing & cost analysis
8. Visit to Le Baron Ready-made garment manufacture	Mr. Khalid, Gen. Manager	Gave advise on how to improve his marketing operation as well as improving his cash flow

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SUMMARY
TECHNICAL EXTENSION SERVICE
Dec. 18, 1984 - March 17, 1985

Period	Total No. of visits	New Factories Visited	Follow-up Visits	DIB Clients
January, 1985	122	20	102	65
February, 1985	133	31	102	71
March, 1985	120	35	85	62
GRAND TOTAL	**375**	**86**	**289**	**198**

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GRAND SUMMARY

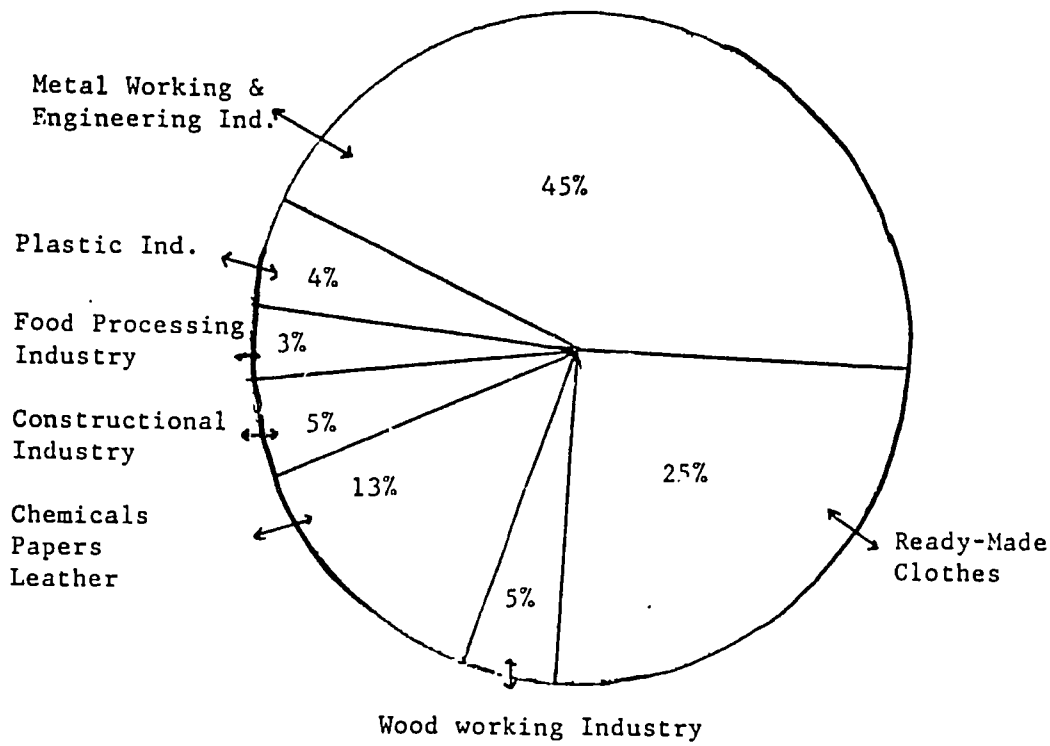
TECHNICAL EXTENSION SERVICE
FROM September 1982 - March 1985
(31 months)

Period	Total No. of Visits	New Factories Visited	Follow-Up Visits	DIB Clients
From September, 1982, to December, 1982	163	138	25	
Whole Year of 1983	658	529	129	
From January to August, 1984	788	589	199	
September to December, 1984	364	91	273	
January, 1985	122	20	102	65
February, 1985	133	31	102	71
March, 1985	120	35	85	62
GRAND TOTAL	2,348	1,433	915	198 (for 1985 only)

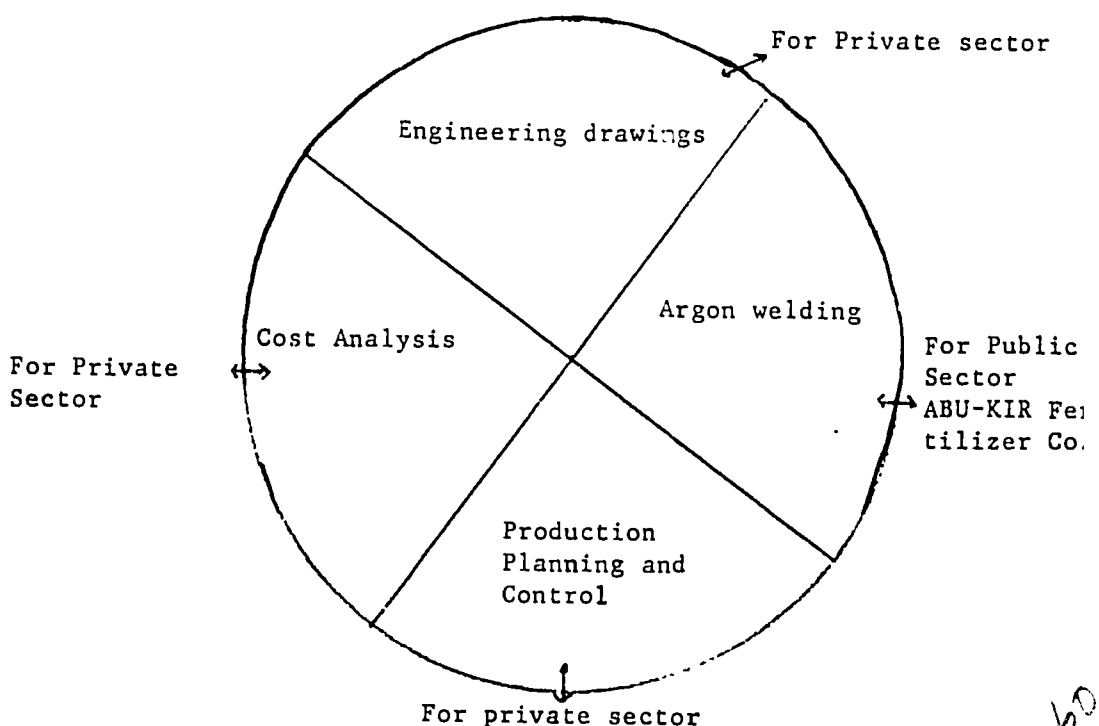
ACTIVITIES OF ALEXANDRIA BRANCH

DURING 1984

1. On Spot Visits:- About 400 visits - divided as follows:

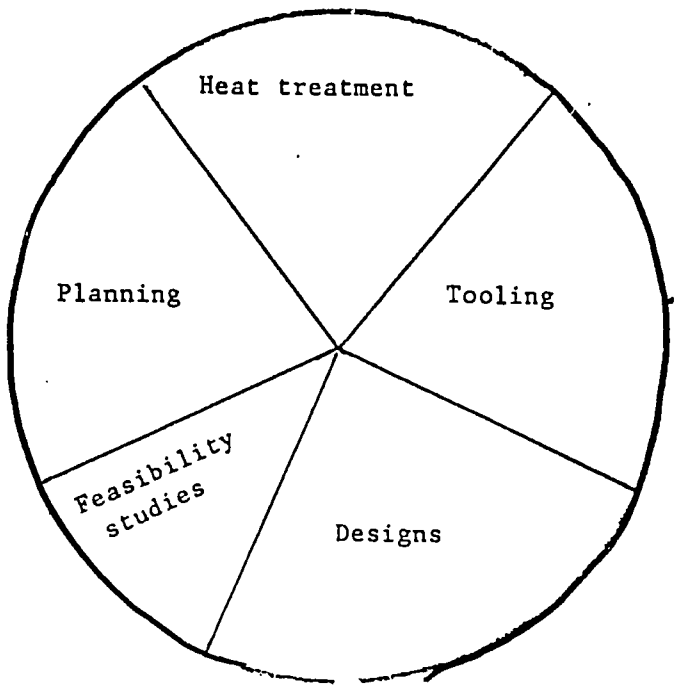


2. Training Courses:-



260

3. Other Fields:-



4. General Income:-

LE	8,500	-	Designs
LE	2,200	-	Training (P.S)
LE	1,000	-	Heat Treatment
LE	3,000	-	Planning
LE	14,700		

Note: Three training courses for the private sector had been prepared freely.

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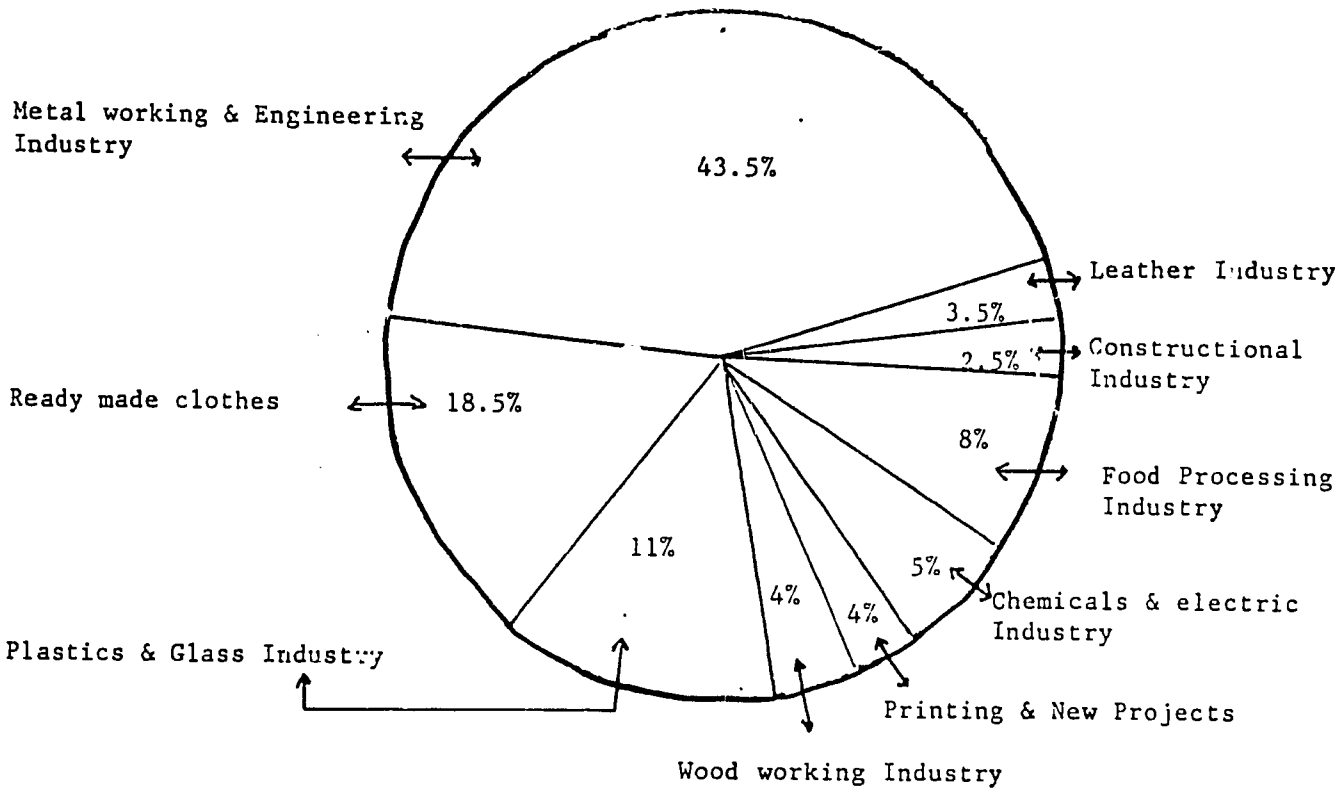
ENGINEERING & INDUSTRIAL DESIGN DEVELOPMENT CENTRE

TECHNICAL ASSISTANCE PROGRAM
FOR
SMALL AND MEDIUM SCALE INDUSTRIES

(JULY 1982 - DECEMBER 1984)



1. ON SPOT VISITS

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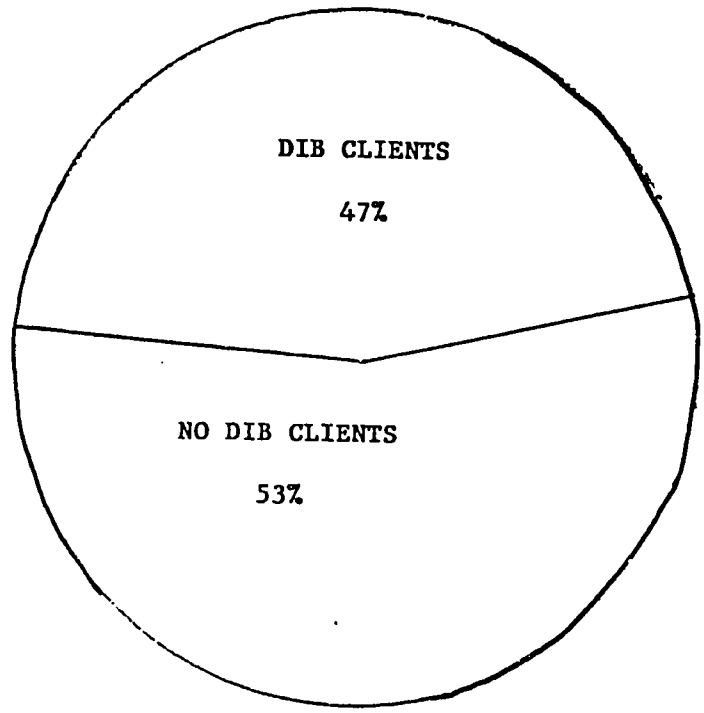
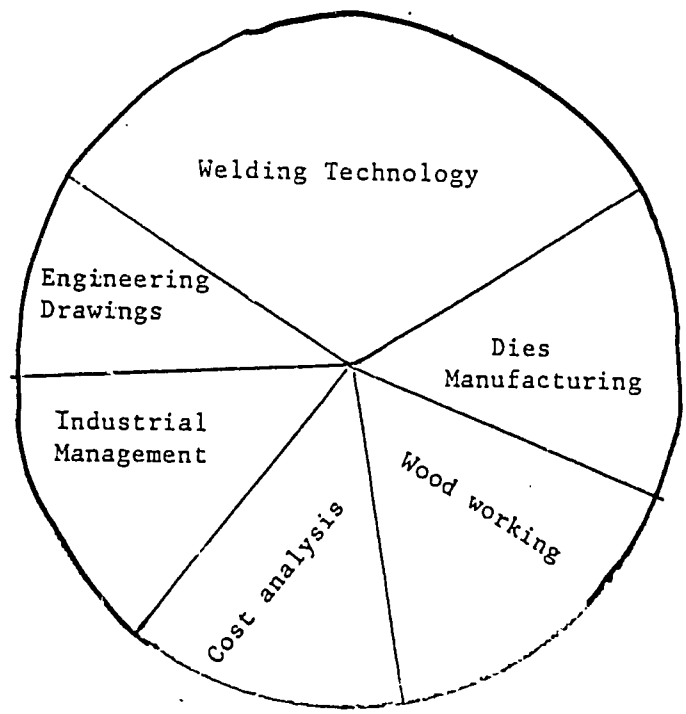
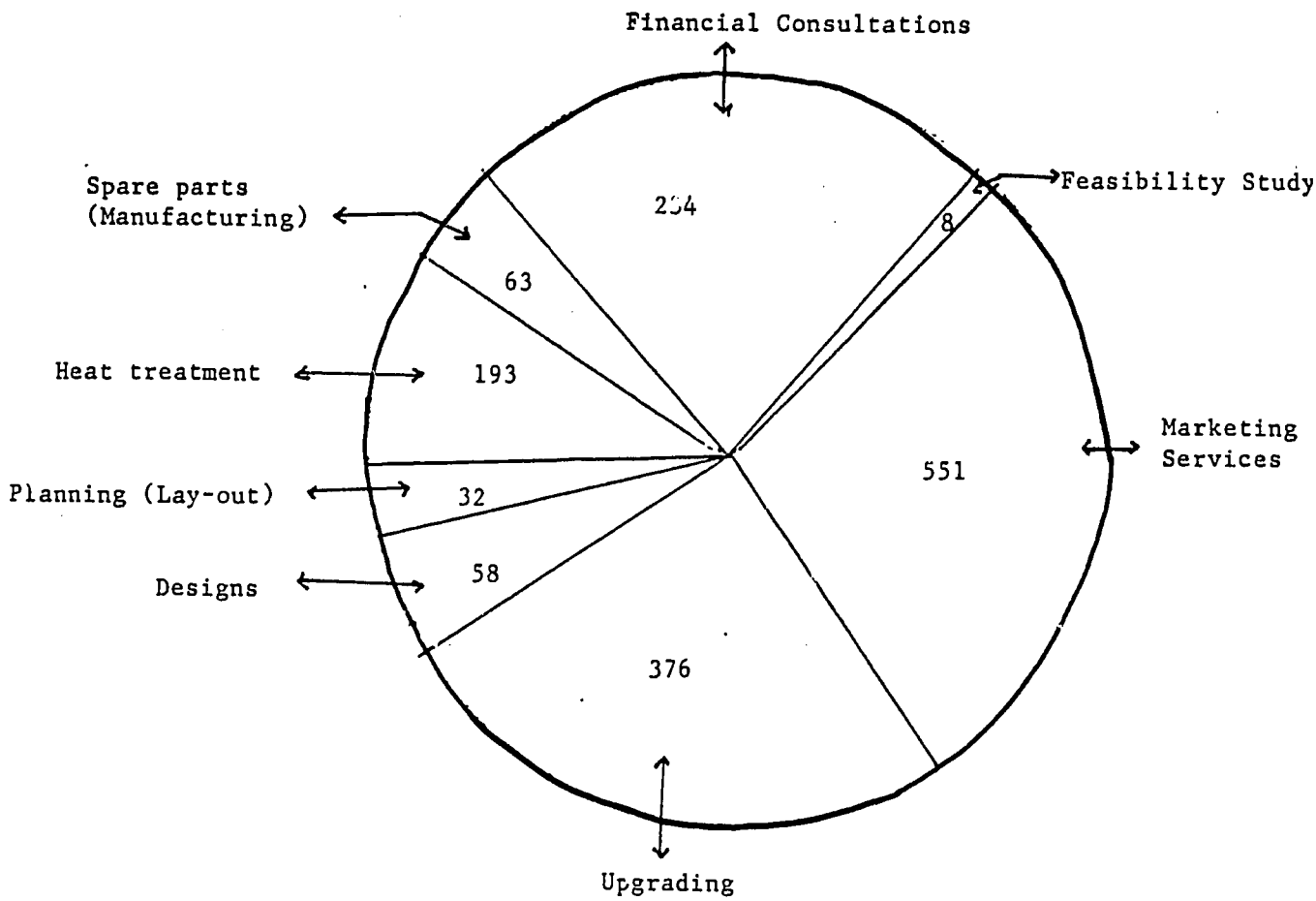
2. KIND OF OUR CLIENTS



3. TRAINING



263


Financial Consultations
254
Feasibility Study
2
8
Spare parts
(Manufacturing)
63
Heat treatment
193
Marketing
Services
551
Planning (Lay-out)
32
Designs
58
376
Upgrading

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PRESIDENTIAL DECREE ORGANIZING THE FEDERATION OF EGYPTIAN INDUSTRIES

Published in the Official Gazette, Issue 12, May 29, 1958.

Article 1: Industrial chambers formed in accordance with Law no. 21 of 1958 shall have a Federation of Industries with the Egyptian region.

Article 2: Such Federation shall handle the joint welfare of those responsible for Egyptian industry and shall coordinate the functions of industrial chambers and industrial regional councils.

Article 3: The Headquarters of the Federation shall be Cairo.

Article 4: The Federation shall have a General Assembly and a Board.

Article 5: The General Assembly shall be formed of the following:

1. Representatives elected by industrial chambers from within members.
2. Four members representing the Ministry of Industry.

Article 6: The Board shall call the General Assembly to meet in Cairo during the first six months of the year, for reviewing its reports and those of controllers, for the purpose of reviewing its financial statements for the previous year and discussing other agenda items. The Assembly may have an ad hoc meeting at the request of the Board or controllers, or if required by one third of its members. The Minister of Industry shall also have the right to call such meetings.

Article 7: The call for a meeting shall be forwarded with a respective agenda three days in advance of meeting.

Article 8: Decisions shall be effected by majority voting.

Article 9: The Board of the Federation shall consist of 21 members. The General Assembly shall elect two thirds of members. The other third shall be assigned by the Minister of Industry. Membership shall be for three years, to be renewed.

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The Board Director shall be assigned by the Minister and shall be from within the members. The Board Director shall summon the meeting At least one third of memebrship shall be for Egyptian nationals. Quorum shall be not less than seven members including the Ministry's representative The Board Director shall refer decisions to the Minister of his Under-secretary. Decisions shall not be execuited without the Minister's approval.

Article 10: The Office of the Federation shall consist of the Director, Manager and three members to be elected by the Board from within its members by secret ballot.

Article 11: The Office shall summon at the request of the Director and shall perform the following:

1. Study of issues referred to the Board and communcating with responsible authorities in this connection.
2. Supervision of the smooth running of the Federation.
3. Taking decisions related to membership.
4. Preparation of financial statements.
5. Undertaking all other responsibilities not within the framework of the General Assembly.

Article 12: The Board shall assign a manager who shall have the responsibilities referred to in Law No. 32 of 1957.

Article 13: The Manager shall be notified by industrial chambers of all meetings to be summoned. Also he shall be supplied with agenda and decisions taken by the chambers, He shall also have the right to attend such meetings.

Article 14: The Manager shall have the right to refer the above issues to the office which shall have the right to review chamber decisions if contradicting to the public welfare and to forward a report in this connection to the Minister of Industry.

Article 15: Financing of the Federation:

1. Membership fees.
2. Donations and contributions accepted by the Board.
3. Revenue of real estate.
4. Governmental contributions.

GENERAL RULES

Article 16: The Minister shall have the right to dissolve the Board if it contradicts Law no. 31 of 1958 and can be re-organized within six months. Also it can be dissolved by at least 2/3 bote of the General Assembly, after the approval of the Minister. Until the formation of a new Board, the Minister shall have the right to form a committee of industrial businessmen to carry out functions of the dissolved Board.

Article 17: The Ministry's representative shall ensure that the Federation abide by all laws and rules and shall have the right to examine the Federation's aounts and minutes of General Assembly meetings.

Article 18: This decree shall be issued in the Official Gazette and shall come into effect on publication.

Issued 24 May 1958

GAMAL ABDEL NASSER

PRESIDENTIAL DECREE ESTABLISHING

INDUSTRIAL CHAMBERS

Published in the Official Gazette - Issue No. 12 of 29 May 1958.

Article 1: Chambers shall be formed for certain industries to be defined by the Minister of Industry and shall be considered public organizations. The Chambers may form branches within important industrial regions.

Article 2: The above Chambers shall work for the welfare of their members and shall represent them with public authorities. They shall also assist such authorities in the development, promotion and lessening the costs of production.

Article 3: Every industrial establishment with a capital of not less than LE 50,000 and employing a minimum of 25 workers must join the respective Chamber.

Article 4: The industrial chambers shall abide by the basic regulations sanctioned by the Minister.

Article 5: Each Chamber shall have a Board to be formed every three years by ministerial decree. Two thirds of such Board shall be elected by industrial establishments affiliated to the Chamber.

Article 6: The above members shall be elected as follows:

1. Nominations shall be made at least two months prior to termination of Board period. Nominations shall be accepted two weeks from the date of notification.
2. Nominees shall submit written applications to the Federation.
3. At the closing date of nominations, the Federation shall notify affiliated establishments with names of nominees and their respectiv

organizations, as well as nationality, age of members and place and timing for elections. The period between notification and election should not exceed fifteen days.

4. Representatives of Chamber affiliated establishments shall meet at the determined time and location and elections shall be made by secret ballot in the attendance of a representative from the Quality Control Organization and the Federation. Each establishment shall have one representative who shall have only one vote.
5. The Federatinn shall notify the Ministry of Industry of election results following day at the latest.

Article 7: Each Chamber shall have a manager to be appointed by the Chamber's Board.

Article 8 : The Chamber's Board and manager shall run the operation of the Chamber in accordance with Law no. 32 of 1957 pertaining to public organizations.

The Minister of Industry has the right to object to any decisions taken by the Chambers' Boards within one week from date of issue. However, decisions can be implemented by majority voting of 3/4 of Board members.

Article 9: Decisions shall be taken by majority voting of attending members.

Article 10: The Minister of Industry shall appoint one or more representatives who shall be invited to the Chamber's Board meetings. The representative shall participate in discussions but shall not have a vote in decisions. He shall have the right to review the Chamber's accounts and minutes of meetings.

Article 11: The Minister of Industry shall have the right to request the Chamber to study any issue referred by him or to include any agenda item falling within its specialization.

Article 12: Financing of the Chamber shall be as follows:

1. Fees collected from members.
2. Governmental contributions.
3. Donations and gifts, only to be accepted by ministerial decree.
4. Revenues collected from respective real estate.

Article 13: Membership fees shall be determined through the Chamber's Board, taking into account capital and number of workers.

Article 14: The Chamber shall have a separate balance sheet starting from the fiscal year July 1st and ending 30 June of the following year.

Article 15: The Chamber shall refer its statement of accounts for the preceding fiscal year to the Minister for his approval.

Article 16: In the event of violating any rules or regulations, the Minister shall have the right to dissolve the Board, and the new Board shall be formed within one month from the date of dissolving the preceding Board.

Article 17: The Chamber may terminate its functions by the approval of 3/5 of members, to be approved by the Minister.

Article 18: On final termination of Chamber's activities, all funds thereof shall be transferred to the nearest similar activity chamber, by ministerial decree.

Article 19: The name of the Chamber shall not be called on for any industry not lying within industrial establishments in accordance with the rules of this decree.

Article 20: The funds of current industrial chambers shall be transferred to new chambers which shall replace them with all rights and obligations.

Article 21: The Minister of Industry shall implement this decree and shall issue any necessary decisions for implementation thereof.

Issued 24 May 1958

GAMAL ABDEL NASSER

Internal Regulations for

Industrial Foodstuffs

The attached basic regulations for industrial chambers complement respective internal regulations.

Industrial establishments involved in the following shall be considered members of the Chamber:

Food conservation, dairy production, cigarettes and tobacco, distillery, sugar and confection, beverages, refrigeration and cooling, oil industry and respective by-products.

The Chamber shall have a special register of membership including the following data related to each industrial establishment: (capital, labor, production capacity, etc.)

Enrollment in or amendment of the register shall be effected by a written request from the establishment. The Board of the Chamber shall decide membership on the basis of labor or capital criteria.

Where an establishment shall be unable to pay membership fees, it may request the Board Director for decrease or exemption thereof accompanied by justifications and related documents. Fees shall be collected during the months of July, August and September.

FOFMRATION OF THE OFFICE

The Office shall be formed of the following: Board Director his deputy, in addition to members not less than thre and not exceeding five, as well as the Chamber's director. The period shall be the same as that of the Board.

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The Chamber's Board shall decide, on the basis of its studies, the formation of one or more divisions to study issues and problems related to any industry devoid of specialization or integrity. Such division shall study problems related to industries which it represents as well as other issues referred by the Board.

The Secretary of the division shall notify the Chamber's Director, within two days, of decisions taken, who in turn shall refer such decisions to the Board in its first meeting for review. The Board shall have the right to approve decisions or request review thereof.

Formation of Sub-Committees

The Board shall have the right, to form from within its members, ad hoc or permanent committees for the study or follow up of any pressing issue.

Penalties

The Board shall have the right to form a committee to investigate any matters related to a Board member or any official responsible for an industrial establishment and being a member of the Chamber.

The Board shall have the right to effect the following penalties:

1. Warning
2. Reproach
3. Deprivation of membership rights.

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International

CREDIT AND ENTERPRISE TRAINING THAT MAKES A DIFFERENCE IN RURAL WEST AFRICA

In Burkina Faso (annual per capita incomes $179), Partnership for Productivity(PfP) works in the drought-prone Eastern Region to develope human potential as expressed through small scale economic activity. On the level of the individual, PfP provides production credit, management training, agricultural assistance and moral support to small entrepreneurs. On a regional level, PfP directs its assistance amoung a variety of types of activities to form a more integrated and complete local economic system that better serves the needs of small producers and consumers. this includes working with farming, animal raising, food processing, water development, retail trade, artisan manufacture and repair, and transport.

So long as the activity is legal and non-speculative, PfP makes loans to any person, family or group proposing something which adds economic and/or social value. The average size of loans is $350, although loans have ranged from as low as $8 to as high as $12,000. From 1978-1984, PfP made 1,423 loans totalling CFA 223 million ($750,000), with less than one percent of this sum written off to bad credit. On-time repayment rate is +80%, good for a desert environment where economic activities are risky.

PfP approach enables [illegible] poorer producers who cannot otherwise obtain formal bank credit. Rather than require material loan collateral such as land titles or salaried employment, PfP [illegible] creditworthiness by means of a sincere character, willingness to improve, and an equity investment in the proposed activity of at least 20%. Working with a majority of borrowers who are not literate or numerate, PfP assists them in formulating a credit package appropriate to their enterprise requirements. During the loan [illegible] process, these small producers gain valuable experience in business activity. It is im[illegible] plus heightened entrepreneurship that enables [illegible] their productive activity.

[illegible] working effectively to [illegible] that they control. It is [illegible] development. PfP also operates [illegible] economic development.

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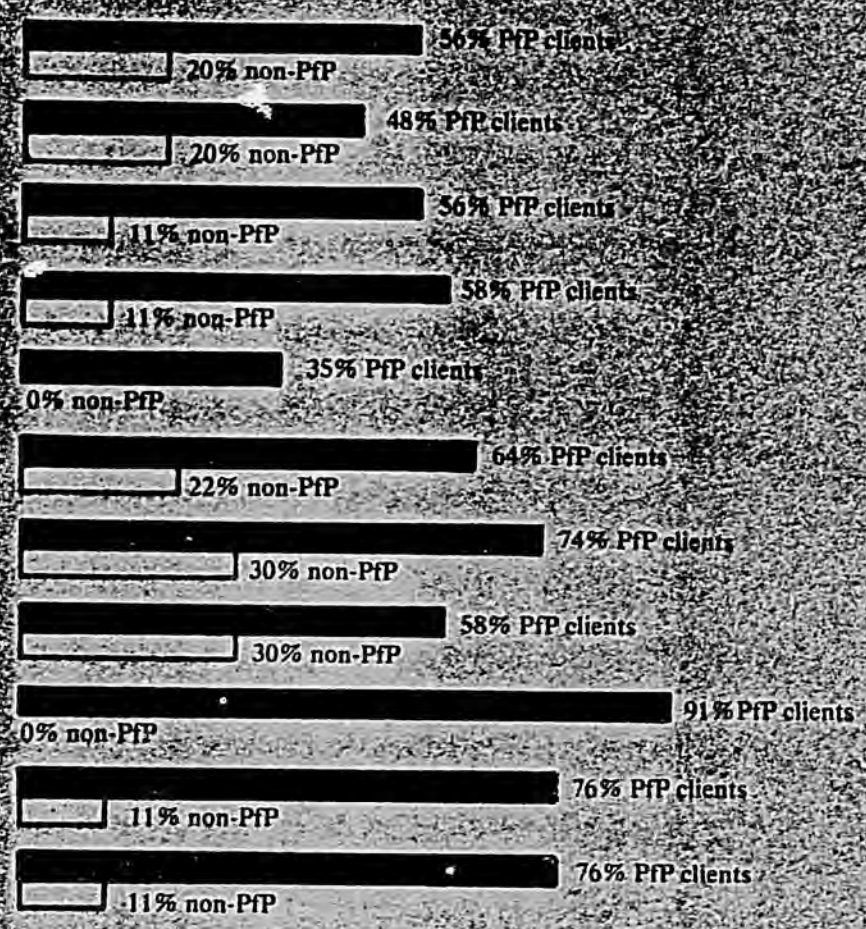
INDICATORS OF ECONOMIC AND SOCIAL DEVELOPMENT GAINS

In October, 1984, an impact survey was conducted in Burkina Faso to better understand benefits that rural African entrepreneurs experience from credit and enterprise development training. Fifty-four Burkinan small producers were interviewed, 34 of which were PfP clients and 20 of which were not. These small entrepreneurs were asked to compare their present situations with their position of a year ago and to state whether their condition today was the same, better or worse. The graphs below compare the number of PfP respondents who thought their position was "better" with the survey respondents who did not recieve credit and enterprise development training.

INDICATOR



Adapted from: G. Lassen, R. Traore, A. Brown and J. Walton, Credit and Enterprise Development Training Can Reach the Small Producer Majority in Burkina Faso: Midterm Program Evaluation of [illegible] Productive, February, 1985. Available from Partnership for Productivity, Washington,

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SMALL BUSINESS CAPACITY DEVELOPMENT:

OUTLOOK AND PROSPECTS FOR THE EGYPTIAN PRIVATE SECTOR

VOLUME 3

ALTERNATIVES AND RECOMMENDATIONS

by

Partnership for Productivity/International
2001 S Street, NW, Suite 610
Washington, D.C. 20009

to

Dr. Robert E. Mitchell
Office of Industrial Resources

In partial fulfillment of

SMALL BUSINESS CAPACITY DEVELOPMENT PROJECT
(Contract No. DAN-5317-C-00-3085-00)

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August, 1985

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SMALL BUSINESS CAPACITY DEVELOPMENT:
OUTLOOK AND PROSPECTS FOR THE EGYPTIAN PRIVATE SECTOR

VOLUME 3: ALTERNATIVES AND RECOMMENDATIONS

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EXECUTIVE SUMMARY

As a special task in an on-going world wide contract with USAID, Partnership for Productivity/International provides this report on the prospects for the improvement of the small and medium private business sector in the Arab Republic of Egypt. Sponsored by USAID in Cairo, the objective of the study is to demonstrate appropriate improvements to the support capabilities of the Federation of Egyptian Industries and in other ways to suggest specific and action-oriented mechanisms for service delivery to SMEs.

Our conclusions, borne out by 36 case studies, are that:

1. The SME sector is considerably underserved by existing public and private institutions.

2. Both public and private institutions have the will to increase services but not necessarily the means.

3. For information and services to be credible to and accepted by SMEs, they must originate from institutions which are credible and non-threatening to SMEs.

4. What is missing from this scenario is a fabric for intra- and inter-organizational communication.

The study recommends a general strategy to formalize a network of existing public and private institutions as a coordinating body that provides services to small- and medium-size businesses and to add to their institutional capacities or create new mechanisms as necessary to fill the gap in needed services to SMEs. The key services that need to be strengthened within these institutions, coordinated among these institutions, and/or created are:

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1. Information and communication services;
2. Extension services;
3. Credit and financial assistance;
4. Policy dialogue;
5. Technical assistance;
6. Vocational training; and
7. Special economic activity.

Each service should be pilot tested for the first 6 - 12 months prior to institutional and programmatic commitments over the proposed five-year program. At the end of five years, the coordinating body should be financially independent of USAID, have assisted 60% of the SMEs, have facilitated an average of 5% growth of their fixed assets or LE 46,851,000, and cost approximately $2,613,000 in US currency and $4,560,000 in Egyptian currency.

This study was coordinated by the Office of Industrial Resources, USAID/Cairo, and conducted in the spring of 1985. It represents the efforts of a five person team (a total of 34 person-weeks), and included the participation of Project Sustain in addition to PfP/I personnel and consultants. To arrive at the prospects for Egypt's small and medium private business sector, PfP/I both reviewed existing studies and conducted its own field work. PfP/I conducted 36 in-depth case studies, interviewed a host of organizations involved with supporting the small business sector, and conducted a pre-feasibility assessment of demand for services and analysis of appropriate strategies to assist the SME sector. The results of this study are presented in three volumes:

Volume 1 -- Case Studies
Volume 2 -- Research Findings Analysis
Volume 3 -- Alternatives and Recommendations

I. INTRODUCTION

Having identified a range of problems and their solutions in Volumes 1 and 2, in this volume we will identify and discuss implementation alternatives. One thing is clear: no single institution, even with improvements, can alone implement and manage all elements of a comprehensive SME development and support program.

Therefore, a cooperation of existing institutions, perhaps with improvements, will be needed. Regardless of how this is done, close coordination among the participating institutions will be required. At this point without defining institutional arrangements, we posit the need for a coordinating body to facilitate the discussion and decision-making needed to achieve this inter-institutional cooperation. We will use the term "coordinating body" in the following section, and we will discuss alternatives for its establishment and institutionalization near the end of this volume.

For similar reasons, we will posit the need for an information/communication network, or ICN, to provide needed information handling services. The function of the ICN will be discussed below in the ICN sub-section. The establishment and institutionalization of the ICN will also be deferred until the end of this volume, except that we will assume for the sake of discussion that ICN policy and services will be defined by the coordinating body.

Volume 1 contains case studies of 36 businesses selected for the PfP study team by the Federation of Egyptian Industries. Volume 2 contains an analysis of these findings, what institutions serve the SME sector, what services are needed to improve their development, and suggestions favoring the improvement of the FEI's information capability. This third volume contains recommendations and

alternatives to improve the ability of existing institutions through networking their resources.

A. BRIEF STATEMENT OF THE PROBLEMS

Very specific problems on a case-by-case basis were discussed in Volume 1. These were detailed by industry in Volume 2, II.C.2. The following lists generic problems in Egypt that any strategy must address in order to improve the performance of SMEs.

1. There is no private sector development strategy and coherent policy of the GOE targeted specifically for small businesses.
2. There is no central location to get market and supply information useful to the sector.
3. There is no predictable mechanism for small business to voice its needs to the highest levels of government.
4. The private sector does not have its own SME development program.
5. SME assistance efforts are fragmented and understaffed; hence, they do not provide the field contact sufficient to transfer business skills and to expedite red tape.
6. There is a general mistrust of the accuracy of information; hence, SMEs do not know how to plan for future markets.
7. The private sector lacks trade or industry associations such as garment or food processors' associations.
8. SMEs are not organized to pool their production that would allow them to tap new markets, or to pool their orders to obtain better unit costs.
9. There is little vocational training specifically tailored to SME labor needs.

B. COSTS ASSOCIATED WITH THESE PROBLEMS

1. It is generally acknowledged that a positive business environment will accelerate economic growth in all sectors. A key characteristic or indicator of a positive business environment is the existence of government's private sector development strategy and coherent policy specifically targeted towards smaller businesses. To the degree that such a strategy and policy is not in place, potential growth is less likely to occur.

For example, several case studies in the ready-made garment companies revealed that government regulations prevent export contracts and the loss of foreign exchange earnings. One company (Case Study #32) needed to import a specific quality of material in order to meet export standards. The material could not be imported as a similar, but not correct, material was being produced or was planned for production by a public company; as a result, the contract was lost.

Other case studies documented the fear of hiring and firing employees, making the business inefficient and more costly to run (Case Study #3, 5, 29). Owners explained that firing someone can lead to a court case that could drag on for several months or years. So why hire when you can't fire?

Some case studies revealed that considerable time and money are lost in applying and reapplying every three months for import licenses for each item purchased (Case Study #5, 7, 16, 19, 35). These are examples of costs associated with not having a positive business environment backed up by a private sector development strategy and consistent government policies.

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2. One of the principal reasons businesses fail is the lack of appropriate market information. Currently, businesses plan based on guesswork and rumors. Institutions surveyed and businesses interviewed see the establishment of a marketing information center as the first step in an effective program for SME development. The lack of such a center translates into business failures, slow growth, unemployment, and loss of foreign exchange. Supply information is also lacking. As a result, unit costs of production are higher than they need to be. Small businesses lose potential sales to larger businesses and larger businesses in turn buy supplies from overseas thus raising their selling price and using up foreign exchange.

3. Without a voice in government, entrepreneurs are discouraged from investing in new businesses and expanding into new product lines; many SMEs feel that the business environment will not improve. Others simply migrate, draining the economy of the very brains necessary for growth.

4. Egypt's Open Door Policy and USAID's focus on the private sector is a direct recognition of the role of private business in the economic development of Egypt. Ironically, Egyptian private sector organizations do not feel they are managing their sector's development since donor funds, including USAID's, have historically been channelled through government ministries and parastatals, instead of directly to the private sector. This sentiment is so strong that a group of private sector leaders travelled with President Mubarak to Washington, D.C., in March 1985, to meet with congressmen about direct aid to private sector institutions. Expanding parastatal programs will not give the private sector a sense of ownership of their own development. Without this sense of ownership, their best efforts may not be forthcoming to fully play their role in the further development of Egypt.

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5. The lack of close coordination of limited assistance to SMEs misses the synergy that is critical to strategic economic development. During the institutional surveys, the study team often found themselves in the position of up-dating institutions on other institutions' capabilities. Without such strategic coordination, independent efforts cost more and are less effective. Since the existent efforts are understaffed, they tend to work in a responsive mode rather than strategically proactive. Additionally, they cannot spend the time to provide the necessary field presence to identify and transfer the lacking business skills or simply help expedite problems with red tape. Hence, appropriate knowledge may not get to enough people to stimulate dynamic movement within the SME sector.

6. The perception of the majority of businesses interviewed is that available information is not trustworthy and useful, and hence is a cost to economic growth since people will not invest to expand production and employment. Businesses relying on rumor may lose money and, hence, enthusiasm to grow into new areas. This can give rise to an understandable tendency to simply copy what is selling, thereby cutting market share into smaller and smaller fragments.

7. Without private sector trade or industry associations, it is more difficult to organize appropriate quality control, marketing, management and labor relations courses specifically tailored to SMEs. This problem has economic costs in terms of lower productivity due to poor labor relations, and loss of foreign exchange due to poor quality control and marketing intelligence.

8. The lack of organization of SMEs to pool production for greater market access and to make larger supply orders translates into fewer sales and higher unit costs. Export markets tend to buy larger volumes of single order products. Small businesses acting alone cannot gain such market access, causing a loss in potential foreign exchange earnings--well documented in the Howe Report.

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9. The lack of appropriately trained labor was a repeated complaint of the SMEs interviewed during the case study period. The existing vocational education system is geared more for the larger public sector businesses than for the smaller private SMEs. This lack is a cost to business productivity and the manager's time for training.

Although it is beyond the scope of this contract to quantify the financial cost of these problems to the Egyptian economy, it is clear that lower productivity, lost contracts for export, unwillingness to grow and invest due to uncertainty of market intelligence, lost time of management in getting information, training employees, handling government regulations, fear to hire and fire, lost opportunities for small businesses to supply larger businesses, higher per unit costs of supply, slower growth, higher sales prices, loss of foreign exchange, and dampened entrepreneurial spirit translates into less income and fewer jobs for Egyptians.

C. OBJECTIVES

A program to affect these problems and their associated costs should include at least the following objectives:

1. Improved productivity and profitability of private sector firms, as well as employment-generation and exports;
2. Expansion of the private sector;
3. Strengthening of the groups that service this sector; and
4. Strengthening the linkages among these groups so that individual firms and the private sector more generally may call on a well-articulated network of diverse services and groups within it having specialized capabilities to help firms and also represent their interests.

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D. GENERAL STRATEGY

The general strategy is to formalize a network of existing public and private institutions that provide services to small- and medium-size businesses and to add to their institutional capacities or create new mechanisms as necessary to fill the gap in needed services to SMEs. The key services that need to be strengthened within these institutions, coordinated among these institutions and/or created are:

1. Information and communication services;
2. Extension services;
3. Credit/financial assistance;
4. Policy dialogue;
5. Technical assistance;
6. Vocational training; and
7. Special economic activity.

The current status of surveyed institutions providing these services is shown in the following chart. As stated in the introduction to this volume, no single institution acting alone is providing the range of services required by SMEs.

PROVISION OF SERVICE TO SME'S

INSTITUTION	SECTOR	INFORMATION/ COMMUNICATIONS	EXTENSION	CREDIT/ FINANCIAL	POLICY DIALOGUE	TECHNICAL ASSISTANCE	VOC ED	SPECIAL EC ACTIVITY
Federation of Egyptian Industries	PUB	P	N	N	P	P	N	N
American Chamber of Commerce in Egypt	PVT	P	N	N	P	N	N	N
Development Industrial Bank	PUB	P	P	P	P	N	N	N
Egyptian-American Bank	PVT	N	N	P	N	N	N	N
Egyptian Businessmen's Association	PVT	P	N	N	P	N	N	N
Egyptian Chamber of Commerce	PUB	P	N	N	P	N	N	N
Egyptian Export Promotion Center	PUB	P	P	P	P	P	N	N
Ein Shams University Faculty of Agriculture	PUB	N	N	N	N	P	N	N
Engineering & Industrial Design Center	PUB	P	P	P	P	P	N	N
General Organization for Industrialization	PUB	P	N	N	N	N	N	N
Ministry of Agriculture	PUB	P	P	P	P	P	N	N
Nasser Bank	PUB	N	N	P	N	N	N	P
Productivity & Vocational Training Dept.	PUB	N	N	N	N	P	P	N
Textile Development Center	PUB	P	N	N	N	P	P	N

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In order to provide a vehicle whereby existing public and private sector institutions can meet these needs, a central coordinating body should be identified or created to actively and strategically pool resources so that SMEs can obtain information and appropriate knowledge. Some of this information can only come from established institutions, while some of this information can only be generated by extension officers working on location to assist SMEs. Regardless of its source, all of this information must be digested and interpreted to become appropriate knowledge which can then be directly assimilated and directly applied by the SMEs. Hence, the information system and extension service are necessarily and vitally interdependent.

Expansion of credit and financial assistance will be more successful with the field presence of extension officers backed up by the information system.

Since the Egyptian business environment is still in the transition from a predominantly public economy to a private one, a policy dialogue must be a central link in any strategy to improve SME growth. This policy dialogue can be well served if it has the benefit of an on-going field presence and information analysis capability.

The coordinating body, with the aid of the information system and extension officers, should create a picture of current technical assistance and vocational training programs, identify the gaps, and in concert with the relevant institutions, develop and implement as necessary new activities to fill these gaps.

In the same spirit of managing the gap between existing programs and needs of SMEs, conditions and opportunities may arise that will require special economic activities not anticipated by the first six elements of the general strategy. For example, the information system with its international communication capabilities may identify a new market opportunity in Europe that could only be met by amassing the

production of a number of smaller producers. The coordinating body should have the flexibility to create an ad hoc buying coop or some other mechanism to buy from SMEs and sell to that European market. Or it might facilitate the creation of a food processors' association or trade association for the smaller garment producers. One special economic activity the coordinating body should take on is the economic analysis, via its information system, necessary for the design of an overall private sector strategy with periodic revisions.

Chapter II discusses each of these seven design elements in greater detail.

II. ELEMENTS OF DESIGN

A. INFORMATION/COMMUNICATION SERVICES

1. Introduction

We will assume for the purposes of completing this section that, regardless of what organizational and institutional alternatives are selected for the implementation of the recommendations of this report, programs for the other seven design elements mentioned in Chapter II will be adopted in one form or another, and that the principal institutions, public and private, who are or should be involved in SME support and development, will agree to form some sort of cooperative arrangement with respect to sharing information which can be used to assist SME development.

Given those assumptions, in this section we will describe and justify the key elements and functions of a hypothetical information and communication network, or ICN as we shall call it herein, which would be needed to support the proposed design element programs and institutional cooperation in effectively delivering information-related services to the SMEs. Even though it is hypothetical, we will provide estimates of resources required to establish and operate such an ICN. If the program described herein is adopted, this information can serve as a model for the detailed systems analysis and costing which should precede its implementation.

In our experience, for information and communication systems to survive as useful and active components of an ongoing service--in this case, SME support and development--selection of the institutional arrangements is at least as important as the systems themselves.

Therefore it is not practical at this time to provide a final system design and costing for the ICN. Hopefully this section will influence decision-making in a positive way, in which case much of what follows may be directly applicable. But the preparation of a detailed working plan and implementation schedule must follow the determination of the institutional arrangements for the ICN.

As acknowledged by this and previous reports on the small business sector in Egypt, little information exists on the actual number of SMEs by type of industry, their average employment figures, production volumes, etc., again broken down by type of industry. A.D. Little estimated that by 1985, 8,000 Egyptian SMEs, employing between 10-200 workers, would be in existence. This figure excludes the thousands of firms employing fewer than 10 workers which in two governates alone, MSU (4/84) estimated at over 94,000 establishments. The lack of complete information on and about SMEs renders it difficult to posit the economic benefit argument for the creation of the system outlined herein. But a working hypothesis might at least illuminate the question we are raising. Let us say for argument's sake that there are 10,000 SME establishments in the A. R. E., with an average annual gross sales of LE 100,000. And let us conservatively estimate that implementation of the recommendations of this report would result in an improvement of at least one per cent in the gross national SMEs sales totals, or LE 10,000,000. If a nominal ten percent of <u>that</u> figure were to be spent on information and communications systems, a budget of LE 1,000,000 per annum would result. As will be seen later, the systems discussed herein should be able to be implemented for considerably less than that amount.

2. Organization of the Network

In order to describe the ICN's functionality we must have some understanding of its organization, architecture, and basic service offerings. Such networks function like the telephone or postal systems,

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in that there is a "network host" such as the telephone exchange or post office. The host maintains close contact with its users, picking up and delivering messages, and in other ways staying in touch with the people it is serving.

The ICN host will include one or more micro-computers for the input, processing, storage and retrieval, output and transmission of information. The ICN host will have connections to telephone, data communications and conventional postal facilities to make it the logical central exchange point, or clearinghouse, for the SME support and development program.

Each individual who is closely associated with the ICN will have access to its computers and information resources. "Mail" will be able to be sent over electronic pathways. To the extent that a participating institution wishes, a compatible micro-computer can be installed in the offices of the institution, and can join and be an active member of the network. Larger SMEs may eventually have their own micro-computers, but in the near term, a human network of extension officers, each with access to the computer/communications system, will be assumed to be the initial gathering mechanism for information requests, as well as the means for interpreting and delivering the response.

Key utilities that would be available to all users of the system will include:

- word processing and documentation preparation tools;
- a spread sheet program for financial modeling;
- telecommunications software to enable the computer-to-computer links; and
- at the host site, a local electronic mail facility and electronic 'bulletin board' system to facilitate communications among staff, institutions and ICN users.

External services should be available, such as:

- access to a global electronic mail system, to reach people in other countries (telex is just a special form of global electronic mail);
- access to commercial data bases in major industrialized nations to get answers to technical and commodity questions; and
- to the extent appropriate and permissible, access to the public portions of participating institutions' data bases.

Special computerized files of information, called data bases, will be available to all those closely associated with the ICN to facilitate their work. These include:

- SMEs data base, including membership data, mailing list management components, and the means for providing control and compensation for provided services;

- Resources data base, including detailed descriptions of the services offered by participating institutions, individual experts, and other resources outside Egypt, such as raw material sources, equipment manufacturers and foreign trade buyers for export products;

- Marketing data base, into which is accumulated statistics on the products of the SMEs, the markets into which they are selling, buyer preferences, market performance, supply vs. demand data, demand forecasting baseline data, etc. (because of its nature, some of this information would not be computerized, at least at first); and

- Project tracking system, to assure fulfillment of SME requests for assistance or information, and to provide a long-term track record of the kinds of services actually being requested, and

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the clients' report and perception of the quality of the response and the end result.

While the foregoing description of ICN service offerings may raise questions, it is provided at this point to guide the following discussion. Later in this section we will address the means of providing the capabilities described above.

3. Information Services Functions

The list of information-oriented services provided at the end of Chapter V in Volume 2 is the point of departure for definition of the functionality of the ICN. To describe how the ICN might support the other programs, below we provide a number of service scenarios to illustrate how some of the information categories would be used, and with the support of relevant technology.

- SME asks extension officer (EO) to identify and conduct a dialogue on behalf of SME with prospective foreign investors; the EO uses global electronic mail, and registers the request with the project tracking system.

- While visiting various locations for other purposes, EO gathers information on specific classes of SMEs, and adds it via his computer to the SME data base; special report-writing programs are used to extract reports on business activity, average prices, volume of specific kinds of goods, etc. on demand as marketing intelligence reports.

- Staff members of participating institutions use SME marketing information data base retrieval to produce statistics for publication in newsletter for their own members.

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- Economic analysis for businesses applying for financial assistance; EO uses spread sheet for analysis, and eventually electronic mail for communications with financial institution; statistics on past performance on loan payback from this class of businesses may be drawn from the ICN data base to buttress the SME's case.

- A cohort group of retail outlets is identified by extension officers, and through use of the mailing list system, they arrange to keep each other in touch with opportunities for group buying and advertising.

- Participating institutions such as the FEI, EEPC, and EIDDC use local electronic mail to coordinate complementary service offerings, by exchange of agenda for an upcoming co-sponsored business development seminar.

- Low cost agencies for facilitation of SME exports to major trading countries are selected and maintained through global computer conferencing and electronic mail services.

- Technical assistance experts are identified and recruited via the same international computer communications services.

- An EO working with a SME on a government red tape problem while on an extended field trip uses electronic mail to send an outline of the problem back to ICN location; word processing is used to produce letter to government agency the same day. Annotated and cross-referenced industry-specific listings of resources offered by participating institutions to SMEs are automatically produced, with support from the data base management, report writing and word processing facilities.

On-demand facility to produce tailor-made listings of businesses by industry, product, volume, and so forth, to meet export opportunities, using data base management and word processing facilities.

The pattern of most of these services is to draw upon existing resources in the first instance. There is no need to assemble in one place all the richness of the information presently gathered and updated by existing institutions. Modern computer network technology can allow the institutions or entities which are responsible for the information to share the public portion of their resources, under their control, with EOs and other personnel closely associated with the ICN who are working directly with the SMEs. In this way, the ICN should be looked upon, by the participating institutions, as just another way for them to market and deliver their own services.

As a special case of the general philosophy of our recommendations, should one of the participating institutions come to feel that it would prefer to offer an ICN service directly, it should take the provision of the service over from the ICN, with the ICN's active assistance. Such moves should of course be subject to the consensus of all the institutions involved.

One of the application programs mentioned in the preceding section bears special attention--the case tracking system. To assure improved coverage of the target SME constituency and to minimize gaps and overlaps, it will be necessary to define and implement a program which will create an incentive (economic or otherwise) for each participating institution to register its cases with the ICN, and for the ICN to report progress and SME response and comments to the affected institutions. Not only will this meet the project management and quality assurance needs discussed previously, but also, over time, it will provide a powerful source of actual experience statistics, with

which the ICN and each participating institution can re-optimize their service offerings.

4. ICN Resource Requirements and Timing

The cost of ICN implementation could be broken down and staged over a period of time, but the following describes a system which could have operational components within three months of program operation, and which would have a useful life (i.e., no major system additions or architectural changes) of at least three to five years, depending on its success and the degree to which participating institutions absorb ICN functions. During the first phase of program implementation, the planners should determine the exact order and timing of implementation, according to priorities and circumstances at that time.

These cost estimates do not include normal operating staff, which are assumed to be drawn from existing staff resources. The program as a whole does not seek to eliminate any positions whatsoever. If there are any savings obtained through automation, the human resources released should of course be redirected into some other task in support of the delivery of services to the under-served SME sector.

There is a growing body of micro-computer hardware and software components and their documentation which caters to the Arabic-speaking world. One important goal of this program would be to use such equipment and software wherever practicable, so that communications to and from the ICN would be in Arabic, and so that translations between Arabic and other languages, especially English, would be relatively easy. This subject was discussed previously with a specific application in mind, in the recommendations for improvements of the Federation Yearbook.

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The first cost element to be considered is the initial detailed systems analysis, planning, scheduling and costing function. In this planning-type step, as well as the others, it is assumed that a senior consultant from an industrialized nation will direct the effort, but that he will identify and assist in the selection of Egyptian nationals who can accomplish much of the implementation. This phase would require about two months of calendar time. The estimated cost of this design phase is:

Project planning, consulting services, including
travel and expenses . . . . . $ 15,000

The initial computer hardware configuration for the ICN host facility should include a large-size PC-type business computer such as the IBM PC/AT or the AT&T 7300, plus two conventionally-configured PCs, together with a large shared central disc storage device on the order of 50-100 million characters. The configuration should include fast, letter-quality and draft printers, a local area network to allow the computers to share common resources, and telecommunications coupling devices. Such a configuration as is described below could be procured, installed and be in operation for at least word processing and electronic mail functions within three months. Training and the building of initial data bases would require another year. The hardware cost would be:

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Large PC, 3MB, color monitor	$ 5,000
Hard disc drive, 70 MB, with backup	6,000
Networking hardware, for two other micros	1,000
Communications equipment, incl. noise-insensitive 10,000 bit/sec modem	1,500
Printer, fast letter quality, with sheet feeder	3,500
Two more PCs, 384KB, networking hardware, fast dot matrix printer, at $3500 each	7,000
Mountings, cables, cabinets, tables, initial spares and supplies for the above	4,000
Hardware Total	$ 28,000
Maintenance and supplies, one year	5,600
Grand total, ICN host equipment and supplies	$ 33,600

The computer programs required for the ICN host systems to produce the basic functional capabilities discussed previously are estimated as follows:

Word processing (3 copies)	$ 1,000
Spread sheet/planner package (2 copies)	1,500
Telecommunications program (3 copies)	600
Local electronic mail management program	1,000
Bulletin board system software	1,000

To this list should be added basic tools, such as:

Operating systems (3 copies)	300
DBMS programming system/report writer	1,500
Total, software:	$ 6,900

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Some custom programming would be required to implement the four special data bases, including definition of each data base, building the initial data base creation programs, writing the maintenance procedures needed to keep the information up to date, and producing standard and special report-writing programs and documenting the resulting applications systems. Each system would require about three months for the development of the initial version, but some of the work could be done in parallel. All four should be able to be done during a six-month period.

While the implementation of each of the four special data bases and their initial report programs is an option, each would require considerable resources, and additional explanation and justification is required. The estimates given for each of the four cover the following steps:

Definition: through interviews with users of the proposed reports and with those from whom data would be gathered, produce a written prose specification of purpose, input, process, and output, and the goal to be accomplished by creation, maintenance, and reporting from the proposed data base. Obtain concurrence from program sponsors and management as to the acceptance of this definition of the job.

Analysis: produce a detailed procedure for doing the job, including data definition/description, input formats, data base format and indexing, data entry and updating procedures, all basic report definition including process, ordering and formats. Tentatively select a data base management and reporting package suitable for implementation of the programs. Using this analysis as a guide, gather a small number of hypothetical test data base inputs which would represent the kinds of information to be processed, and use them to derive sample reports, procedures, etc. Show these results to management, revise as needed; reiterate until design is approved.

Initial implementation: Using the selected computer and programmer tools, implement first the data acquisition program; produce first-draft specifications for data gathering; gather a representative sample of the actual data (say, 2 to 5%) and enter it into the data base; commence implementation of the initial retrieval and reporting programs, and exercise them against the growing data base. Show intermediate results to management, and revise programs and procedures against management feedback and initial system experience.

The costs given below for each of the four data base implementations covers the following resources required for each of the above steps: local programmers and technicians to perform most of the implementation and the routine work, senior visiting consulting services during the definitional stage, and the travel and lodging for same. Except for the initial sample data base creation described, the figure below does not include the research time to create and keystroke the bulk of the information to be entered into the data base. The volumes involved are impossible to estimate at this juncture, and represent a cost displaced from elsewhere in any event. We estimate an initial development requirement for systems for the four data bases mentioned previously--SMEs, Resources, Marketing, and Project tracking. A rough estimate on the cost of each would be $20,000, for a total of:
$ 80,000

Each institution wishing to participate in the network and which did not have compatible computer hardware and software would require a beginning kit consisting of a compatible personal computer, basic software, basic telecommunication capability, word processing software, and a basic printer, plus installation and training. However, reports on demand could be produced by the ICN and delivered to institutions without compatible equipment. The procurement, installation and training for each one should require less than a month, and this work can be done in tandem with other activities. We will assume that there

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will be ten institutions (such as FEI chambers) requiring such a setup, at an average cost of $10,000 each:

$100,000

Finally, there will be a need for external services such as training, seminars, conferences, international electronic mail, telex service access, the cost of access to commercial data bases, and maintenance, license and royalty fees which may be associated with the use of proprietary data bases maintained by participating institutions. Supplies, information services and reference tools not included in the individual program costs given above are also included here. The total for these miscellaneous factors will depend in part on level of usage, but for the first year or two, the tctal should be under $ 50,000 per year.

Recapping all of the developmental costs detailed above:

Project planning	$ 15,000
ICN host equipment and supplies	33,600
ICN host software	6,900
Customized programs, 4 at $20,000	80,000
10 Institutional computers and communications facilities, at $10,000 each	100,000
Subtotal	235,500
Add one year for miscellaneous, as above	47,100
GRAND TOTAL, First year operation:	$282,600

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In the foregoing, we have provided a first look at the costing for the proposed ICN, including software, installation and training requirements. In the following sections we will illustrate the use of these facilities in support of other design elements of the proposed program of improvements to the support and development of SMEs.

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B. EXTENSION SERVICE

The Information and Communications Network (ICN) just described is unlikely to have the desired impact on SMEs without an extension service. The extension service must interpret the business needs and resources to the information system and interpret the information to the SMEs in their places of business. As was stated earlier in this volume, some of the information necessary for the ICN can only be generated by extension personnel working on location to assist businesses. Entrepreneurs are not interested in information per se, but in appropriate knowledge immediately applicable to their felt needs. The use of extension officers appears to be the most effective method to accomplish this objective.

The Extension Officers (EOs) must be highly motivated, willing to work 90% of their time in the field, and able to get along with many different personalities and social settings. They will be part diplomat, teacher, information "gofer," and "street smart" with their business skills.

Although there is a great temptation to select college graduates in businesses, these tend not to be as effective as former school teachers who seek a bigger challenge to help develop their country. This has been demonstrated in evaluations of such business advisory services in over 15 countries in Africa, Asia and Latin America in terms of client growth, repayment of loans, and size of client portfolio. This does not mean that business graduates should not be chosen, but that the selection process should not eliminate those that do not possess a business background. The skills needed to diagnose and treat businesses as well as to help start up businesses can be acquired in their training program.

The EOs will not only provide the basis of appropriate knowledge for the proposed ICN, but could participate in the supervised credit program, with cooperating financial institutions, as described in the credit and financial assistance element in this chapter. Initially, it is recommended that approximately 10 EOs are attached to the ICN, in addition to the field staff at EIDDC.

The scope of work for the EO is that of an all purpose business consultant who is the SME's link to development resources and the network of institutions' link to the SMEs. The EOs diagnose both the skills of the entrepreneur as well as the entrepreneur's business prospects. On a one-to-one basis, EOs help the SME develop a business plan and teach the skills that are lacking from basic bookkeeping to general management. When the business plan is complete and the basic skills to run the business are mastered, then the EO would assist the entrepreneur to prepare a loan application, if it seems that increased capital is necessary for growth and the market is proven.

When possible, the EOs should organize group training sessions for SMEs' common problems, such as how to keep records or carry out market research. The EO is likely to average one hour per visit with 4 to 5 businesses per day. Some would be visited once per week, while others once per month. An EO would work with an average portfolio of 80-100 clients and that portfolio should turn over every three to six months. Hence, an EO should be expected to work on a personal basis with 200 to 400 businesses per year. With 10 EOs that would amount to 2,000 to 4,000 businesses personally assisted.

As the hands and feet of the coordinating body's general strategy, EOs will also carry out special economic activities such as organizing group marketing, trade associations, and technical assistance. That will put them in contact with a higher number of SMEs than those only in their active client portfolio.

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In contrast to the description of the EOs' scope of work as described above, the EIDDC extension program tends to be more oriented towards engineering and business problem-solving and less oriented towards business information services. As discussed in the Institutional Survey Section in Volume 2, the EIDDC has a Small Scale Industry (SSI) extension program with 7 officers in Cairo and 3 in Alexandria backed up by 5 industrial management personnel along with the other resources of the EIDDC.

We found that the work of the SSI was evaluated as effective by several of the businesses surveyed in the case study analyses. They are in a position to begin to develop the kind of appropriate knowledge required to assist business development; however, up-grading and expansion seems needed to meet a growing demand for extension services.

The EIDDC is not involved in creating businesses, tends to be more problem-solving oriented rather than general growth management-oriented with periodic visits, and is partially involved in supervised credit with the DIB.

We see the two extension staffs working in a complementary fashion. Joint training sessions would help accomplish this objective. But it may not be wise to put all the private sector extension eggs in one EIDDC basket, even though EIDDC appears to be doing effective work.

We understand that the SSI program of EIDDC would like an additional $4-5 million to expand their operations. They would like one expatriate extension advisor and another for management assistance for three years, extra funds for international short-term consultants as well as local short-term technical assistance, an information systems expert, overseas fellowships, and sufficient vehicles and office equipment to expand to two new locations.

Since the ICN is based on cooperation among existing institutions, it can only benefit from such expansion of EIDDC's capabilities. If an expansion of EIDDC can demonstrate to the private sector that SME extension needs are being met, then at the end of the trial period or sometime thereafter, the ICN's EOs could be folded into EIDDC and/or a combination of financial institutions. At this point, that does not seem likely as there are specific information analysis needs of the ICN that might be unwise to completely leave to another organization.

Nevertheless, the Extension Service of the proposed Coordinating Body's ICN should be seen as a pilot project to be assessed at the end of the trial period. It should work with a range of businesses to test what is the optimum deployment and clientele that is the most developmental and cost effective.

Dr. Gary Howe distinguishes formal from informal on the basis of the primary source of financial rewards: "The dynamics of formal sector enterprises are determined by rewards in a productive structure where costs are represented as capital inputs. Informal sector enterprises are affected by returns to labor not as a capital cost, but simply the expenditure of the producer's own labor time — and where capital costs are minimal." This distinction is helpful, but could include international consulting firms as being "informal," as their labor costs and expenditure of time is more a factor in income than capital costs. We add the notion that the informal business is managed informally with no distinction between family and business money, little distinction between relatives and employees, generally under ten workers, and no formal record keeping.

Clearly, different approaches are required for the two sectors. The principles of economic development are the same, but the applications differ. And they differ by scale as the distinctions between formal and informal can be blurred in many cases. Hence, we prefer to take an approach that begins to address the private sector as

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a continuum from informal to formal. Extension agents can work with both, while adapting consulting style and content as appropriate. Both informal and formal enterprises need market intelligence. This can come from the same extension officer, but in a form appropriate to the user.

If the EOs are to continue with the ICN beyond the trial period, then it is strongly recommended that they are paid by performance, i.e., business generated, growth of clients' businesses, repayment rate on loans, and other output indicators of success. Theoretically, it does not make sense to develop the private sector by public sector rules. The EOs should have the same incentive to perform as the businesses they advise.

The initial training program for the EOs would last approximately five weeks covering the elements of business, information sources, development methods, consultancy practice, and the Coordinating Body's records, information system and institutional policies. It has been our experience that a daily balance of classroom in the morning and field work in the afternoon makes for a more realistic program. Each trainee would find a business to work with that understands that every afternoon they will be visited. If a unit on bookkeeping is taught in the morning class, the trainee would teach the method and see the applicability of the bookkeeping method in the business that afternoon. At the end of the first five week phase of training, the participating institutions and the ICN would be invited to give an oral examination to the potential EOs. Three months later, a two-week in-service training would address additional needs. If the trial evaluation deems that the extension service should continue, then a third in-service training should be held to address any new direction arising from the trial period evaluation.

Since the trial period is to be limited in scope, it would be advisable that the EOs do not serve areas much beyond Greater Cairo. If the trial period evaluation recommends expansion, then one or more EOs

per governorate could be added. Some business advisory services in other countries have worked quite well with EOs working by themselves in localities across the country. This gives a national information analysis capability that has valuable implications: national market surveys can be done relatively fast and inexpensively for larger clients of the Coordinating Body as an income source; business problems could be expedited on a national basis; investors would be able to get local information on a national basis with follow-up from EOs as required; and so forth. Additionally, it is important to provide incentives for growth outside of Cairo so that this program does not add to urban migration.

The selection, training, motivation, and support of the extension officers is critical to the success of the ICN's creation and application of appropriate knowledge. This is what will distinguish it from one more institution that collects and distributes information in Egypt.

C. CREDIT/FINANCIAL ASSISTANCE

Although USAID/Egypt is undertaking an analysis of this area and the research team was told there was no need to examine credit in as much detail as information needs, we would like to share some thinking about how credit may play a role in the proposed SME program.

There are several mechanisms available to deliver financial assistance to the private sector: loans, overdrafts, equity positions, guaranteed loans and loans plus equity positions.

The EIDDC extension service coupled with DIB credit to SMEs is the kind of model that has stimulated economic development in many Third World countries. An extension officer should have a portfolio of companies to regularly advise, rather than a one or two-time visit for specific problem solving sessions as is often the case at EIDDC. Although the larger and more competently managed companies, which receive loans, may only need such specific problem solving extension services, the smaller or less competently managed operations will need a more holistic approach with regular visitation. The latter is often referred to as "supervised credit."

Supervised credit usually involves one to three months of regular visits by the extension officer (EO) prior to the loan application, with regular visits tapering off as the loan is repaid. The pre-loan consultancy (5 to 15 visits) analyzes the entire business, teaches the business skills that the client is lacking and assists in the preparation of the loan application only when the EO has proof that all basic skills are mastered and the business plan makes sense. The post loan consultancy tends to be more problem-solving and market expansion oriented.

Private sector banks do not give supervised credit in Egypt. There are countries that do so in cooperation with business advisory services that receive USAID funding for guarantees. The procedure is relatively simple. After pre-loan consultancy by an EO is complete, the loan application goes to a commercial bank. As the smaller business usually cannot satisfy the collateral requirements for securing the loan, the business advisory service deposits the necessary money in the bank to guarantee the loan. Since USAID money cannot earn interest, the bank is saving money without risk. This incentive has gained the cooperation of commercial banks that would not normally extend credit to smaller businesses with insufficient collateral. The commercial bank pays the business advisory service a pre-negotiated part of the repaid interest and returns the guarantee. If the loan defaults, the service loses the guarantee. As a result, the EO must provide good consultancy or his institution loses money. This private sector approach can also be used with public sector banks such as the DIB as well.

A variation on this approach could include a fee for the EOs consultancy added to the principal of the loan. If the loan was for LE 10,000 and the fee was LE 1000, then the principal to be repaid would be LE 11,000. A combination of fees and interest might also be considered as payment for the credit supervision to the EOs' organization.

Since the DIB defines small businesses as having assets between LE 285,000 to LE 570,000 and semi-small businesses as those with up to LE 285,000 in fixed assets in its loan program, the DIB tends not to assist smaller to informal businesses who might only need loans of 10,000 or less. According to the ADL study for USAID/Egypt, one-third of small businesses are in the informal or underground economy. These 75,000 businesses with fewer than 10 employees account for two-thirds of the private sector population. Although this sector is not part of this study's terms of reference, we recommend that very small-scale or pilot efforts of supervised credit be initiated to address this sector's needs.

Apparently, some financial assistance for the small-scale sector has been given by such institutions as the Nasser Bank and Save-the-Children Foundation, but these institutions' strategies have not been tied into an overall information system as proposed in this program.

Another mechanism to put money into the private sector is exchanging financial assistance for an equity position in the business assisted. This approach is compatible with the Islamic practice of MURABAHA and is used by the Nasser Bank. The Extension Service may identify an opportunity that is exceptionally promising. The service might give money to the business in exchange for an annual percentage of the profits. Non-profit organizations can do this as long as the income derived is used for operating expenses of the institution.

This equity approach has a number of advantages: 1) it tends to force more serious market research, thus improving the overall quality of the information system; 2) it tends to improve the overall integration of micro and macro economic analysis in order to find high growth businesses; 3) with good selections, it can become a major source of financial self-reliance for the service; 4) it tends to make the service more serious about an understanding of the private sector while remaining a non-profit organization; and 5) it is a very persuasive advertisement to the private sector that the service is worthwhile.

The disadvantages appear equally devastating if the selections do not succeed: 1) loss of operating capital; 2) loss of confidence of the private sector; and 3) internal dissension.

Business advisory services in areas as poor as Burkina Faso (Upper Volta) have paid 50% of their operating expenses for this technique. They took their time, learned the environment with an extension service, used supervised credit, and acted when they were sure of their facts. This very cautious approach is recommended for exploration by whatever

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SME service is chosen. In meeting with the leading private sector organizations in Egypt, the study team was told that these organizations cannot be associated with anything that will fail.

Another approach is loan plus equity. A business might have great potential, but is seen as having an equally high risk; or for one reason or another is unable to complete the full financing necessary to trigger its next step. The lending institution or the loan guaranteeing organization might receive a percent of ownership for the risk it is taking to secure the financing for the venture. An additional percentage of the business might be offered to the assisting institution upon repayment of the loan. The major advantage of this approach is that the assisting institution gets its initial investment back faster while retaining the equity position.

The case studies uncovered some success with businesses establishing overdraft facilities or a line of credit with banks (Case Study #26, 31, 36). This is a flexible mechanism that permits a business to draw an amount of money at the time that it is needed. It tends to be faster than the DIB loan procedures, and interest is only charged on the money withdrawn when it is withdrawn. Those businesses that use overdrafts seem quite pleased with this arrangement even though the interest tends to be higher. However, the requirements for accessing this mechanism are stiff, precluding many small businesses from its use.

An arrangement could probably be created to broaden the scope of the above application by providing EOs for the business. In other countries, most notably in Malawi, commercial banks have given overdraft facilities to clients that normally would not have received them, but did so because the EO had worked with the client's business prior to the bank's commitment and the EO has agreed to continue to work with the client after the commitment.

If this approach is not sufficient to broaden the scope of overdrafts to businesses, then the addition of a guaranteed fund might be considered. This would follow essentially the same steps outlined above for the guaranteed loan fund.

Another successful model of financial assistance identified in the case studies is the use of a silent partner. This might be a rich uncle in partnership with his nephew, a brother who received a loan in Kuwait (since it is faster to get a loan there than in Egypt), or non-family members returning from work in the Gulf States with extra money to invest.

We do not recommend that the proposed Extension Service directly replicate this technique. All partners in a partnership are legally bound to all decisions and actions by each member of the partnership. Instead, the ICN could match lists of those businesses wanting silent partners and those individuals that are seeking investment opportunities. However, a similar end might be achieved by establishing an equity position with a letter of agreement of limited liability.

The above discussion illustrates that a wide range of mechanisms for financial assistance to the private sector are possible. We recommend that the proposed Coordinating Body explore as many of them as possible on a trial or pilot basis. Initially, the staff should discuss these possibilities with banks, both public and private to see who would do what. Simultaneously, the extension officers (EOs) should discuss with their clients what options they prefer. When several opportunities become acceptable to the principals of the Coordinating Body, small scale financial assistance, coupled with technical assistance by the EO, should be initiated.

It cannot be overstressed how important it is for the initial trial experiments to be successful. This is why the initial agreement must be approved by the principals of the Coordinating Body. After the initial

trial period and the evaluation of these pilot projects, the principals may begin to delegate some of this responsibility to the staff. In order to make the trial realistic, a sum of money should be made available to the Coordinating Body for these experiments over a 6-12 month period. We suggest approximately $250,000. This should be a line item in the proposed USAID grant to create the Coordinating Body and should be folded into its financial assistance program after the trial period. This approach for pilot testing financial assistance was successfully used in Togo and Burkina Faso with USAID funds and by the Rockefeller Brothers Fund in Dominica.

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D. POLICY DIALOGUE VIA PRINCIPALS OF THE COORDINATING BODY

During the case study survey, a number of GOE policies and laws were identified by SMEs as constraints to private sector growth. During the institutional survey, a consensus emerged that the principals of institutions assisting SMEs form a Coordinating Body. Such a body could, under one implementation scenario, be the same as the Coordinating Body previously discussed. Such a body should include both members of the private sector organizations and parastatals who could prioritize issues to be discussed with the government. Each member would create his own approach to government. The private sector organizations might create a combined approach as might the parastatal organizations. The Coordinating Body would be an in-camera forum for such a policy dialogue, but each member would carry out their own dialogue with the GOE as they see fit.

The following is a sample of the kinds of issues that might be addressed in the policy dialogue that were identified in the case studies.

1. Labor laws effectively take away a key tool of private sector management, i.e., the ability to dismiss employees as the need arises.

2. Import licenses only last for three months and must be renewed for each item.

3. 40% social security payments for each employee's salary is quite high compared to world standards.

4. Customs rates are lower for public sector companies than private sector companies giving SMEs a competitive disadvantage.

5. Raise ceiling for waiver of GOE approval of investment projects and streamline approval process for larger SMEs.

6. Expand vocational education program to be more appealing to private sector training needs.

7. Review the impact of Laws 21 and 137 on SMEs.

8. Eliminate production limits (see Case Study #31).

9. Establish a credit program specifically for smaller businesses.

10. Creation of a comprehensive SME development strategy by the GOE.

The Extension Officers (EOs) of the proposed ICN would document these and other issues for the policy dialogue. They will be in a good position to document the impact of current policy and laws as well as to provide an indication of the sectors affected and their suggestions for alternatives. These can be cross-referenced with the ICN's information analysis and presented to the Board of Directors for consideration. As individual board members discuss these issues with the GOE, they can feedback government response for EOs to keep their client's abreast of the policy dialogue. This in turn will assist businesses in the planning process and complete the information loop of the policy dialogue.

The Coordinating Body would be in a good position to create and annually up-date a strategy for SME private sector development of Egypt. This strategy should be formally published and distributed. This document could accompany an annual program and budget for USAID and other international donors' consideration. Currently, there is no mechanism to develop such a document that would facilitate international assistance to the private SME sector.

E. TECHNICAL ASSISTANCE

The case studies identified a need for a central clearinghouse for technical assistance to SMEs. The proposed ICN should coordinate with other programs to prevent duplication, find economies of scale, keep a calendar of events, and actively identify and recommend areas for cooperation.

Part of the Extension Officers' (EOs') responsibilities should be to make sure that the technical assistance needs are analyzed by the ICN, prioritized, implemented, evaluated, and up-dated. Records should be kept in the ICN as to the effectiveness, costs, names, capabilities, and addresses of both the source and recipients of technical assistance. This annotated index for technical assistance will be the key information tool for referrals to clients.

The EOs will give some technical assistance in the areas of market intelligence and business skills, but are more likely to utilize the resources of such Board Member organizations as the Federation of Egyptian Industries, EIDDC, Egyptian Export Promotion Center, etc. During the trial period, a full range of technical assistance vehicles should be tested beyond those above such as private, local and international consultants, TELE-TA (Technical Assistance) via computer communication with such organizations as PfP, VITA, ATI, ARCO, NTIS ADVANCED RESEARCH, etc. who are members of Carinet*, Westinghouse's TA program, university programs, the International Executive Service Corps, etc. Approximately $50,000 should be allocated for such TA to the SME clients during the trial period.

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* See Appendix for CARINET Users Manual.

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There will also be a need for technical assistance to the proposed Coordinating Body itself as a facility in terms of organizational structure, extension service, credit options, and information systems and analysis. Much of this TA may need to be provided by an expatriate with similar experience in other countries, since the Coordinating Body with its services is a new concept for Egypt. This may require $198,000 during the first year's trial period.

Some creative approaches to TA for clients may cost little beyond staff time to organize. For example, the idea of "adopt a factory" has been put forward. This utilizes student and faculty of a local university. They select a factory, diagnose its productivity and business problems as a university project and adopt the factory to assist its improvement. This is a good example of the kind of cost/effective experimentation that should occur during the trial period.

Another is to buy foreign equipment and imitate the design somewhat to keep the modified machinery as simple as possible. This might be an alternative to teaching people how to use imported equipment and it could stimulate new business opportunities.

But whatever the methods, the guiding principles should be to better utilize the existing TA now available in Egypt.

F. VOCATIONAL TRAINING

One model of success identified in the garment case studies was in-service training conducted by the owner/manager of the business (Case Study #3, 4, 9, 11). Several such businesses that formalized this in-service training grew and experienced superior labor relations. Businesses in this sector that have very poor labor relations are not growing.

One implication for vocational training is to find such entrepreneurs that have made in-service training work and hire them as short-term teachers for courses offered through the Coordinating Body to teach other entrepreneurs why and how to do their own vocational education to up-grade the skills of their employees. This would be a good pilot to test during the trial period. It has been PFP's experience in other countries that it is cost effective to find the winners and help them educate others.

A primary role for the Coordinating Body and its ICN is vocational education programs to meet this market, and assist the placement of these graduates among ICN clients. Vocational training should be indexed in the ICN in the same manner that technical assistance is indexed. World Bank surveys of vocational impacts on companies, and other such reports would be digested, creating appropriate knowledge for clients seeking vocational training.

The case studies revealed that the vast majority of vocational education serves the large public sector businesses. For example, the Productivity and Vocational Training Department of the Ministry of Industry has a large system for apprenticeships, accelerated training, and upgrading of skills. Although the placement of apprenticeship graduates may split evenly between public and private companies, the other two programs are almost totally for the public sector companies.

The ICN could play a valuable role in identifying and documenting SME vocational training needs. The Coordinating Body, in its policy dialogue role with the GOE, could use this documentation to encourage existing vocational training centers to offer programs for SME needs.

The Coordinating Body should be open to the possibility of being an umbrella organization through which new SME training programs are implemented. It might also be open to the possibility of playing a similar umbrella role for mid-level management training centers for larger companies.

However, the primary focus of the trial period should be pilot testing in-service training programs conducted by successful entrepreneurs and bringing SME training needs to existing vocational training centers for potential assistance in placement. The costs for this should be less than $5000 and come from the TA budget.

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G. SPECIAL ECONOMIC ACTIVITY

There is an ombudsman or catalytic role to be played in SME development that is not possible to define at this point. Some possibilities were identified during the case study interviews: forming organizations of smaller producers for supply and marketing; forming trade associations; creating businesses to fill gaps in the economy; assisting the creation of a private sector strategy for members of the Coordinating Body's policy dialogue with the GOE; and other activities that improve the functioning of the marketplace.

These activities have become primary sources of income for similar SME programs in other countries. For example, if some support group were to help establish a business for group supply and sales for smaller producers, it could own a percentage of that business. If the EOs help establish a trade association, the service institution could receive a percent of the annual dues.

These kinds of special economic activities are not only valuable for assisting the development of SMEs and earning income for the program but also force the staff to think about the long-range consequences of their daily activity.

During the trial period, there would not be specific budget allocation for this activity. Staff time has already been allocated and if financial assistance was required, then it could come from the credit and financial assistance budget.

III. RECOMMENDATIONS

It has been most gratifying to observe a convergence of ideas, plans and alternatives as this study progressed. We observed an emerging consensus by the relevant public and private institutions that:

1. The time is right to accelerate SME development.

2. The seven elements of the general strategy are needed.

3. The general strategy should be carried out in a coordinated, strategic, and flexible fashion, rather than as a series of discrete programs.

4. A network of relevant institutions should form a Coordinating Body to better utilize existing resources.

5. Each relevant institution would serve on the Coordinating Body.

6. Each element of the general strategy should be pilot tested prior to long-range institutional commitments; and that

7. A request be made to USAID to fund the first five years of the program to be initially implemented with a contracting organization with experience in SME development.

The outcome is at least partly a function of the excellent cooperation and ideas received from public and private sector organizations. The private sector institutions with whom we have discussed general strategy are unanimous in their promise of cooperation, support, and willingness to actively serve on the board of

directors. Many public sector entities have made similar offers; one agency which it had not occurred to us to invite has requested to be considered for a position on the board.

There are three alternatives for implementing the findings of this study:

1. The Federation of Egyptian Industries would expand its organizational capabilities to implement the seven elements of the general strategy and be the institutional home for the Coordinating Body;

2. The Coordinating Body would be a private non-profit entity which would implement the general strategy with participating institutions; or

3. No formalized program would be created, but the relevant institutions would use the findings of this study to improve their capabilities as they see fit.

A. FEI AND IMPLEMENTATION ALTERNATIVES

Prior to the departure of the study team, a consensus was not achieved as to whether the program would fall within the public or private sector. Although much of the program is designed to be carried out through the existing public and private institutions, the Coordinating Body should have a home location.

The Federation of Egyptian Industries requested this study in order to improve its information services to SMEs. Chapter V of Volume 2 specifically addresses how the Federation can make such internal and very specific improvements. However, we feel that not all of the services needed for SMEs should necessarily be part of the FEI. Some

could be external services, which the FEI could use to serve its clients.

The principle may be more clearly illustrated in a different context. In order to improve farmers' capacity, it is often necessary to build roads and start trucking businesses to transport farm produce to an expanded market. Although the road and trucks are not direct inputs to the farm, they are a direct input to the farming capacity. The entire general strategy, like the roads and trucks, can improve the FEI's institutional capacity without being directly within the FEI and necessitating its trying to manage all seven elements of the general strategy.

During our study it became clear that many of the services needed for SME development would be a major addition and require reorganization of the FEI. Simultaneously, private sector officials shared their concept paper for a "Business Development Center," which could be an added resource to the FEI in meeting SME needs. The Business Development Center (BDC) appeared to be the logical candidate for the Coordinating Body through which the seven elements of the general strategy could be carried out.

The late 1984 US-EGYPT Business Council meeting in Alexandria involving USAID and many of the interested private sector institutions approved the concept of the BDC for medium and smaller businesses. The BDC had also been previously proposed by Faoud Sultan, chairman of Misr-Iran Development Bank.

The study team reviewed the findings from the case studies, institutional survey, and recommendations for improving the institutional capacity of the FEI to serve SMEs in light of the BDC concept paper. A consensus seemed to be emerging. To test this consensus, the study team prepared a one page overview and accompanying graphic that called for the Coordinating Body to be the Business

Development Center with a Board of Directors composed of the Federation of Egyptian Industries, the Egyptian Export Promotion Center, Development Industrial Bank, Engineering and Industrial Design Center, Egyptian Businessmen's Association, American Chamber of Commerce in Egypt, US-Egypt Joint Business Council, private sector individuals and an implementing organization with similar SME development experience.

The work of this network organization would be funded by USAID to carry out the general strategy. A contracting organization with experience in SME development would be responsible to the BDC's Board of Directors and pilot test each element of the general strategy before permanent institutional and programmatic commitments are made. This concept was discussed with over 35 representatives of private and public sector institutions and completely endorsed in subsequent meetings with the key private sector organizations, but only partly endorsed by the FEI for the reasons stated above, plus the concern that a large program will take longer to commence and that individual institutions could lose their identity in the network approach.

Since the Information/Communication Network is the top priority, it would be the first element of the general strategy to put in place. And since the Federation of Egyptian Industries is the central institution in the network, it would receive immediate attention. As a result, the scale of the program finally adopted by USAID should not make any appreciable difference in program commencement for the FEI.

Secondly, the policy and direction of the proposed Business Development Center is set by its Board of Directors upon which the FEI sits. The FEI would be in a position to prevent any loss of individuality due to the network's operations. Theoretically, networks tend to reinforce individuality, since the individual is offered the opportunity to define and continually redefine relations with each network member and the network as-a-whole. For example, telephone networks increase individual autonomy and effectiveness.

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Organizational networks should yield the same effect if indeed they remain networks and do not become hierarchies. This will be the responsibility of the board to insure.

The FEI would not be in a position to charge for services in the same manner as a private sector organization and, hence, would be in continual need of GOE or USAID support. Further, EOs will need to look at SMEs' books. This may be less acceptable if they are part of the FEI.

Finally, it could be argued that the recommendations for FEI improvements in Volume 2, Chapter V, be implemented independently from the seven elements of the general strategy. This seems reasonable.

Each element of this general strategy is mutually reinforcing and interdependent. The FEI agrees that it is not in a position to carry out all seven elements. Its charter does not have this kind of SME focus*. Hence, if the Business Development Center fell solely under the FEI's jurisdiction, then the strategy would be fragmented, potential synergies lost, and the private sector support would be less. Therefore, we recommend that the Business Development Center be structured as a non-profit organization in the private sector with network relations among all relevant public and private sector institutions and programs.

On the next page is a chart presenting an overview of the functions of the BDC.

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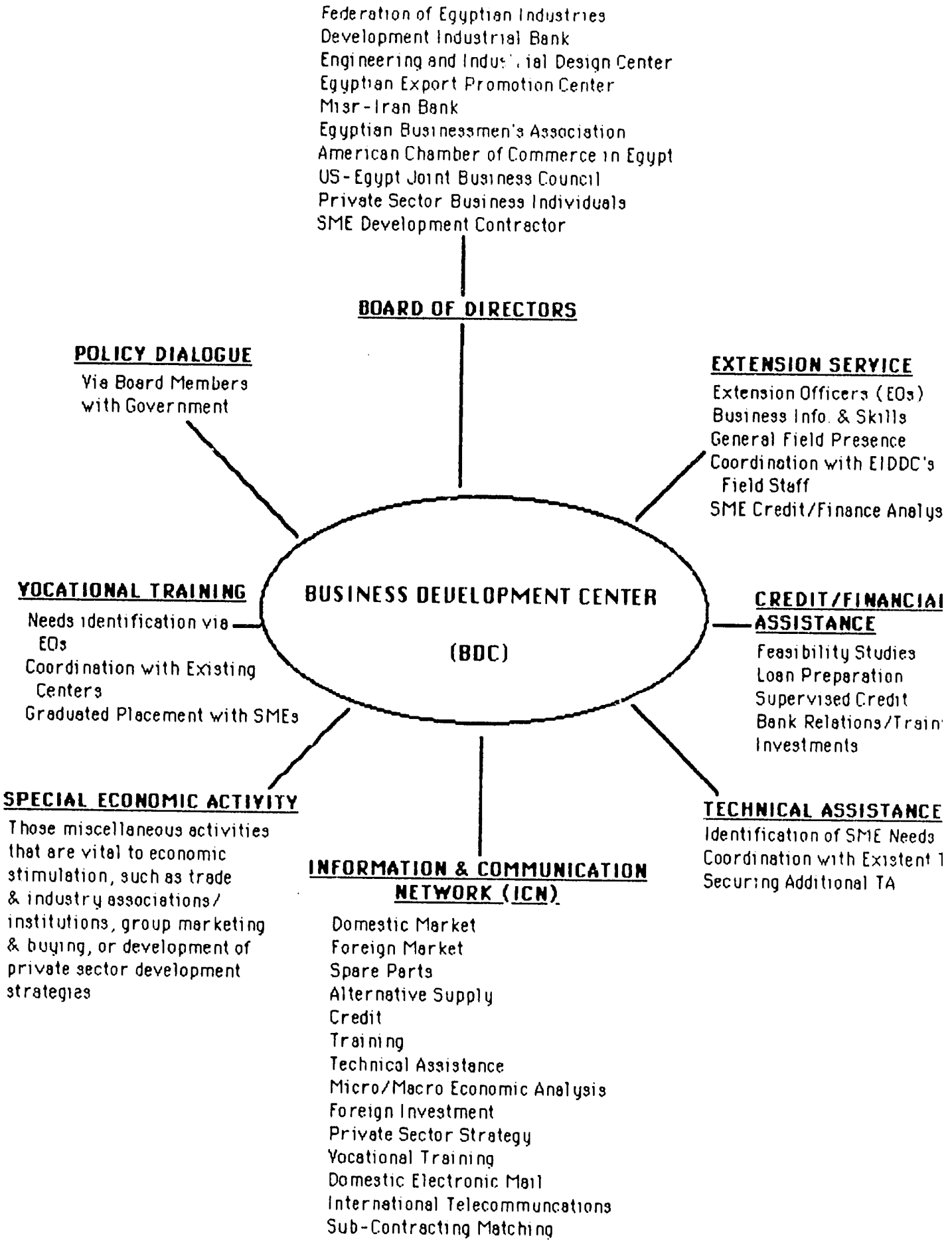
* See Appendix for FEI Charter.


Federation of Egyptian Industries
Development Industrial Bank
Engineering and Indus'. ial Design Center
Egyptian Export Promotion Center
Misr-Iran Bank
Egyptian Businessmen's Association
American Chamber of Commerce in Egypt
US-Egypt Joint Business Council
Private Sector Business Individuals
SME Development Contractor
BOARD OF DIRECTORS
POLICY DIALOGUE
Via Board Members with Government
EXTENSION SERVICE
Extension Officers (EOs)
Business Info. & Skills
General Field Presence
Coordination with EIDDC's Field Staff
SME Credit/Finance Analys
BUSINESS DEVELOPMENT CENTER
(BDC)
VOCATIONAL TRAINING
Needs identification via EOs
Coordination with Existing Centers
Graduated Placement with SMEs
CREDIT/FINANCIAL ASSISTANCE
Feasibility Studies
Loan Preparation
Supervised Credit
Bank Relations/Train
Investments
SPECIAL ECONOMIC ACTIVITY
Those miscellaneous activities that are vital to economic stimulation, such as trade & industry associations/ institutions, group marketing & buying, or development of private sector development strategies
INFORMATION & COMMUNICATION NETWORK (ICN)
Domestic Market
Foreign Market
Spare Parts
Alternative Supply
Credit
Training
Technical Assistance
Micro/Macro Economic Analysis
Foreign Investment
Private Sector Strategy
Vocational Training
Domestic Electronic Mail
International Telecommuncations
Sub-Contracting Matching
TECHNICAL ASSISTANCE
Identification of SME Needs
Coordination with Existent T
Securing Additional TA

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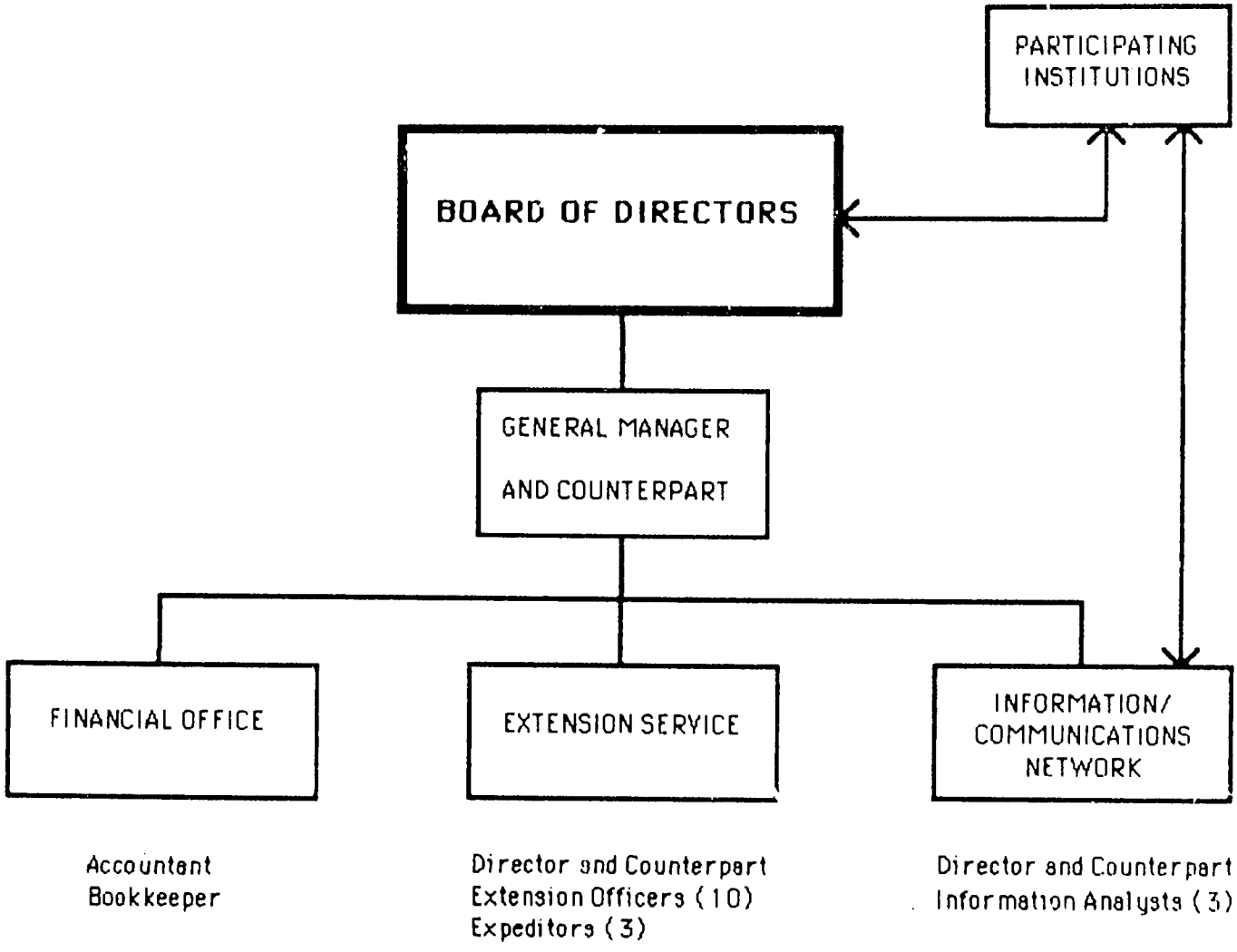
In this scenario, the BDC would be charged with the responsibility for implementing the seven elements of the general strategy. This should be directed by the board so as not to duplicate any of the major participants' programs, but to optimally connect them to each other and connect each more directly with SMEs while taking the initiative of filling the gaps in the services to SMEs as necessary. The BDC should be a connecting mechanism for all SME development in Egypt. Each participating institution maintains complete control of its own services, and draws on the BDC as it wishes, subject to board approval. The governance of the network of services for the private sector is in the hands of the board, while the BDC general manager is responsible for the daily operations.

The following organizational chart calls for a staff of three expatriates and twenty-five Egyptians including four secretaries phased in over the course of the trial period. There are no separate lines for credit/financial assistance, technical assistance, vocational training and special economic activity since these elements of the strategy are carried out in concert with the general management, extension service, information and communications network and participating organizations. Policy dialogue is carried out by the Members of the Board in their individual and institutional capacities.

BUSINESS DEVELOPMENT CENTER

ORGANIZATIONAL CHART



Since the BDC is a network organization of key participants on the Board of Directors, there are direct lines between the participating institutions and the Information/ Communication Network.

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B. INSTITUTIONAL ROLES WITH AND BENEFITS FROM THE BDC

Without repeating the discussion in the general strategy section of this volume, the following will take each element of the general strategy and discuss how the participating institutions may benefit from the BDC and their proposed roles.

1) Information/Communication Network -- Participants need not duplicate their existing information in the BDC data bases, but would allow BDC information analysts to store catalogues with other participants and clients. CAPMAS (who requested to be on the BDC's board) collects firm-level data based on a 1976 sampling to be up-dated during next year's census. The FEI summarizes this information annually and collects additional information on the production characteristics of its 9000 members. EIDDC/ITAP and STI have access to American technology data banks. The Minister of Cabinet Affairs will be collecting other information for a policy dialogue with donor agencies. The BDC would address market, supply, and development information specifically for SME use and distribution.

   Each participating institution would be allowed to draw on all non-proprietary information generated through the BDC via mailed printouts or direct electronic access. They would also be allowed to use the local electronic mail as well as international telecommunications access. Original analyses, summaries, and statistical outputs may also be requested by participants as one would draw on any information utility.

   For example, the FEI could request which SMEs producing garments are the best candidates for supplying public enterprises' needs as checked by the EOs' client records. Similarly, banks could access creditworthiness information. The Export Promotion Center could get an annotated list of SMEs

ready for joint ventures to begin exports cross-referenced with the FEI's analysis.

Information analysts will continually up-date participant programs such as training, technical assistance, and other events useful as an SME calendar of events. The BDC will actively seek synergies within this information and call participants about collaborative possibilities.

All of this will assist participants to better serve their clients as well as plan their future programs in collaboration with other participants. Above all, the ICN will be the intermediary for direct data transfers among participating institutions.

2) Extension Service -- Each participant will have the benefit of a field presence to collect and cross-reference information on a more rapid basis than currently exists in Egypt. For example, the DIB could have improved business diagnosis, skills training, and loan preparation for their clients produced by EOs. The FEI could have EOs follow-up on members that did not return their questionnaires. EOs could refer clients that need technology problem solving to the EIDDC. The American Chamber of Commerce in Egypt can refer requests for market surveys to EOs. And all would better serve their own clientele by more current and field tested analysis. Understandably, EIDDC would benefit the most by expanding its field coverage by ten people, and by the ability to cross-reference its work with the information analysis of the EOs.

The participating institutions should be involved in the initial and in-service training of the EOs, and through their role on the board, set general policy and direction for the extension service.

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3) Credit/Financial Assistance -- Participating institutions that have not been able to financially assist their smaller business clients would now be able to do so. The FEI could steer its smaller members who have benefited less than larger members to a new credit source. The DIB would have a new credit window. And the Export Promotion Center could obtain the capital infusion necessary for small producers to standardize quality and reach production levels necessary for export. The institutions' role is to promote this service to their membership and steer them through this credit window. Financial assistance in the form of venture capital will require Board level analysis and approval as discussed in the general strategy of this volume.

4) Policy Dialogue -- Participating institutions will have the benefit of EOs' information collection, ICN's analysis, and the opportunity to discuss in camera at board meetings what are the priority issues and consequences for improvements. The Board need never take positions as a board, but serve as a neutral center for discussions among the key public and private institutions that serve the SME sector. Members could agree on a priority of issues privately and then in their individual and institutional roles carry out the policy dialogue knowing that their sister institutions are in cooperation.

5) Technical Assistance -- Members of participating institutions will be able to take advantage of technical assistance as appropriate from other institutions. For example, the Export Promotion Center might list in the ICN a seminar and training program in exporting. Other institutions could notify their appropriate members to attend. Institutions whose TA budgets might be low could pool resources to jointly conduct programs though the coordination of the BDC. Additionally, the Board Members could identify critical TA not present in any

institution and have the BDC provide the TA to all members through BDC's budget. Institutions should share their evaluations of TA with the ICN so that all members will benefit from others' experiences.

6) Vocational Training -- Through the participating institutions and the BDC's EOs, SME training needs can be documented. In the Board's policy dialogue role, institutions could use the documentation to encourage existing vocational centers to offer programs for their SME members. There exist SMEs with good in-service vocational training that could be multiplied through the BDC for the benefit of institutional members.

7) Special Economic Activity -- Through the pooling of institutions' knowledge and the EOs' experience, the ICN could identify strategic activities that would accelerate economic growth. Such activities might require the collaboration of these institutions to bring to fruition that which no single institution could do as easily if acting alone. One obvious example is the establishment and periodic up-dating of an SME development strategy that is acceptable to both the public and private sectors.

C. SME BENEFICIARIES

According to the ADL Study, there are 8050 businesses with 10-200 employees, averaging LE 194,000 in capital assets excluding land and buildings. We would prefer to estimate value added by the BDC to SMEs in terms of gross sales or net profits, but this information is not available.

If we assume that the BDC reaches 60% of these businesses over the five year program and facilitates growth in their businesses indicated by an average increase in 5% of their fixed assets, then LE 46,851,000 would be added to this sector's assets.

We have previously estimated that one EO would personally assist between 200-400 businesses a year. With ten field officers this program would assist 2,000-4,000 SMEs per year. Since many clients will remain part of the EO's portfolio periodically over the five years, one cannot simply multiply these figures by 5 to get the total number of beneficiaries served by the proposed 5-year program. Conservatively we estimate that between 5,000-7,000 SMEs would be direct beneficiaries of this program.

This does not take into account the artisan and informal sectors that will also be affected by the BDC through group marketing and purchases, general market intelligence, business skills training, the policy dialogue, and coordination of economic development assistance in general. The dollar benefit to this group is beyond the scope of this study to estimate. See appendix for growth study of similar businesses assisted by a PFP business development center in Burkina Faso (Upper Volta).

The following matrix of general problems and program elements designed to address them is meant for discussion purposes and not to be taken as precise ranking. For example, the numbers would noticeably change if specific problems were inserted. Since credit assistance is a stronger need in the food sector than in the garment industries, it is not included in the general problem list as endemic to all SME development.

Secondly, the matrix assumes that the BDC is a private sector organization that is responsible for implementing the general strategy.

The matrix does serve to indicate that the core services of the BDC should be considered to be the: 1) Information/Communication Network; 2) Extension Service; 3) Policy Dialogue; and 4) Special Economic Activity due to their high impact on the nine general problems collectively. It also illustrates that the problems most effectively addressed by the seven elements of the program collectively are likely to be:

1. The private sector does not have its own SME development program;

2. SME assistance efforts are fragmented and understaffed; hence, they do not provide the field contact sufficient to transfer business skills and expedite red tape;

3. There is little vocational training specifically tailored to SMF labor needs; and

4. SMEs are not organized to pool their production which would allow them to tap new markets, or to pool their orders to get better unit costs.

IMPACT OF PROGRAM ELEMENTS ON GENERAL PROBLEMS OF SME DEVELOPMENT

GENERAL PROBLEMS / PROGRAM ELEMENTS	LACK OF GOE SME POLICY	NO CENTRAL SME INFO	LITTLE SME VOICE TO GOE	LACK OF PRIV. SECTOR'S OWN DEV. PROGRAM	FRAGMENTED FIELD ASST.	MISTRUST OF INFORMATION	LACK OF TRADE/ INDUS. ASSOC.	LITTLE SME VOC. SPECIFIC TRAINING	LITTLE SME GROUP MKTG & PURCHASING	HOW PROGRAM ELEMENT IMPACTS PROBLEMS COLLECTIVELY
1. ICN	2	2	2	2	2	2	2	2	1	17
2. EXTENSION SERVICE	1	2	2	2	2	2	2	2	2	17
3. CREDIT/FINANCIAL ASSISTANCE	0	0	1	2	1	0	0	1	0	4
4. POLICY DIALOGUE	2	1	2	2	2	1	2	1	2	15
5. TA	0	0	0	2	2	1	0	1	1	7
6. VOC. TRAINING	1	1	0	2	1	0	0	0	2	7
7. SPECIAL ECONOMIC ACTIVITY	1	0	1	2	1	0	2	2	2	11
HOW PROBLEM IMPACTED BY PROGRAM ELEMENTS COLLECTIVELY	7	6	8	14	11	6	8	9	10	

SCALE: NO IMPACT = 0 SOME IMPACT = 1 MUCH IMPACT = 2

This chart asks how each program element impacts the general problems of SMEs. For example, the first box is filled in by asking if the ICN will affect the lack of a GOE SME policy. The "2" signifies that it could have much effect over the five years of the program

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D. TOWARD FINANCIAL SELF-RELIANCE

Since it is recommended that the BDC be a private sector organization, it must earn its own living from the services it provides. We recommend that it plan to achieve this goal within five years.

The BDC should use the trial period to market test a range of services for the small and medium enterprises (SMEs) in Egypt. At the end of this period, a detailed business plan should be created indicating cost and income centers, promotion plan, target markets, cash flow projections, etc. to act as an operational guide and complement to the center's annual work plan.

The following is a discussion of some sources of income for testing during the trial period:

1. Training -- Through the daily contact of SMEs by EOs, it should be easy to identify what training seminars businesses will pay to attend and how many people would attend. It may also be possible to hold general seminars for the current business environment in Egypt attended by a broader audience which can also serve as a marketing tool of the BDC.

2. Market Research -- Initially it may not be possible to sell market research tailored for SME clients. Experience in other countries is that larger foreign firms will pay a business advisory service for market surveys, because EOs are the only in-place system that can quickly and cost/effectively cover a large area. SMEs that participate in supervised credit will pay for the extension service that includes market research assistance. But the BDC will have to prove value over several years to earn the confidence of businesses to pay for such information.

3. Expediting Fees -- EOs will become aware of the ways to cut red tape and be able to speed up or follow through on many important matters that waste entrepreneurs' time. This source of income may not be large but it will earn money as the service is seen as valuable once the EOs demonstrate they are capable.

4. Equity Positions -- This is the primary long-range economic support of the center. If the center chooses new businesses or expands existing ones wisely then its future is as good as its investments. These may not bear substantial fruits for the first five years, but in ten years it could account for the primary source of revenue for the center. When the center spends extra time with a business or makes a special effort that assists in its financial growth, an equity position is justified if the center judges its future growth potential significant.

5. Telecommunications -- The BDC will be equipped with a computer that can communicate to much of the world* for personal correspondence, market access, alternative sources of supply and data base access. SMEs need not buy such computers, but simply give their requests to EOs who would charge a fee for such access well below the comparable telex and other research fees, while still retaining a reasonable profit for the center. This service is unique in Egypt today, but many competitors may enter the market. It remains to be seen if the center will be able to retain leadership of such a service. But it should generate income to at least cover the costs of the center's own needs for international communication.

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* See Carinet Manual in Appendix.

6. Brokerage Fees -- Through the international computer network and other sources, foreign investors may be located and served for a fee by the center, similarly for Egyptians returning from abroad. Foreign companies may also pay fees for locating sales outlets or sources of supply. The field extension service information system and international computer communications make the BDC especially attractive as a broker.

7. Contracts -- A realistic organization with a field staff that can match macro economic with micro economic analysis, a network of institutional contacts, and a proven performance record can attract a variety of contracts. To give just a range, the BDC could perform studies for the feasibility of investments, business skills training, franchising companies, providing new EOs for economic development assistance in new communities assisted by foreign donors, provide briefings and up-dates on the Egyptian business climate for SME growth, represent international networks, and provide computer accounting services.

8. Venture Capital Representation -- Increasingly, venture capital firms are looking to the developing world and to SMEs in those countries. It is too expensive for these firms to set up offices in countries without assured returns. The BDC is a logical way for them to identify potential investments by putting the BDC on a retainer. If nothing bears fruit, the venture capital firm has not lost much but the fee. If some investments are placed, then the BDC can trade on those successes to represent more such firms.

9. Participating Bank Fees -- As mentioned in both the credit and extension sections of this volume, the EOs can earn income for the center by adding fees for supervised credit to the principal

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of their clients' loans, and, part of repaid interest. This can produce more income than first appears possible and is a primary source of income for business advisory services in other countries. This naturally depends on the banks' participation and the quality of the extension service as the market for credit is enormous relative to the income needs of the BDC.

10. Membership Dues -- The BDC will not have sufficient value to charge membership dues during the trial period. The idea is to charge SMEs dues to be members of and financially support their sector as a whole through the Board of Directors' policy dialogue with the GOE. Their companies would be contacted if information was useful to their prestated needs. A newsletter and discounts on conferences might also be offered to members.

11. Trapped Local Currency for MNCs -- Multinational corporations have limits on the amount of currency they can repatriate. Some of this money may be used for corporate public relations. Donations of local currency to the BDC may become an attractive alternative to current philanthropy in Egypt.

12. Employee Placements -- As described in the section on Vocational Training, the center may be able to identify the market for job skills, assist the coordination of programs in existing training centers or technical assistance programs and ultimately place employees among client firms. A fee for this service could be charged.

This is not an exhaustive list but serves to illustrate what may be possible for market testing.

E. IMPLEMENTATION

A strong interest in the establishment of the Business Development Center is growing rapidly among several government ministries, leading private sector organizations, and SMEs surveyed during this study. USAID may wish to consider some support funding to continue this momentum through a mechanism like the Special Activities Fund to further define consensus.

Funding for the five year program including the trial period could be a cooperative agreement between USAID and an implementing organization with experience in similar SME development. The private sector organizations we interviewed would like to avoid the RFP route as that process may take so long that the momentum of support could diminish.

Regardless of the funding mechanism, we strongly recommend that the first 6 months or year be regarded as a trial period to pilot test each element of the design. This will give operational experience upon which to make larger programmatic and institutional commitments. We believe that the trial period must be part of the five-year commitment instead of being an isolated activity. Some elements may only need six months to test while others may require one year. The difference between pilot testing and regular operations may only be a matter of scale, but the relationship with a given SME during and after the trial period may be the same. A break between the trial period and full operations could unfairly leave the SME client in limbo and cause poor public relations for the BDC.

Please refer to the General Strategy section for discussion of implementation of the ICN and other elements of the program.

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The first order of business for the implementing organization of the grant will be to work with the proposed Board of Directors of the BDC, to write the letter of incorporation, set operating policy and register the BDC. Hiring and training of staff, as well as purchasing of equipment, can be simultaneously initiated.

A detailed work plan for the trial period should be approved by the Board of Directors as early as possible. This plan should include all pilot design elements described earlier, review of current institutional relationships, review of relevant USAID and other development efforts, the possibility of focusing on the food sector (while working with other SMEs to get corporate learning, cross-references, and begin with small successes to expand later), extension officers' and information analysts' recruitment and training, and a system to identify new businesses and growth opportunities for SMEs.

After the evaluation of the trial period, a general work plan should be approved by the Board with a detailed plan for the next year including a business plan complete with cash flow projections and staff time/project allocations to cost and income centers. The second evaluation should be at the mid-point of the project and the third toward the end of the fifth year.

With the consent of the board, the implementing organization would phase their personnel out of the BDC during the five year period such that enough time will have passed to judge the autonomy of the BDC both managerially and financially by the end of the fifth year.

IMPLEMENTATION CHART

	Year 1	Year 2	Year 3	Year 4	Year 5
1. Hiring and Training Core Staff	X				
2. Establish Board and Approve Workplan	X				
3. Hire and Train Remaining Staff	X				
4. Pilot Test Program Elements	X--------	-X			
5. First Internal Evaluation		X			
6. Re-design BDC & Approve second years work plan with Board		X			
7. Institutional and Programmatic Commitments		X			
8. Income Generation		X----------	----------	----------	----------X
9. Second Evaluation		X			
10. Third Evaluation					X
11. Independent of USAID Funds					X

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F. BUDGET ESTIMATES

The following budget estimates should only serve as a discussion guide. Large fluctuations in the actual cost of the BDC after the trial period may occur depending on participant institutions' interest in taking on some of the BDC's functions directly or whether new programs get added to the BDC.

For example, all of the credit and financial assistance might be channelled through the DIB and commercial banks, eliminating nearly a million dollars. Or the guaranteed loans and venture capital mechanisms may be best executed through the BDC, greatly increasing this budget item. Similarly, the Extension Officers could begin to be hired by participant banks or added to EIDDC's staff. On the other hand, it may be best to keep the EOs with the BDC and expand their presence throughout Egypt, greatly increasing this item in the budget.

We have chosen the middle ground in these estimates. All figures are in U.S. dollars although we estimate over the five years that $2,613,000 is in U.S. currency and $4,560,000 could be in Egyptian currency.

BUDGET ESTIMATES

(in thousands $ U.S.)

PERSONNEL	Year 1	Year 2	Year 3	Year 4	Year 5
Expatriate					
General Manager	40	42	44	46	--
ICN Director	35	37	39	--	--
Extension Director	35	37	39	--	--
Benefits @ 25%	28	29	31	12	--
Housing & Miscellaneous	70	74	77	28	--
	198	219	230	86	0
Egyptian					
GM Counterpart	30	32	33	35	36
ICN Counterpart	25	26	28	29	30
Extension Counterpart	25	26	28	29	30
Info Analysts	30	32	33	35	36
EOs (10)	100	105	110	116	122
Expeditors	15	16	17	17	18
Secretaries	20	21	22	23	24
Accountant	15	16	17	17	18
Bookkeeper	10	11	11	12	12
Social Security @ 40%	108	114	120	126	132
	378	399	419	439	458

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OPERATIONS

Office: Fixed	25	5	5	5	5
Office: Utilities/Rent	50	55	61	67	73
ICN	283	40	30	25	25
Vehicles	80	--	--	--	80
Maintenance/Gas/Misc.	100	110	121	133	110
Credit/Financial Assistance	250	200	250	200	--
Technical Asst. to SMEs	50	50	50	50	50
Overseas Representation	20	10	--	--	--
Staff Training	30	10	10	5	5
International Travel	20	15	15	10	10
Direct Support	20	21	23	24	26
SUBTOTAL	1504	1134	1214	1044	842
Overhead at 25%*	376	284	304	261	211
TOTAL	1880	1418	1518	1305	1053
(Paid in U.S. $)	921	526	519	378	269
(Paid in Local $)	959	892	999	926	784

* We estimate that appropriate implementing organizations would have approximately a 25% overhead rate although we realize this can vary among such contracting organizations.

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A P P E N D I C E S

Partnership for Productivity
International

C A R I N E T

USERS MANUAL

JANUARY, 1985

2001 S St., N.W., Suite 610, Washington, D.C. 20009 (202) 234-0340 / 483-0067 Telex: 4994942 EIES: 531

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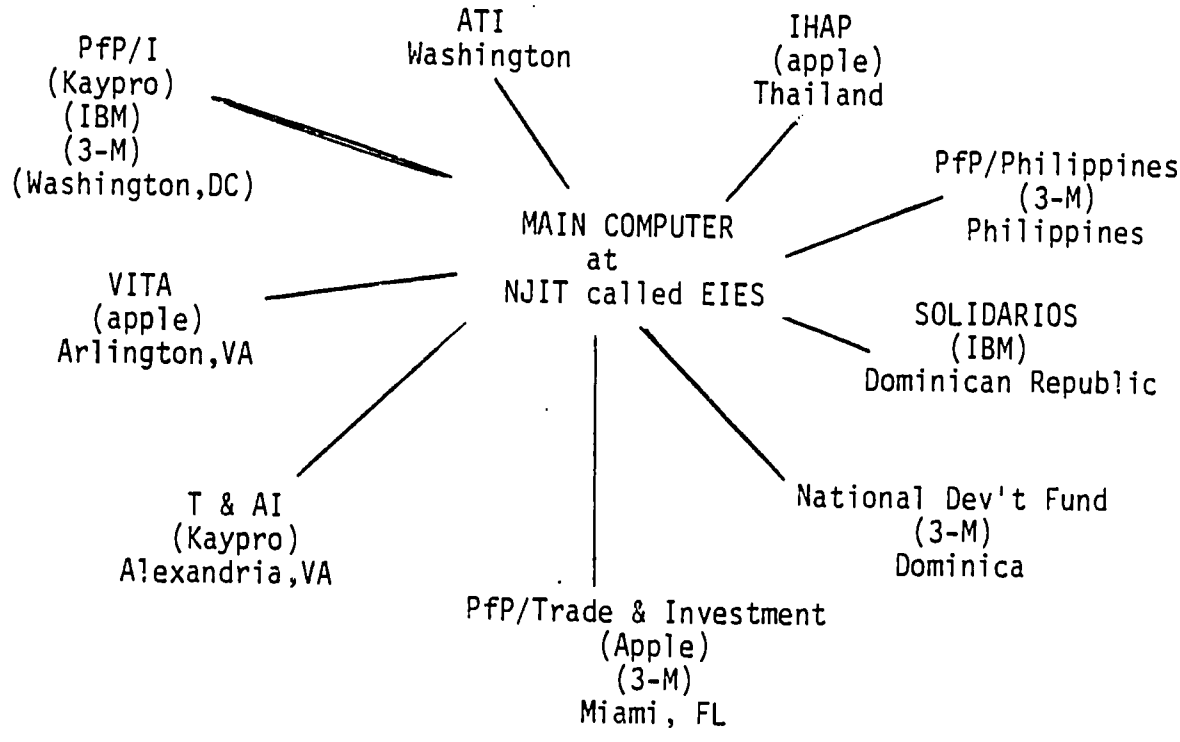
System Overview

COMPUTER CONFERENCING is a low-cost, international information management system. It began in the 1960's to integrate computers, satellites, telephones, and packet switching among geographically dispersed actors for the Department of Defense. The White House used computer conferencing for the Office of Emergency Preparedness, Price and Wage Controls, and recently through the New Jersey Institute of Technology (NJIT) it was used to prepare for the White House Conference on Productivity.



COMPUTER CONFERENCING CAN BE USED FOR:

1. Sharing learning among development programs
2. Technology transfer requests and delivery
3. Supply and market information
4. Coordination and management
5. State-of-the-art up dates
6. Cutting travel and communication costs
7. Leting poorer people into the world information network
8. Solving incompatibility problems among computers
9. Barter and electronic funds transfer
10. Accessing other electronic mail systems

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WHAT IS CARINET?

CARINET is the name of a group of people and institutions involved with economic development in the Third World who are linked world-wide via computer conferencing. The computer conferencing system that CARINET uses is called the Electronic Information Exchange System (EIES) located at the New Jersey Institute of Technology (NJIT). Partnership for Productivity/International (PfP/I) sells accounts on this system at a discount rate. PfP/I bills CARINET members at $35 per month plus 18c/minute for usage after 6:00 p.m. (These fees include both EIES time charges and your connection to New Jersey via TELENET or UNINET.) A typical connection to send a short message will last 2 minutes and cost less than the cost of air mail. Generally the cost of sending messages internationally is one tenth the cost of sending the same message by Telex.

The international telecommunications networks of TELENET, TYMENET (via switch to TELENET), and UNINET access the CARINET main computer in New Jersey. These low-cost data relay networks are called "Packet-Switched Networks," because they "package" your transmission into little packages of data and "switch" it up to the international satellite networks. Your message might take one or two minutes to send from your computer, but since your message is packaged or condensed by packet switching, it goes over the satellite in just seconds, saving you satellite cost time.

As of October 1, 1984 the following are countries from which you can access packet switching locally:

Argentina	Gabon	Panama
Australia	Germany	Philippines
Austria	Guam	Portugal
Bahamas	Hong Kong	Puerto Rico
Bahrain	Hungary	Qutar
Barbados	Ireland	Saudi Arabia
Belgium	Israel	Singapore
Bermuda	Italy	South Africa
Brazil	Ivory Coast	Spain
Canada	Japan	Sweden
Chile	Korea	Switzerland
Colombia	Kuwait	Taiwan
Costa Rica	Luxembourg	Thailand
Denmark	Mexico	Trinidad & Tobago
Dominican Republic	Netherlands	United Arab Emirates
Finland	New Zealand	United Kingdom
France	Nicaragua	United States
French Antilles	Norway	Virgin Islands

The number of countries is growing. Soon to be added are Jamaica, Hondorus, Egypt, and Kenya.

In countries that do not have local packet switching access, you can call either TELENET or UNINET at the closest U.S. location or call the closest country with packet switching after you get a friend in that country to take out an account with the telephone company in that country.

Sometimes when you call long distance from a developing country, you may get connected to CARINET but find no response on your terminal. This is usually because there is an "echo suppressor" at the local telephone company. We suggest that you call your local telephone company and talk to the data communications engineer and ask him to by pass the echo supressor for you. Alternatively, banks and international press reports have made arrangements to by pass the echo suppressor, and they might let you start out using their lines. Often they are so interested in CARINET that they will be helpful.

You can also access CARINET via Telex connection to TELENET but this is more expensive than making a long distance call to the U.S. to send your message to CARINET since the data transmission rate is faster via long distance than on Telex. CARINET messages are approximately one tenth the cost of telexes.

CARINET uses the most advanced and easy-to-use computer conferencing software per price in the world. It is so easy to use that all you really need to remember is: when in doubt, simply hit the return key on your terminal to get your next options. If you have a question about the option, you can simply type ? and an explanation will be given. If you want to talk about a problem live while you are on-line with someone whose job it is to help you, simply type ??? and a one-line message or question and hit the return key, and your question will immediately print-out on the EIES system monitor's computer terminal. It is a 24-hour-a-day, seven-days-a-week system. It is designed to be useful immediately for the beginner as well as for the advanced international information manager.

The INITIAL MENU includes:

MESSAGES	(1)
CONFERENCES	(2)
NOTEBOOKS	(3)
SPECIAL SYSTEMS	(4)
DIRECTORY	(5)
EXPLANATIONS	(6)
REVIEWS	(7)
COMPOSITION	(8)
MONITORING	(9)

1. MESSAGES are sent just like standard electronic mail to a specific CARINET member, other EIES members (of which there are about 2,100), or through a special command to one of 56,000 members in other electronic mail systems that connect to EIES. You can send a message to one or many people by separating each account number by a comma (e.g. to send to PfP, Carinet,

Solidarios type 531,370,363). If you want to send your message to the entire group of CARINET members then send it to 53. Fifty-three is the number for reaching all members with one message. The cost is the same as if you had sent your message to just one amember. Items for discussion among all members should not be sent as a group message to 53 but as a conference comment to CARINET Group Conference 53. For example, if you are traveling to Jamaica and you wanted everyone to know, then you would send a group message, but if you were making a suggestion for CARINET services to be discussed by all, then it would be better to put it in the Conference 53 record.

A message is a private exchange of text. Messages are not permanent items. EIES can store up to 30,000 messages (or about three-month's worth) at any given time; afterwards, earlier messages are deleted. They can be copied permanently into conferences or notebooks. If you want to transfer or copy a message later to someone, use the .g command. To send message 1253 you would type .g m1253, and that message would be retrieved and sent as part of your message. An example of how your scratchpad might look like is:

```
1.TEXT
2?The following is a copy of a message for you:
3?.g m1253
4?Hope this is helpful.
5?+
```

If three months have passed since you wrote M1253, then it would not be sent. To copy a message that you want kept for more than three months, type in the conference or notebook scratchpad on a new line &<< M1253 and the entire message will be kept. Written confirmations of the delivery of private messages are provided, but not for group messages. Either type can be checked with the +RM command. To see who received your group message M1254, type +RM 1254.

2. <u>CONFERENCES</u> are for discussion of issues to arrive at conclusions. C53 Carinet Group is the general conference for all CARINET members to discuss how to work together and to explore development issues. C410 Barter Exchange is a conference for issues about barter, business opportunities, trade, and investments. Additional public conferences can be opened at no charge (they are four-digit numbers), but anyone can access them like public conference C1015 about computer conferencing for developing countries. A private conference can be ordered, but they cost about $35 per month.

3. <u>NOTEBOOKS</u> are not for discussion like a conference, but are for conclusions and storage, like a data base, for complete units of information. N53 Carinet Data Base 1 is for practical ideas or information like the basic CARINET description, reports, approaches to development that are "finished" ideas. Others can edit your comments if you wish to use it as a work in progress, like writing a proposal among geographically dispersed people.

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N410 is for specific trade, investment, or barter opportunities and background or specific business situations. If you receive a message, say M1255, from a user in Haiti about a barter option that he wants others to know about, you should get N410 by typing either ++3,410,N or gn410,N (N meaning: no you don't want to see a list of all the users in the notebook you have just accessed). CARINET will ask you next for your NOTEBOOK CHOICE? at which you type 4 to get into what is called the scratchpad. It will print out 1.text, and on the next line it will print 2? Here you enter &<< M1255 and press the return key to enter the whole message in permanent storage in the notebook. If you think it needs only to be in for three months then instead type .g M1255.

4. SPECIAL SYSTEMS are for you to write your own programs. We are currently exploring the possibility of having an electronic funds transfer program added in Special Systems for all CARINET users. A CARINET member would deposit money in a special account with PfP for CARINET users to draw from. Let's say you are in Thailand and you want a document sent that cost $25. You could send a private message to PfP requesting that it be bought and sent. PfP then responds saying OK, but time and postage adds on another $5. If you agree, you would then access the CARINET EFT for electronic funds transfer in the Special System choice and transfer $30 from your account to PfP's account. And vice-versa, if PfP needed something done in Thailand that the CARINET user could do, then PfP would credit the Thailand account. At any time, a user can receive a check for the balance of the account or add to the account as necessary by sending a check to PfP.

Other members in EIES that are not CARINET members have created their own special systems that in many cases you can access at no charge.

5. DIRECTORY is a section that acts like an international advertisement for your work. The EIES Directory provides public information about members and groups using the system so that people can find others with common interests. Public information for members includes name, nickname, address, telephone, up to five lines of self-description, and a listing of their group memberships.

You can use up to 24 characters for your name. We recommend that you use both your name and company: OWEN WRIGLEY/IHAP. We recommend your nickname be your geographic location like: THAILAND.

Think of your description as an international advertisement for your work. State who you are, what you want from CARINET and what you offer CARINET. You should give a more elaborate description of your work in Notebook 53 since the Directory takes only five lines of description.

In addition, private information is entered that cannot be accessed by others. Included is your access code (password), which should be changed from the original code assigned to you to protect your private access to the system. You can also establish a pen name for use as an alternative to your signature or anonymity in signing items.

Enter ?DIRECTORY for more general information, and ?UPDATE DIRECTORY for instructions on how to make your own entry. It is very important that you enter your Directory information, as this is a major means of connecting with others on EIES.

After having completed your Directory entry, there are a number of commands available that allow you to change specific items without rewriting the entire entry:

COMMAND	DESCRIPTION	FOR EXPLANATION ENTER
+SNAME	Changes your EIES name	?+SNAME
+SNIC	Changes your EIES nickname	?+SNIC
+SAC	Changes your access code	?+SAC
+SPEN	Changes your pen name	?+SPEN (see also ?PEN NAM

You may also wish to use the Directory to learn who else is on EIES, the interests of specific people, the names of others who share your interest, etc.

The DIRECTORY CHOICE? menu allows you to search members by:

To receive an explanation about each menu item, you type the correponding words:

Do you wish to:		
GET ITEMS	(1)	?GET DIRECTORY ITEMS
DISPLAY TITLES	(2)	?DISPLAY DIRECTORY
Search/Find by:		
NAME PARTS	(3)	?SEARCH NAMES
FROM-TO-DATES	(4)	?SEARCH DATES
WORD/PHRASE	(5)	?SEARCH BY WORDS
ZIPCODE	(6)	?SEARCH BY ZIPCODE

6. EXPLANATIONS will give you explanations of the elements of their system. This is like your on-line manual and tutorial in which you can explore to find out the many features of EIES at your leisure.

7. REVIEWS tells you your statistical activity in CARINET such as how many messages you have sent with how many lines, or conference comments or notebook pages you have on storage. This is useful for evaluation purposes.

8. COMPOSITION is used when you want to send a lot of material and you are not sure yet what you want to do with it but you want it stored for later use as a message, or conference comment or notebook page.

9. MONITORING is used primarily by conference or notebook monitors to add or delete users. It is also used to monitor billing accounts.

BASIC COMMANDS

The primary choices in the main menu that CARINET members use are Messages, Conferences, Notebooks, and Directory. The following are the basic commands and things to remember while using CARINET:

+CARINET	gets all items you have not seen in your conferences and notebooks
+TITLES	gets all titles of items you have not seen in your conferences and notebooks
++	gets you (wherever you are in the computer software) back to Initial Choice
--	signs you off the system
Return Key	gives you the next set of choices or the next logical choice. It also means yes to a question like: List those on line (y/n); hitting the return key will give you that list. WHEN IN DOUBT, HIT THE RETURN KEY.
?	gives you an explanation of your choice at that moment, at the place where you are.
?TELENET	will give you an explanation of TELENET. Any time a term needs an explanation you can simply type ? followed by the term you want explained.
??	does the same as ? but more so.
???	allows a one-line question to be sent live to a person on EIES who will try to help you.
???531	followed by a one-line message will go live to account 531 if 531 is on-line. If 531 is not on-line when you send the one-liner, it will print out the next time he is on.
**	erases your scratchpad.
/mistake/correction/	edits the scratchpad from your "mistake" to your "correction".
::	prints-out what you have put in your scratchpad to check before sending the message, as it will appear in the message.

+ ends the specific input activity you were doing and moves you one step out of where you were in the program, like sending a message or updating your directory. But the + must be put at the beginning of a new line; otherwise the computer will take the + as part of your input.

++LINK links you live to another person currently on-line. It saves you from typing the ??? each time as explained above. To link with 531, type ++link531 and hit the return key. EIES will come back on the next line with the ???531:? setup for you. You then type right after the ? with no space the one-liner you want to send live to 531. If you didn't finish it all on that line, press the return and the ???531:? will automatically print out on the next line for you to continue. The +LINK command saves you from typing the ??? each time.

EIES is accessed by:

1) direct phone call to the computer;
2) calling TELENET (in the U.S.$9.50/hour during working hours, $3/hour after 6:00 p.m. and on weekends); and
3) calling UNINET (in the U.S. $7/hour any time). Hence, we recommend that you access Carinet via UNINET during working hours and via TELENET after 6:00 p.m. and on weekends in the U.S. Overseas the TELENET, TYMENET, or UNINET rates vary from country to country.

On the following pages are samples of commands and usage of CARINET showing what the computer does and what you do to send messages, access conferences, and search a notebook.

How to get on CARINET

You need to have a modem and a direct connection to the phone lines, or an accoustic coupler. You also must know how to use your computer's communication software in order to access CARINET.

Once the above is accomplished, use your software to call your local UNINET or TELENET number. When they answer, you will see on your screen.

YOUR COMPUTER

TELENT →

They say:	You enter:
TELENET 202 8A	
TERMINAL=	Hit return key
@ =	C 20125

UNINET →

They say:	You enter:
L?	Return.Return
uninet pad 25c0 port 02	
service:	eie

TELENET OR UNINET

They say:	You enter:
Name or number:	Your name or nickname or account number, then a comma, then your password
INITIAL CHOICE:	Choose what you want to do!

EIES

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HOW TO GET ON CARINET

WHAT YOUR COMPUTER SAYS:	WHAT YOU DO:
	Call closest Uninet or Telenet number. Put your telephone in the accoustic coupler when you hear the tone. When your computer indicates it is connected, follow the directions below.
If Telenet then it will print out:	
TELENET	
202 8A (depending where you are)	
TERMINAL =	Press RETURN
@	C 20125
Name or #	Type your name or nickname or account number.
If Uninet then it will print out:	
L?	Press RETURN.RETURN
uninet pad 25cl port 03	
service:	EIE
Name or #	Type your name or nickname or account number.
CODE **********	Type your password.
NJIT Electronic Information Exchange	
System	
LIST THOSE ON LINE (Y/N)?	Y if you want to see who, like yourself, is on EIES at this moment, N if you do not.

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INITIAL CHOICE?	At this point you can do several things for example:	
	2,53,N	This means you are accessing a conference by indicating 2 at Initial Choice.
	,	separates the commands
	53	Carinet Conference number
	N	No, you don't want to get a list of all the users of the Conference. (Alternatively, you can get the same by typing GC53,N where G means get and C means Conference.) (To get list of options available to you at INITIAL CHOICE, press RETURN.)

CONFERENCE 53 CARINET		
1 ITEM WAITING		
Accept above communication (Y/N)	Y	to get conference comment that was made since you were last in this conference.
the conference comment will print out and then ask you:		
CONFERENCE CHOICE?	4	if you want to add a comment to the conference.

Entering Scratchpad:

1.Text

2.? Add your comment. When you are finished, press the RETURN key to get a new line and type + to let the computer know you are finished.

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ASSOCIATED COMMENT (#)?	If you are answering Conference comment number 22, then type 22 and RETURN.
TITLE (WORD/PHRASE)? Prints out associated comment number and your title, then asks if it is OK to Add?	In case you want to Search, to retrieve your comment at a later date, enter any key word or words that you might remember. Y will add to the Conference.
CONFERENCE CHOICE?	If you are finished with Conf. 53 and want to check Notebook 53, then type: ++ to get to initial choice and out of the conference mode. 3 for notebooks. , to separate commands. 53 for notebook number. N No, you don't want to see a printout of the users. In other words you type ++3,53,N or ++G N53,N

NOTEBOOK 53 CARINET

Notebook Choice?	If you wanted to Search for anything having to do with, say Palm Oil, you would first type 3 for SEARCH CHOICE.

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SEARCH CHOICE?

Search by:

Number/Names	(1)
Status/Type	(2)
Combinations	(3)
From-to-Dates	(4)
Words/Phrases	(5)
Associations	(6)
Sequences	(7)

Display structure of:

Keys	(8)
Associations	(9)
Sequences	(10)

If you are not sure what the choices are, press RETURN.

If you want to search for the phrase Palm Oil, then you type

3,Palm Oil

and the notebook page numbers which match "Palm Oil" will print out. When it asks if you want to do a nested search, just hit RETURN. It will then ask if you want it printed out, or just the titles. Type Y and it prints out the text about Palm Oil.

SEARCH CHOICE?

If you want to communicate with the author about his Palm Oil item, then type ++1,4 or ++CM (++ to get you out of the search mode in N53 to INITIAL CHOICE, 1 for Messages and 4 for Compose/Submit or CM for Compose Message) and press RETURN.

Entering Scratchpad:

1.text

2.?

Enter your message to the author of the Palm Oil Item. When finished, press Return to get a new line and type + at the beginning of the new line to let CARINET know you are finished, and as always when finished giving a command, press the Return key.

To whom (name/#)

Type the name of the author of the item exactly as was shown in the notebook page or type his account number.

Associated message (#/RC=none)?

If you are answering a specific message, type that number, if not press RETURN.

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Title (word/phrase)?	Give your message a key word or words so that you can retrieve it later by a key word search.
OK to send (Y/N)?	If OK, then type Y. It will ask you next if it is OK to erase the scratchpad. Answer yes, it is OK since it is saved once you said it was OK to send (for both you and him). If you didn't say yes to erase scratchpad, then this message text will remain in your scratchpad. So you can answer yes to both questions at once by typing y,y and press RETURN.
Message Choice?	Carinet will always ask you the next step in mode you were in. So even though you finished sending your message, it will ask if you want another. If you have finished your work and you want to sign off, type --
No messages waiting	
Your Name (Nickname, 789) off at 5/28/84 11:10 am	lets you know if you have any new messages while you were on-line.
Used: $1.23	tells you your cost for this usage.
Time used: 0.06	tells you that you used six minutes.
Cumulative: 8:17	tells you that you have used a total of 8 hours and 17 minutes on your CARINET account.

SPECIAL NOTE:

Once you become familiar with the commands, you can guess ahead or answer ahead to save time by <u>stringing</u> commands together with commas. For example, you could at the sign-on point, respond to several questions at one time by seperating the commands by a comma:

At Name or #, type: Name, Code,N,2,53,N

This would sign you on (and not list people on-line presently), take you to Carinet Conference 53, and not list its members. It is possible to take care of most of your business by stringing commands and get off in one or two minutes, thus reducing your international information management costs. You can also sign on with your Name,Code,N,TITLES which would sign you on, skip listing those on-line, and get all titles of new entries for you.

QUICK SUMMARY

Computer	You
Telenet	Dial Telenet, when connected RETURN RETURN
Terminal =	RETURN
@	C 20125
Name or #	#, password
List those on line?	Y or N
Accept above communications?	Y
Initial Choice?	TITLES
Accept above comments?	Y
Conference choice?	++1,4
Entering Scratchpad	
1.text	
2?	Send message end with + on new line
Message Choice?	--
Signs off	Hang up your telephone and turn off your computer.

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International Professional Services via CARINET

If you are in one country and need work done in another country, you can use CARINET. For example, you might want a series of meetings set up and confirmed with those necessary for some development project. You could send a message to the CARINET member in the country in which you wish to hold your meetings. If that person agrees, he can help find the right people for you to meet and confirm your schedule in advance via CARINET. It would be like having temporary international offices. You would pay the CARINET member for those services at the following suggested schedule:

CATEGORY OF SERVICE	CLIENT CATEGORY		
	SMALL	MEDIUM	LARGE
A. Non-professional, messages, letters, airport pickup.	$ 5	7	10
B. Semi-professional, banking, purchasing, travel arrangements, shipping.	10	14	30
C. Professional, Consulting, Research, Negotiations.	15	28	50

User category "Small" is national development foundations, small business associations, agricultural cooperatives. "Medium" is Chamber of Commerces, Solidarios, PfP, and other such development institutions. "Large" is donor institutions such as World Bank, IDB, USAID, as well as private corporations. The hourly charges are listed above for PfP International; however, each CARINET member can have their own rates. Hourly costs for category A and B should be less in Haiti or Malawi.

Our formula would be hours + expensess (including CARINET costs) + Overhead and Fee = Price. There is no minimum hourly charge for category A ans sometimes B, but there is a minimum of one hour for C. PfP's overhead is 24.23% and fee is 6%.

Advertisements in CARINET placed by people who are not members of CARINET cost $25 (such as comment 14 in the CARINET Conference 53). Business opportunities can also be matched in OPIC's data bank by CARINET, if they follow the format explained in Conference 53 Comment 20.

You can put a deposit in PfP's bank account in Washington and electronically transfer funds to speed up such transactions if you wish. For example, if you wanted work done in the Dominican Republic by CARINET member 316 which costs $100, you could credit 316's credit line by $100 and debit your account via CARINET by $100.

Current members of CARINET as of May 2, 1985 include:

1. Jerry Pantin/Trinidad & Tobago (209)
2. Pat/Charles/Nrdf/St. Lucia (215)
3. Trabart Int'l (Carib.Basin, 238)
4. League for Int'l Food Education (LIFE, 243)
5. Foster Parents Plan Int'l (SandySanders, 264)
6. Manuel Cuellar NDF/B (Belize, 271)
7. Int'l Development Research Centre (IDRC, 291)
8. Criss Juliard/USAID (Haiti, 316)
9. Owen Wrigley/IHAP (Thailand, 325)
10. John Schiller/PfP (Togo, 340)
11. FLA. Assoc. of Voluntary Agencies (FAVA, 362)
12. Enrique Fernandez/Dominican Republic (SOLIDARIOS, 363)
13. PfP/Washington (CARINET, 370)
14. J. Frank Post/National Tech. Info. Service (NTIS,386)
15. Rick Morren/PfP (Miami, 410)
16. Trinidad/Tobago Telco. (T T. TELCO, 513)
17. Jerome C. Glenn/CARINET Manager (PfP, 531)
18. Direct Info. Systems/Curacao (Willemstad, 532)
19. Agribusiness Council (New York, 547)
20. Alex Brown/PfP (Burkina Faso, 552)
21. Gary Garriott/Arlington, VA (VITA, 568)
22. Caribbean Trip (Rippey, 578)
23. Gene Mc Avoy/Small Farmer Assoc./PfP (Jamaica, 653)
24. William Hatfield (Wm, 686)
25. Micro Computer Clearinghouse/Thunder & Associates (T&A, 702)
26. Anita Bully/NDFD (Dominica, 716)
27. Kim G. Glenn (Philippines, 883)
28. American Chamber of Commerce (Dom Republic, 1199)
29. Antilean Courier Service (1258)
30. Aries International (Diversified, 1260)
31. ARCO Research Center (Middleton, 1282)
32. America's Development Foundation (ADF, 1324)
33. A.J. Kozlowski/Int'l Council of Vol. Agencies (Geneva, 1409)
34. Alvaro Sanchez/ IICA/OAS Headquarters (ALVARO, 1462)
35. Ahmed Abou-Bakr/PfP (Egypt, 1646)
36. Barry Brogan (AMEZ, 1652)
37. Flint Electronics (FLINT, 1658)
38. Samuel Bern/Panama (Sami/GTA, 1790)
39. Eireann M. Carroll (erin@ntis, 1791)
40. John W. Hounsell (jwh, 1792)
41. Kathy Dalton (Grenada, 1826)
42. Peewee Culaton/PfP (Manila, 2002)
43. A.T. International (ATI, 2508)
44. Freshnet (2511)

And two that access CARINET's general conference that have EIES accounts on their own include:

45. The National Academy of Science (Boston, 208)
46. The World Future Society (803)

365

Statistics for CARINET 53

	LAST MONTH ITEMS/LINES COMPOSED	LAST MONTH ITEMS/LINES RECEIVED	TOTAL AS OF 1ST ITEMS/LINES COMPOSED	TOTAL AS OF 1ST ITEMS/LINES RECEIVED
MESSAGES				
Private:	294/6191	359/6714	4565/75123	6108/103980
GROUP MESSAGES				
Within:	0/0	8/31	79/779	1090/12748
Outside:	0/0	31/685	7/174	522/10931
CONFERENCES				
Private:	3/99	60/1169	202/2839	2526/38948
Public:	1/125	80/1002	48/1001	1242/19603
NOTEBOOKS				
Private:	1/23	1/23	184/4721	565/11861
Public:	0/0	0/0	0/0	1/8

MISCELLANEOUS

	LAST MONTH	TOTAL AS OF 1ST
Total number of times on:	581	8324
Total hours & minutes of use:	56:47	1240:10
Total private message addresses:	384	6639

REVIEW CHOICE?8

System Statistics

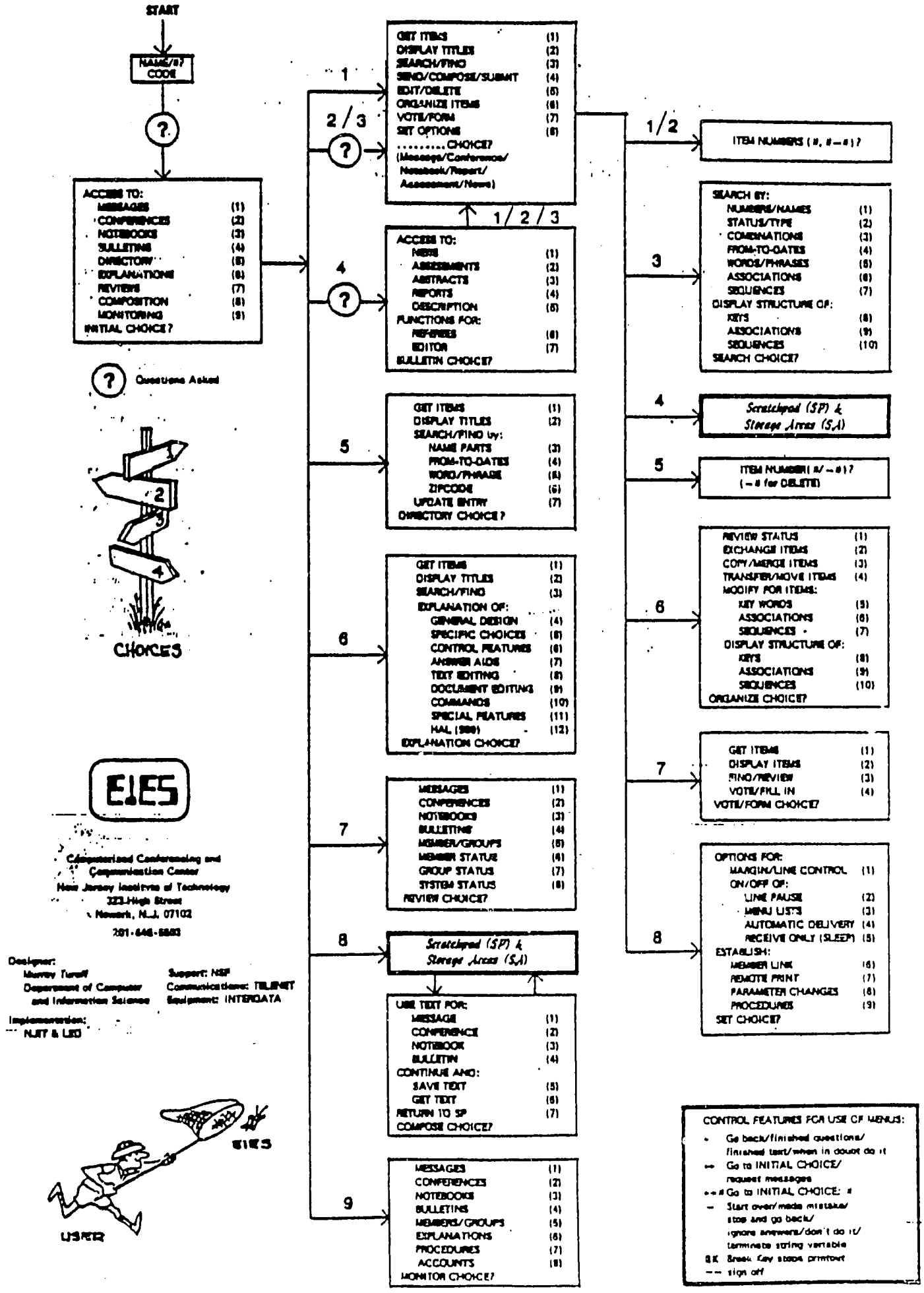
	LAST MONTH ITEMS/LINES COMPOSED	LAST MONTH ITEMS/LINES RECEIVED	CUMULATIVE TOTAL AS OF 1ST ITEMS/LINES COMPOSED	CUMULATIVE TOTAL AS OF 1ST ITEMS/LINES RECEIVED
MESSAGES				
Private:	9878/231079	15514/391027	59006084/6937490	889301/13902092
Group:	227/3227	5212/87979	17518/187913	334811/4165345
CONFERENCES				
Group:	198/3312	3485/68835	24018/400279	439910/7576977
Private:	1376/32772	35907/953146	84806/1476524	1073034/21644895
Public:	1854/41289	44252/839945	39532/739882	1067561/18626862
NOTEBOOKS				
Group:	65/2769	548/38097	7066/121925	17434/486290
Private:	395/18526	440/18138	43275/1349257	59730/1779097
Public:	138/11276	1111/88058	7162/365818	30196/1524112

MISCELLANEOUS

	LAST MONTH	TOTAL AS OF 1ST
Total number of times on	22863	1107287
Total hours & minutes of use	8089:10	380748:55
Total private message addressees	15721	885838

-3181

USER'S GUIDE FOR ELECTRONIC INFORMATION EXCHANGE SYSTE



PRESIDENTIAL DECREE ORGANIZING THE

FEDERATION OF EGYPTIAN INDUSTRIES

Published in the Official Gazette, Issue 12, May 29, 1958.

Article 1: Industrial chambers formed in accordance with Law no. 21 of 1958 shall have a Federation of Industries with the Egyptian region.

Article 2: Such Federation shall handle the joint welfare of those responsible for Egyptian industry and shall coordinate the functions of industrial chambers and industrial regional councils.

Article 3: The Headquarters of the Federation shall be Cairo.

Article 4: The Federation shall have a General Assembly and a Board.

Article 5: The General Assembly shall be formed of the following:

1. Representatives elected by industrial chambers from within members.
2. Four members representing the Ministry of Industry.

Article 6: The Board shall call the General Assembly to meet in Cairo during the first six months of the year, for reviewing its reports and those of controllers, for the purpose of reviewing its financial statements for the previous year and discussing other agenda items. The Assembly may have an ad hoc meeting at the request of the Board or controllers, or if required by one third of its members. The Minister of Industry shall also have the right to call such meetings.

Article 7: The call for a meeting shall be forwarded with a respective agenda three days in advance of meeting.

Article 8: Decisions shall be effected by majority voting.

Article 9: The Board of the Federation shall consist of 21 members. The General Assembly shall elect two thirds of members. The other third shall be assigned by the Minister of Industry. Membership shall be for three years, to be renewed.

The Board Director shall be assigned by the Minister and shall be from within the members. The Board Director shall summon the meetings. At least one third of memebrship shall be for Egyptian nationals. Quorums shall be not less than seven members including the Ministry's representative. The Board Director shall refer decisions to the Minister of his Under-secretary. Decisions shall not be execuited without the Minister's approval.

Article 10: The Office of the Federation shall consist of the Director, Manager and three members to be elected by the Board from within its members by secret ballot.

Article 11: The Office shall summon at the request of the Director and shall perform the following:

1. Study of issues referred to the Board and communcating with responsible authorities in this connection.
2. Supervision of the smooth running of the Federation.
3. Taking decisions related to membership.
4. Preparation of financial statements.
5. Undertaking all other responsibilities not within the framework of the General Assembly.

Article 12: The Board shall assign a manager who shall have the responsibilities referred to in Law No. 32 of 1957.

Article 13: The Manager shall be notified by industrial chambers of all meetings to be summoned. Also he shall be supplied with agenda and decisions taken by the chambers, He shall also have the right to attend such meetings.

Article 14: The Manager shall have the right to refer the above issues to the office which shall have the right to review chamber decisions if contradicting to the public welfare and to forward a report in this connection to the Minister of Industry.

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Article 15: Financing of the Federation:

1. Membership fees.
2. Donations and contributions accepted by the Board.
3. Revenue of real estate.
4. Governmental contributions.

GENERAL RULES

Article 16: The Minister shall have the right to dissolve the Board if it contradicts Law no. 31 of 1958 and can be re-organized within six months. Also it can be dissolved by at least 2/3 bote of the General Assembly, after the approval of the Minister. Until the formation of a new Board, the Minister shall have the right to form a committee of industrial businessmen to carry out functions of the dissolved Board.

Article 17: The Ministry's representative shall ensure that the Federation abide by all laws and rules and shall have the right to examine the Federation's aounts and minutes of General Assembly meetings.

Article 18: This decree shall be issued in the Official Gazette and shall come into effect on publication.

Issued 24 May 1958

GAMAL ABDEL NASSER

PRESIDENTIAL DECREE ESTABLISHING

INDUSTRIAL CHAMBERS

Published in the Official Gazette - Issue No. 12 of 29 May 1958.

Article 1: Chambers shall be formed for certain industries to be defined by the Minister of Industry and shall be considered public organizations. The Chambers may form branches within important industrial regions.

Article 2: The above Chambers shall work for the welfare of their members and shall represent them with public authorities. They shall also assist such authorities in the development, promotion and lessening the costs of production.

Article 3: Every industrial establishment with a capital of not less than LE 50,000 and employing a minimum of 25 workers must join the respective Chamber.

Article 4: The industrial chambers shall abide by the basic regulations sanctioned by the Minister.

Article 5: Each Chamber shall have a Board to be formed every three years by ministerial decree. Two thirds of such Board shall be elected by industrial establishments affiliated to the Chamber.

Article 6: The above members shall be elected as follows:

1. Nominations shall be made at least two months prior to termination of Board period. Nominations shall be accepted two weeks from the date of notification.
2. Nominees shall submit written applications to the Federation.
3. At the closing date of nominations, the Federation shall notify affiliated establishments with names of nominees and their respective

organizations, as well as nationality, age of members and place and timing for elections. The period between notification and election should not exceed fifteen days.

4. Representatives of Chamber affiliated establishments shall meet at the determined time and location and elections shall be made by secret ballot in the attendance of a representative from the Quality Control Organization and the Federation. Each establishment shall have one representative who shall have only one vote.
5. The Federatinn shall notify the Ministry of Industry of election results following day at the latest.

Article 7: Each Chamber shall have a manager to be appointed by the Chamber's Board.

Article 8 : The Chamber's Board and manager shall run the operation of the Chamber in accordance with Law no. 32 of 1957 pertaining to public organizations.

The Minister of Industry has the right to object to any decisions taken by the Chambers' Boards within one week from date of issue. However, decisions can be implemented by majority voting of 3/4 of Board members.

Article 9: Decisions shall be taken by majority voting of attending members.

Article 10: The Minister of Industry shall appoint one or more representatives who shall be invited to the Chamber's Board meetings. The representative shall participate in discussions but shall not have a vote in decisions. He shall have the right to review the Chamber's accounts and minutes of meetings.

Article 11: The Minister of Industry shall have the right to request the Chamber to study any issue referred by him or to include any agenda item falling within its specialization.

Article 12: Financing of the Chamber shall be as follows:

1. Fees collected from members.
2. Governmental contributions.
3. Donations and gifts, only to be accepted by ministerial decree.
4. Revenues collected from respective real estate.

Article 13: Membership fees shall be determined through the Chamber's Board, taking into account capital and number of workers.

Article 14: The Chamber shall have a separate balance sheet starting from the fiscal year July 1st and ending 30 June of the following year.

Article 15: The Chamber shall refer its statement of accounts for the preceding fiscal year to the Minister for his approval.

Article 16: In the event of violating any rules or regulations, the Minister shall have the right to dissolve the Board, and the new Board shall be formed within one month from the date of dissolving the preceding Board.

Article 17: The Chamber may terminate its functions by the approval of 3/5 of members, to be approved by the Minister.

Article 18: On final termination of Chamber's activities, all funds thereof shall be transferred to the nearest similar activity chamber, by ministerial decree.

Article 19: The name of the Chamber shall not be called on for any industry not lying within industrial establishments in accordance with the rules of this decree.

Article 20: The funds of current industrial chambers shall be transferred to new chambers which shall replace them with all rights and obligations.

Article 21: The Minister of Industry shall implement this decree and shall issue any necessary decisions for implementation thereof.

Issued 24 May 1958

GAMAL ABDEL NASSER

Internal Regulations for

Industrial Foodstuffs

The attached basic regulations for industrial chambers complement respective internal regulations.

Industrial establishments involved in the following shall be considered members of the Chamber:

Food conservation, dairy production, cigarettes and tobacco, distillery, sugar and confection, beverages, refrigeration and cooling, oil industry and respective by-products.

The Chamber shall have a special register of membership including the following data related to each industrial establishment: (capital, labor, production capacity, etc.)

Enrollment in or amendment of the register shall be effected by a written request from the establishment. The Board of the Chamber shall decide membership on the basis of labor or capital criteria.

Where an establishment shall be unable to pay membership fees, it may request the Board Director for decrease or exemption thereof accompanied by justifications and related documents. Fees shall be collected during the months of July, August and September.

FOFMRATION OF THE OFFICE

The Office shall be formed of the following: Board Director his deputy, in addition to members not less than thre and not exceeding five, as well as the Chamber's director. The period shall be the same as that of the Board.

The Chamber's Board shall decide, on the basis of its studies, the formation of one or more divisions to study issues and problems related to any industry devoid of specialization or integrity. Such division shall study problems related to industries which it represents as well as other issues referred by the Board.

The Secretary of the division shall notify the Chamber's Director, within two days, of decisions taken, who in turn shall refer such decisions to the Board in its first meeting for review. The Board shall have the right to approve decisions or request review thereof.

Formation of Sub-Committees

The Board shall have the right, to form from within its members, ad hoc or permanent committees for the study or follow up of any pressing issue.

Penalties

The Board shall have the right to form a committee to investigate any matters related to a Board member or any official responsible for an industrial establishment and being a member of the Chamber.

The Board shall have the right to effect the following penalties:

1. Warning
2. Reproach
3. Deprivation of membership rights.

Partnership for Productivity
International

CREDIT AND ENTERPRISE TRAINING THAT MAKES A DIFFERENCE IN RURAL WEST AFRICA

In Burkina Faso (annual per capita incomes $179), Partnership for Productivity(PfP) works in the drought-prone Eastern Region to develope human potential as expressed through small scale economic activity. On the level of the individual, PfP provides production credit, management training, agricultural assistance and moral support to small entrepreneurs. On a regional level, PfP directs its assistance amoung a variety of types of activities to form a more integrated and complete local economic system that better serves the needs of small producers and consumers, this includes working with farming, animal raising, food processing, water development, retail trade, artisan manufacture and repair, and transport.

[illegible] group proposing something [illegible] is $350, although loans have ranged from as low as $8 to as high as $12,000. From 1978-1984, PfP made 1,423 loans totalling CFA 223 million ($750,000), with less than one percent of this sum written off to bad credit. On-time repayment rate is +80%, good for a desert environment where economic activities are risky.

PfP's approach enables it to reach many poorer producers who cannot otherwise obtain formal bank credit. Rather than require material loan collateral such as land titles or salaried employment, PfP determines a person's creditworthness by means of a sincere character, willingness to improve, and an equity investment in the proposed activity of at least 20%. Working with a majority of borrowers who are not literate or numerate, PfP assists them in formulate a credit package appropriate to their enterprise requirements. During the loan analysis process, these small producers gain valuable experience in business activity. It is improved production and management practices plus heightened entrepreneurship that enables clients to repay loans while making a profit with which to expand their productive activity.

PfP/Burkina Faso is one of a few small business support institutions working effectively in Rural West Africa to help people enter the modern economy on terms that they control. It is funded by a grant from the U.S. Agency for International Development. PfP also operates several businesses in the local economy to help pay the costs of its economic development program.

(statistics on reverse side)

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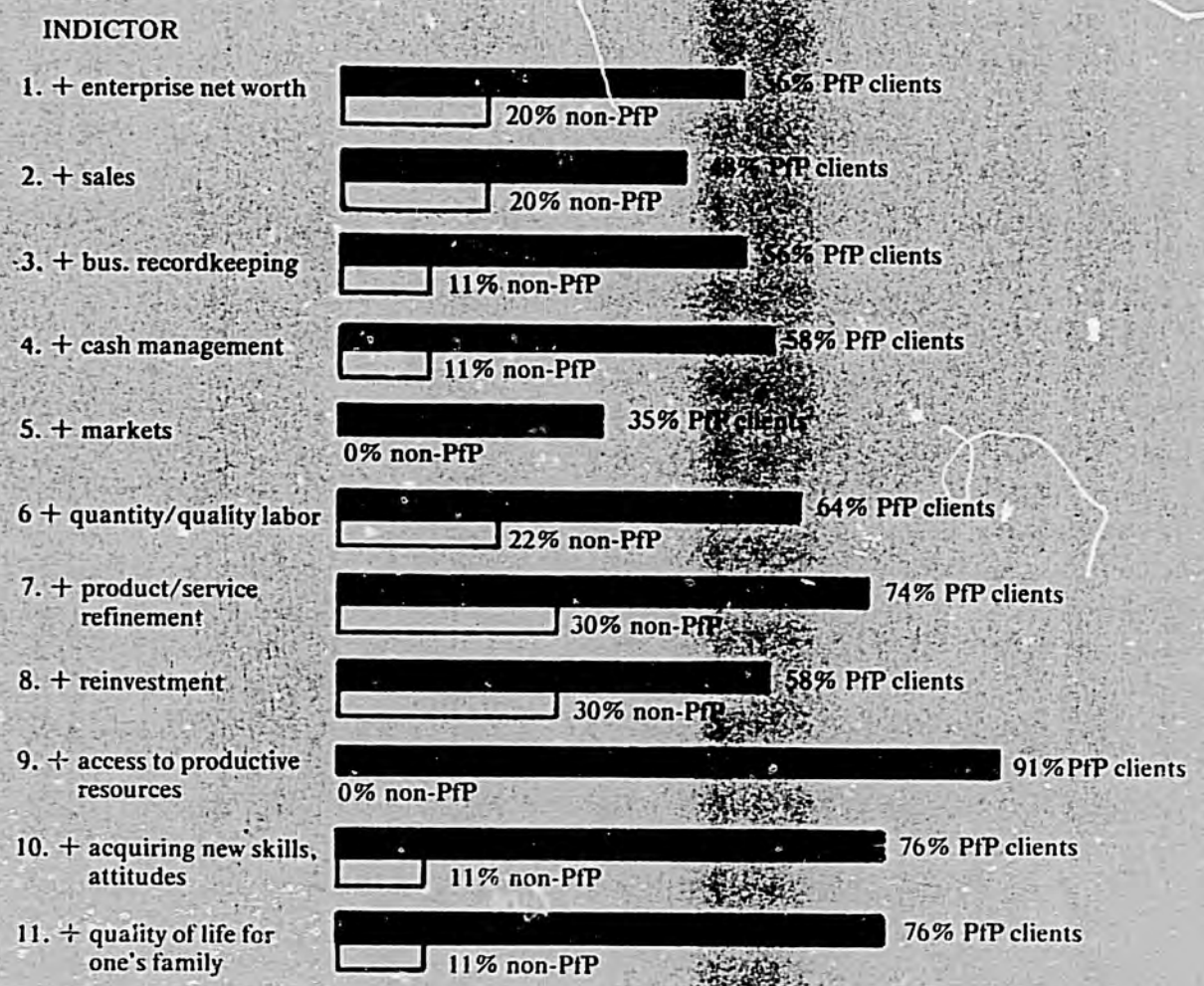
INDICATORS OF ECONOMIC AND SOCIAL DEVELOPMENT GAINS

In October, 1984, an impact survey was conducted in Burkina Faso to better understand benefits that rural African entrepreneurs experience from credit and enterprise development training. Fifty-four Burkinan small producers were interviewed, 34 of which were PfP clients and 20 of which were not. These small entrepreneurs were asked to compare their present situations with their position of a year ago and to state whether their condition today was the same, better or worse. The graphs below compare the number of PfP respondents who thought their position was "better" with the survey respondents who did not recieve credit and enterprise development training.



Adapted from: C. Lassen, R. Traore, A. Brown and J. Walton, Credit and Enterprise Development Training that Reach the Small Producer Majority in Burkina Faso: Midterm Program Evaluation of Association pour la Productivé. February, 1985. Available from Partnership for Productivity, Washington, D.C.