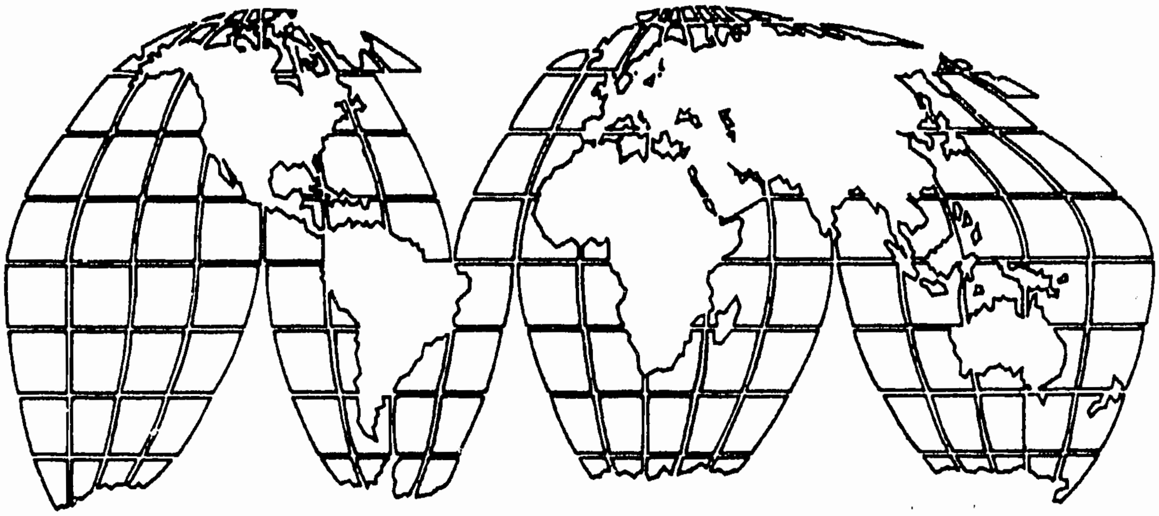
A.I.D. EVALUATION OCCASIONAL PAPER NO. 29

A.I.D. MICROENTERPRISE STOCK-TAKING: EGYPT FIELD ASSESSMENTS



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A.I.D. MICROENTERPRISE STOCK-TAKING: EGYPT

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by

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The views and interpretations expressed in this report are those of the authors and should not be attributed to the Agency for International Development.

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FOREWORD

During 1988 and 1989, A.I.D. undertook a major stock-taking of its experience in microenterprise development. The stock-taking examined differing approaches and techniques that have been used in efforts to assist microenterprises, including alternative institutional delivery mechanisms. The study was designed to identify the patterns of A.I.D. project interventions that generate success, with the goal of establishing which were the most successful programs, institutions, and delivery techniques. It required an examination of the different types of microenterprises and of the way their problems differ, and an analysis of A.I.D. project approaches, to see which work best under which conditions.

The stock-taking included a conceptual overview paper of published evaluations that identified many factors that are important to project success. It also developed a conceptual framework for analyzing the types of problems microentrepreneurs face.

The stock-taking included field assessments of A.I.D. microenterprise assistance projects in 10 countries. These assessments provided an excellent opportunity to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stock-taking was a synthesis, which pulled together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

Egypt was one of the 10 countries examined in the field assessments, and the assessment focused on the Coptic Evangelical Organization for Social Services' Income Generation and Employment Project and the Helwan Small Enterprise Loan Program. This assessment provides interesting insights on one approach to promoting microenterprise development. We think that those who are working on microenterprise programs in Washington and in the field will be able to draw on the findings of this report to help in the planning, implementation, and evaluation of other microenterprise programs.

Janet Ballantyne
Associate Assistant Administrator
Center for Development Information and Evaluation
Agency for International Development
July 1989

PREFACE AND ACKNOWLEDGMENTS

A team comprising William Grant and Robert Strauss of Development Alternatives, Inc. and Ross Bigelow and Tom Mahoney of A.I.D. conducted this study in Egypt between September 28 and October 13, 1988.

During the stock-taking, the team conducted numerous interviews with A.I.D./Cairo staff and representatives of the CEOSS, the Cooperative Housing Foundation (CHF), Crédit Foncier Egyptian (CFE), the Executive Agency for Joint Projects (EAJP), as well as numerous entrepreneurs who received loans from the programs reviewed. The team also visited project sites in Helwan and in the governorate of El Minia.

The team received the full cooperation of A.I.D./Cairo and all organizations involved with these projects. The team extends its thanks to the staff of A.I.D./Cairo's Urban Administration and Development, Industrial Resources, and PVO offices. We would like to extend particular thanks to Dan Rathbun, Mohamed W. Saleh, Karim Y. Gohar, Laila Boutros, and Seifalla Hassanein. John Driscoll of CHF, Nabil Samuel and Sidnawi Yani of the Comprehensive Development Program (CEOSS), and Antonio Halim Elias of CFE/Helwan were also especially helpful.

SUMMARY

Most of Egypt's estimated 51 million people live in four percent of the country's land area along the banks of the Nile. Fifty percent live in urban areas, with over 12 million in Greater Cairo.

Twenty percent of the population receive 48 percent of national income. A recent study suggests that between 33 and 47 percent of the rural population and 34 to 51 percent of the urban population are at or below the poverty line.

The major source of capital for microenterprise investment is from savings or is provided by family and friends. Informal business credit in Egypt is generally supplier credit. Unlike many developing countries, there are virtually no money lenders. A common source of funds for the informal sector is the *Gemaya*, which means cooperative in Arabic. These informal savings groups are similar to Tontines in black Africa, in which a dozen or so friends make fixed contributions and take turns getting the entire amount.

Different studies performed for the Agency for International Development (A.I.D.) and other donors estimate that there are about 250,000 urban-based manufacturing small enterprises (A.I.D. SME PP, 1988) and more than 800,000 rural microenterprises (Match Report, 1985). Of the firms in the non-service informal sector, Jones (1988) estimates that 150,000 are artisanal, and employ two or three hundred thousand people. Many other income-generating activities are household-based or are done by jobbing artisans.

In the last 10 years, A.I.D. has supported a number of projects in Egypt that include a modest microenterprise sub-component. The microenterprise component generally involved agricultural credit. Most, like the $26 million Development Decentralization I, were channelled through government ministries. Eventual beneficiaries included individuals and sub-divisions of the government, such as village councils. Many projects, like the $35 million Agricultural Mechanization Project, had multiple goals, including the introduction of new technology, assistance in government planning, research and training, as well as income and employment generation, which are generally the primary objectives of small enterprise projects.

Other A.I.D. projects that contained a small enterprise component included Small Farmer Production, a $49 million project which provided agricultural credit to 90,000 farmers, and Small Scale Agricultural Activities, a $1.6 million project, a component of which supported the introduction of new technologies appropriate for rural income generation.

The Coptic Evangelical Organization for Social Services (CEOSS), an indigenous private voluntary organization, is implementing a pilot income and employment generation activity in Upper Egypt, which was supported by A.I.D. from 1983-1986. Since CEOSS was not registered with A.I.D. at the time the activity began, the grant was made to the Catholic Relief Services (CRS) office in Cairo, Egypt, on behalf of CEOSS.

The purpose of the project was to provide loan capital, related training and administrative support, to entrepreneurs and potential entrepreneurs in the forty villages already served by CEOSS. This was CEOSS' response to its recognition of the need for income and employment improvements among the poor people in the communities around El Minia. CEOSS' target group for all services includes men, women and young school leavers in established communities where incomes are low (averaging under $20 per month) and unemployment is common. Therefore, the project was seen to have an important role to play in the CEOSS development process.

The overall Helwan Project is a vast undertaking that will eventually lead to the construction of 7000 new housing units, the up-grading of seven squatter communities, and the installation of new or improved infrastructure in many parts of Helwan. The Small Enterprise Loan Program (SELP) is a separate component of the Helwan Project providing credit to established artisans and commercial micro-entrepreneurs in the squatter communities. SELP, without a specific staff or budget, remained a tiny component of a very large project.

SELP loans were intended to expand or improve established enterprises, and enhance income and employment among the established microenterprises in seven squatter communities in Helwan. In some cases, SELP provided loans to wage earners or pensioners to open new businesses. Borrowers had to be residents, own their businesses, have less than £E 15,000 ($18,000) in fixed assets and less than £E 3,000 ($3,600) in monthly revenues, and employ less than 10 people. Funds were restricted to three categories; working capital, shop improvement, and equipment.

The two projects present some similarities and interesting contrasts which are important in analyzing the sustainability of the two loan funds. Most importantly, for each project, the loan fund and credit activities are but a small percentage of their overall activity. CEOSS had a total budget of £E 7.8 million ($9.4 million) in 1987, and the Comprehensive Development Program in which the loan fund operates has a total annual budget of £E 1.7 million. For the Helwan SELP, the loan fund was only £E 300,000 ($360,000) out of a project with £E 10 million ($12 million) in its overall loan portfolio. See Annexes A and B for details on the two cases.

At the end of the grant in 1986, CEOSS had made a total of 421 individual and nine group loans totalling £E 99,225 ($120,000) and had £E 54,000 ($65,000) in outstanding loans. By July 1988, CEOSS had made a total of 370 new loans since the end of the project and the balance outstanding was up to £E 105,000 ($126,000). In fact, CEOSS had added about £E 21,000 ($25,000) of its own funds plus administrative fees paid in by borrowers totalling about £E 7,000 to bring the funds available for loans to £E 128,000 ($154,000). The loan fund has continued to grow and be used in the two years since the project officially ended. Only 14 percent of the outstanding balance is in arrears (averaging five months). Only five loans are in default, each because of the death of the borrower.

In Helwan, the project had loaned out all of its available funds £E 300,000 ($361,000) by 1985. Today, the loan fund has grown to £E 383,000 ($461,000), and is fully loaned out. This implies that there is still significant demand for the funds.

There have been no defaults to date, but as of June 1987, approximately 19 percent of the outstanding balance of loan payments is in arrears by an average of ten months. However, the future of the fund is in doubt. The remaining average term on most of the loans is getting short, and there is little prospect for on-lending the funds which are repaid now that the SELP component of the project is over.

It is doubtful if the fees charged by either project can recover their direct costs of lending. In CEOSS, the administrative fees collected, totalling £E 6,600 ($7,590) for five years, would not even cover the direct annual cost of administering the fund, estimated to be £E 18,500 ($22,300) by CEOSS £E 92,500 ($111,500) for five years. If indirect costs are added in, including overhead for CEOSS, this cost reaches £E 24,000 ($28,900) per annum. The different organizations involved with Helwan (EAJP, CHF, and CFE) have been unable to identify an approximate cost to operating the loan fund, but it is almost certain to be well above the £E 70,000 ($84,300) they have collected in fees.

The intended target groups for the two organizations are quite different, but both programs reached their intended beneficiaries. Although all were among the poor majority in Egypt, CEOSS targeted the poorest and neediest members of its communities.

It is very clear that the smaller borrowers have been targeted. The average size of a loan has grown from 1983, when it was £E 143 ($171) to the current size of £E 308 ($132). Given the current twenty percent inflation in Egypt, this is appropriate. In nominal dollar terms, the average loan has actually decreased in size over time from $171 in 1983 to $132 in 1988. From the small loan size, it is clear that the borrowers are among the poor and represent the smaller enterprises.

Without any hard data, it is difficult to make a comment on the employment impact of these two projects. In CEOSS, a 1986 report estimated that sixty percent of all the new borrowers had "previously not been self-employed or holding a remunerative job" (LaTowsky, 1986), and concluded that a majority of the loans provided first time employment for their recipients. This funding is difficult to assess, because most of the loans are targeted to existing enterprises or to graduates of the skills training programs. These latter rarely become fully employed, but they use their new skills to generate some new income which can be used by the household. The majority of loans are to individual shops which would probably not expand their operations to include a new employee, simply because they are too small-scale. A loan which generates only £E 20 to £E 30 ($8 to $13) in additional income per month makes it difficult to increase employment.

CEOSS and the SELP are small funds for microenterprises. They cannot be expected to have any major impacts on the economy. Even though some of the loans to the CEOSS borrowers are yielding returns on investment greater than 200 percent, the number of loans and the small value of the loans makes their overall impact minimal. The director of the Comprehensive Development Program for CEOSS says they do not expect the program to have a large economic impact on the communities as a whole, because their loans cover only a minute portion of the community.

Factors Influencing Project Performance and Impact

External

(1) The macro-economic policy environment in Egypt is a key factor inhibiting the growth of clients of the microenterprise development projects in Egypt.

(2) The projects address a real need by their focus on relieving the shortage of available credit and skilled personnel, which are the major constraints to enterprise development in Egypt.

(3) Inflation, estimated at 22-25 percent per annum, is eroding the two loan funds, and making project sustainability that much more difficult to achieve.

Organizational

(4) While generally supporting private sector development A.I.D. had little direct interaction with the management of the projects allowing local institutions to develop their management skills.

(5) Both projects were grafted successfully to existing organizations with an established field presence and knowledge of the environment.

(6) The CEOSS project was locally designed and implemented strengthening the overall project.

(7) The CEOSS project maintained its focus on the community development strategy which is the orientation of all their programs.

(8) CEOSS management has been competent and pragmatic.

(9) The issue of sustainability of benefits is closely linked to the overall goals of the organization.

(10) The CEOSS project's linked credit, technical assistance, and training approach appears to be steadily reaching its target group, and is appropriate for a community development orientation.

Lessons Learned

(1) Delivery of credit is an appropriate point of entry for community development assistance because it provides a quick and efficient means for reaching entrepreneurs who in turn can generate further community benefits.

(2) Successful lenders to microenterprises need to work closely with their clients to know them and their working environments.

(3) The use of the co-signer system is quick and appears to be an efficient means of guaranteeing loans to microenterprises.

(4) Organizations that implement microenterprise programs need to carefully identify their goals and know what objectives they have for their beneficiaries at the end of the program.

(5) For a project to be sustainable beyond its completion date, its goals must be consistent with the purpose and goals of the implementing organization.

(6) Microenterprise credit projects need the flexibility and latitude to deal with a broad range of circumstances.

(7) Microenterprise development programs cannot graduate clients to the formal sector if there are no intermediary firms or institutions to accept the graduated clients.

(8) Microenterprise development projects with a community development orientation should not view graduation of clients to the formal sector as an objective.

(9) Microenterprise development projects with a community development orientation rarely create new employment, but they are able to reduce underemployment.

PROJECT DATA SHEET

1. Country: Egypt

2. Project Title/Number: #263-0066 Housing and Community Up-Grading for Low Income Egyptians (commonly known as "The Helwan Project")

3. Project Officers: John B. Saccheri (from September 1988)
Mohamed W. Saleh (from April 1988)

4. Starting Date: 1978 (basic project)
1982 (initial disbursement for small enterprise component)

5. Expected Completion Date: June 1983 (original)
August 1988 (actual)

6. USAID Funding: For Overall Project $80,000,000
For Small Enterprise LE 150,000 ($181,100)
(@ LE 0.83 = $1)

EAJP Funding: For Small Enterprise LE 150,000

7. Implementing Agency: For Overall Project: Ministry of Housing

8. Implementing Organization for Small Enterprise:

Project Implementing Unit (PIU) of the Executive Agency for Joint Projects (EAJP) of the Ministry of Housing with advisory support of the Cooperative Housing Foundation (CHF) and administrative support of Credit Foncier Egyptian, a parastatal bank specializing in real estate. These organizations are located in Greater Cairo.

9. Project Purpose:

The Helwan Project's objectives were: (1) to develop a community of fully prepared plots which below median income workers would buy and build out; and (2) to help up-grade seven squatter communities through construction of community facilities and infrastructure, and through owner initiated home improvement projects. The Small Enterprise Loan Program (SELP), a separate initiative within the larger project, was made available to established artisans and commercial microentrepreneurs in the squatter communities, but was always a tiny portion of the overall project.

GLOSSARY

ACDI	Agricultural Cooperative Development International
A.I.D.	Agency for International Development
BKK	Bank Kredit Kecamatan
CDP	Comprehensive Development Program
CDSS	Country Development Strategy Statement
CEOSS	Coptic Evangelical Organization for Social Service
CFE	Credit Foncier Egyptien
CHF	Cooperative Housing Foundation
CRS	Catholic Relief Service
DD	Development Decentralization
EAJP	Executive Agency for Joint Projects
EZE	Evangelische Zentralstellung fur Entwicklungs Hilfe
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
GOE	Government of Egypt
HILP	Home Improvement Loan Program
IRR	Internal Rate of Return
LD	Local Area Development
LE	Egyptian Pound
NBD	National Bank for Development
PBDAC	Principal Bank for Development and Agricultural Credit
PFP	Productive Families Project
PfP	Partnership for Productivity
PIU	Project Implementation Unit
PSP	Pension Substitution Program
PVO	Private Voluntary Organization
ROI	Return on Investment
RSSE	Rural Small Scale Enterprise
SELP	Small Enterprise Loan Program
SME	Small and Microenterprise
SSE	Small Scale Enterprise

EXCHANGE RATE VARIATIONS OVER TIME

	1983	'84	'85	'86	'87	'88 (through 6/30)
Approx Val. $/£E (parallel rate Source: IMF)	1.2	1.2	.75	.74	.53	.43

1. COUNTRY SETTING

Most of Egypt's estimated 51 million people live in four percent of the country's land area along the banks of the Nile. Fifty percent live in urban areas, with over 12 million in Greater Cairo.

Egypt's modern history dates from the Egyptian Revolution in 1952 which eventually brought President Nasser to power. Nasser nationalized all major enterprises and struck a "social contract" with the people to provide the necessities of life at low prices and essential services for free. Included was the guarantee of a job with the government for all college graduates. As time progressed, Egypt was unable to sustain this program and the economy suffered. After the death of Nasser his successor, Anwar Sadat, began to liberalize the economy, but the process has been slow. The social contract and inefficient parastatal enterprises continue to absorb huge amounts of resources.

Despite important economic reform measures, the economy has stagnated over the last three years. After a slight increase in FY 1984/85 and 1985/86, GDP levelled off in 1986/87. Nominal GDP per capita rose to £E 859 ($1,034) in FY 1986/87, up from £E 772 ($930) the previous year, but inflation rates of 25 percent have kept the real GDP down. The 1987 current accounts balance was negative by $5.259 billion with imports far outstripping exports.

The Egyptian government is pursuing an economic reform program supported by the International Monetary Fund (IMF), the World Bank, and major donors including the United States. It is directed towards liberalizing the economy and easing the constraints on the development of the private sector by moving prices closer to their true opportunity cost, making the economy more responsive to market forces, and increasing the private sector's role. The Egyptian government is taking steps to trim government spending, reduce subsidies, rationalize public sector enterprises, privatize non-essential industries, unify foreign exchange rates, and increase interest rates. To date, measures taken have not been adequate to stabilize the economy, but the government insists that more drastic reforms demanded by the IMF will result in price increases that will destabilize the country politically and may lead to violent demonstrations such as those which accompanied the aborted attempt to increase bread prices in 1977.

Central Bank figures put GNP for FY 1986/87 at $23 billion. Agriculture accounts for 19.6 percent of this figure, industry and mining 15.7 percent, and petroleum 11 percent.

Twenty percent of the population receive 48 percent of national income. A recent study suggests that between 33 and 47 percent of the rural population and 34 to 51 percent of the urban population are at or below the poverty line.

Women lag behind men in education and have traditionally been assigned a subservient role. This is changing. Women gained the vote in the 1950s and laws have been passed to protect them at work. In the mid-1950s only 44,000 women were employed in the formal public and private sectors. By the mid-1970s this had climbed to 1.3 million. A much higher number of women are employed in the informal sector, many of whom are micro-entrepreneurs.

The formal financial markets in Egypt are constrained and highly regulated. The government owns almost all the large enterprises, including the banks, and has controls on imports and exports. The Egyptian government regulates both deposit and loan interest rates. Many investors find it easier to operate in the informal sector while others keep their funds in foreign exchange invested abroad. While foreign exchange is available to private businessmen, the bureaucratic measures often make it too costly and difficult to obtain. Many smaller investors have been depositing funds with the unregulated Islamic investment firms which promise high rates of return and have most of their funds invested overseas. These firms are under scrutiny by the government and will be brought under controls which may make them less attractive to investors.

The major source of capital for investment is from savings or is provided by family and friends. Informal business credit in Egypt is generally supplier credit. Unlike many developing countries, there are virtually no money lenders. A common source of funds for the informal sector is the *Gemaya*, which means cooperative in Arabic. These informal savings groups are similar to Tontines in black Africa, in which a dozen or so friends make fixed contributions and take turns getting the entire amount.

Public ownership of industrial enterprises dominates medium- and large-scale industry. In 1980/81, of the estimated 7795 industrial firms employing more than 10 people, only 265 were in the public sector but accounted for 65 percent of all production and 80 percent of exports. As of 1984, the private sector accounted for only 34 percent of industrial production. Except for joint ventures between foreign investors and Egyptians, there are almost no large private firms. Over 90 percent of all private sector firms employing more than 10 persons fall in the 10 to 50 employee range (Jones, 1988). Government ownership reaches down to medium-, small- and microenterprises. The provincial governments (governorates) own considerable numbers of small and microenterprises (SME).

Different studies performed for A.I.D. and other donors estimate that there are about 250,000 urban-based manufacturing small enterprises (A.I.D. SME PP, 1988) and more than 800,000 rural microenterprises in Egypt (Match Report, 1985). Of the firms in the non-service informal sector, Jones (1988) estimates that 150,000 are artisanal, and employ two or three hundred thousand people. Many other income-generating activities are household-based or are done by jobbing artisans.

The reforms undertaken and those yet to come should benefit all classes of private firms. Though the Government of Egypt has no general policy on small and microenterprises, its efforts to liberalize markets and prices will be of great benefit. In addition, it has started two major microenterprise initiatives on its own: the Productive Families Program (PFP) and the Pension Substitution Program (PSP) reached 110,000 and 550,000 individuals respectively (Tendler, 1987) (See Annex C for description). The Government of Egypt appears to be aware of the potential for increased income generation and productivity from promoting small enterprise development.

2. DESCRIPTION OF A.I.D. PROJECT ACTIVITIES IN MICROENTERPRISE

In the last 10 years, A.I.D. has supported a number of projects in Egypt that include a small microenterprise sub-component. The microenterprise component generally involved agricultural credit. Most, like the $26 million Development Decentralization I, were channelled through Government ministries. Eventual beneficiaries included individuals and sub-divisions of the government, such as village councils. Many projects, like the $35 million Agricultural Mechanization Project, had multiple goals, including the introduction of new technology, assistance in government planning, research and training, as well as income and employment generation, which are generally the primary objectives of small enterprise projects.

Current and future small and microenterprise programming, in contrast to prior programming, generally segregates small and microenterprises from other initiatives. The Local Development II project, a $231 million follow-on project to Development Decentralization I, contains a Rural Small Scale Enterprise component for $1.6 million that focuses on private businesses. (In DD I, the focus was on community development projects that would enhance local government revenues.) The new $20 million SME Project targets small businessmen directly by utilizing two business oriented foundations in Cairo and Alexandria. This innovative approach creates a mechanism that will bridge the gap between formal financial institutions and the majority of businesses in Egypt. Depending on the impact of SME, additional resources may be extended to other governorates in Egypt under the same program.

Other A.I.D. projects that contained a small enterprise component included Small Farmer Production, a $49 million project which provided agricultural credit to 90,000 farmers, and Small Scale Agricultural Activities, a $1.6 million project, a component of which supported the introduction of new technologies appropriate for rural income generation.

The CEOSS (Coptic Evangelical Organization for Social Services) project marked a transition in small and microenterprise programming. Although the project contained training and technical assistance components as well as a loan fund, it was solely an SME effort and not a component of any other project. By contrast, the Small Enterprise Loan Program (SELP) of the Helwan Project was a tiny component of a $160 million housing project, the primary objectives of which were construction and rehabilitation of housing - not employment and income generation.

<u>Other Donor Initiatives</u>: Donor assistance to small-scale enterprise in Egypt has come from a large number of sources including Canada, the EEC, West Germany, the Netherlands, the United Kingdom, the UN, and the World Bank. Most of that support, which totals over $200 million in the last eight years, has gone through the Industrial Development Bank and has not reached microenterprises.

The Government of Egypt supports numerous banks and institutions involved in business development. Again, most of these do not touch microenterprise, although there are notable exceptions such as the Productive Families Programme which has extended loans averaging £E 4-500 to 110,000 people.

3. FINDINGS AND ANALYSIS

3.1 Program and Institutional Descriptions

3.1.1 CEOSS Income and Employment Generation Project

The Coptic Evangelical Organization for Social Services (CEOSS), an indigenous private voluntary organization, is implementing a pilot income and employment generation activity in Upper Egypt, which was supported by the Agency for International Development (A.I.D.) from 1983-1986. Since CEOSS was not registered with A.I.D. at the time the activity began, the grant was made to the Catholic Relief Services (CRS) office in Cairo, Egypt, on behalf of CEOSS.

CEOSS had been involved in training in the El Minia community (240 km south of Cairo) since the early 1950s and recognized a need for credit to assist individuals and groups in communities where CEOSS had on-going programs. Many of the eventual borrowers had completed various skills development courses run by CEOSS. Since it began its loan program in 1983, CEOSS has made 786 loans totalling £E 170,000 with an average loan size of £E 210 ($253). Both CEOSS and SELP used co-signers to guarantee their loans. The CEOSS loan program, as part of a long term commitment to community development, also entails continued, regular follow-up.

Under the program, communities set up their own committees and apply to CEOSS for assistance. Services include the CEOSS Comprehensive Development Program (including the Loans for Development activities and training for would be entrepreneurs), agricultural projects, a furniture manufacturing operation, a nursery for sale of low-cost trees and plants, a publishing house (Dar El-Thakafa), and a conference and study center at Itsa near El Minia. Most of these programs cover their costs through sales or fees for service. The income and employment project, which does not yet pay for itself, was appended as a pilot economic development thrust using A.I.D. funding.

The purpose of the project was to provide loan capital, related training and administrative support, to entrepreneurs and potential entrepreneurs in the forty villages already served by CEOSS. This was CEOSS' response to its recognition of the need for income and employment improvements among the poor people in the communities around El Minia. CEOSS' target group for all services includes men, women and young school leavers in established communities where incomes are low (averaging under $20 per month) and unemployment is common. Therefore, the project was seen to have an important role to play in the CEOSS development process.

Each year CEOSS targets seven or more "Partnership Villages" where young college-educated staff live full-time. Working with one of two CEOSS loan officers based in El Minia, the staff identify loan candidates. Normally, entrepreneurs seek out the CEOSS resident staff. Individual and group loans are screened and approved by a three to five person CEOSS committee and range in size from under £E 100 ($43) to £E 3,000 ($1,293) or more, usually repayable over a two- to three-year period. Each loanee must have a guarantor, usually a government employee from his community, in order to qualify. The Loans for Development program is discussed more fully below.

The CEOSS project also includes a training component. Young people, usually between the ages of 18 to 25, are nominated by their villages and CEOSS for training at the CEOSS Training Center at Itsa in various practical trades, such as carpentry, building, electricity, plumbing, sewing, upholstery, and house painting. There are courses available in basic business skills. Fourteen courses were started under the project in nine skills areas. After training these youth are potential candidates for loans. "Followup villages" are those in which CEOSS has previously worked for several years. They receive technical assistance during periodic visits from CEOSS staff. "Self-reliant Villages" have no regular CEOSS contact but may call periodically on CEOSS for advice, training or other support. Both the "Followup Villages" and the "Self-reliant Villages" can continue to participate in the Loans for Development program.

CEOSS currently has a staff of 250 and works in 43 communities in the Governorates of El Minia and Assuit, as well as in a few communities of greater Cairo. CEOSS also serves twenty communities which have passed through the "Partnership" and "Followup" phases. The organization recruits college graduates with good backgrounds in business, accounting, or agriculture from universities in El Minia, Cairo, and elsewhere, offering them employment at rates competitive with the Government. CEOSS is able to hold on to competent staff for up to five years or more, especially since the Government is not able to absorb the increasing numbers coming out of college. The annual income of CEOSS in fiscal year 1987 was £E 7,842,392, ($3.4M) based on its registration documentation in A.I.D. The Income and Employment Project is part of the Comprehensive Development Department of CEOSS. At the time of this writing CEOSS has submitted a proposal for additional funding from A.I.D. With or without such funding, it is clear that CEOSS is a viable organization which will continue to serve community development needs in Egypt.

A.I.D. provided support for the CEOSS program in 1983 using local currency owned by the Egyptian government. The original proposal was prepared by Catholic Relief Services and CEOSS staff for A.I.D. in 1981, but it was finally authorized in 1983. In addition, CEOSS would contribute towards the project as well as a grant from Evangelische Zentralstellung fur Entwicklungs Hilfe (EZE).

The A.I.D. grant was designed to cover the development costs of two loan programs (group and individual), the capitalization of the loan fund, skills training for beneficiaries, training for project staff, and overhead expenses for CEOSS and CRS. The detailed original budget was (in Egyptian pounds):

Loans for Development Program	19,952
Group Enterprise Program	5,903
Loan Fund	132,417
Skills Training	62,306
Project Training	21,569
General Administration (CRS)	19,131

Total	261,278

No audit has been performed by A.I.D. on the local currency provided in 1983, budgeted at £E 261,278 ($314,800). However, an audit done by CRS in March 1987 for the period July 1, 1983 through August 23, 1986 showed that a total of £E 259,300 ($312,000) had been expended by CEOSS in its "Income Generating Accounts." The balance was refunded to A.I.D.

3.1.2 <u>The Helwan Project Small Enterprise Loan Program</u>

The overall Helwan Project is a vast undertaking that will eventually lead to the construction of 7000 new housing units, the up-grading of seven squatter communities, and the installation of new or improved infrastructure in many parts of Helwan. The Small Enterprise Loan Program (SELP), a separate component of the Helwan Project providing credit to established artisans and commercial micro-entrepreneurs in the squatter communities. SELP, without a specific staff or budget, remained a tiny component of a very large project.

SELP expected to assist businessmen in squatter settlements of Helwan, an industrializing suburb 30 km south of Cairo. Through a £E 300,000 ($129,000) credit program, established enterprises were able to obtain loans for working capital, equipment, and to improve their shops. The objectives of this initiative included enhanced income and employment opportunities. SELP, with loans ranging up to a maximum of £E 5,000, represented a unique, innovative effort to extend credit to small businesses. The Credit Foncier Egyptien (CFE), a state bank, was used as the financial intermediary while the government unit responsible for the overall housing effort in Helwan, the Executive Agency for Joint Projects (EAJP), promoted the loan fund. An American development organization, the Cooperative Housing Foundation (CHF), helped design SELP and assisted with its initial implementation. Since commencing in 1982, SELP has made 317 loans totalling £E 574,703 ($247,000) with an average loan size of £E 1,813 ($775).

Although the long-term viability of SELP and its impact on borrowers is not clear, it did extend credit to borrowers who were too small to tap formal credit programs in Egypt.

The Small Enterprise Loan Program evolved from the Home Improvement Loan Program of the Executive Agency for Joint Projects (EAJP). Consultants from the Cooperative Housing Foundation and EAJP staff recognized that credit facilities for home improvement in the upgrading areas of Helwan were only meeting part of the need of the community. Credit sources for small and micro-businesses traditionally were limited to trade credit and funds raised from personal, family or group savings plans. Surveys performed during 1981-82 in three of the seven squatter communities indicated that 84 percent of the businesses surveyed were interested in small enterprise credit.

A.I.D. provided SELP £E 150,000 ($180,000), or half the loan fund capitalization, to be used as a revolving credit fund for equipment, working capital, and shop improvement loans. A.I.D. has also sponsored numerous consultants to review and advise SELP. The Cooperative Housing Foundation provided significant assistance in project design and initial implementation, but it was only a very small component of CHF's overall contribution of $5.7 million to the Helwan Project.

SELP loans were intended to expand or improve established enterprises, and to enhance income and employment among the established microenterprises in seven squatter communities in Helwan. In some cases, SELP loaned to wage earners or pensioners to open new businesses. Borrowers had to be residents, own their businesses, have less than £E 15,000 ($6,500) in fixed assets and less than £E 3,000 ($1,300) in monthly revenues, and employ less than 10 people. Funds were restricted to three categories; working capital, shop improvement, and equipment.

The following table shows the cumulative number of SELP loans by type of loan:

Table 1. Type of Loan by Number and Volume
1982 - September 1988

	No. of Loans	Percent of Loans	% Funds Loaned	Average Size of Loan	(U.S.)
Working Capital	163	51	60	£E 2,110	$ 907
Shop Improvement	124	39	31	1,449	623
Equipment	30	10	9	1,700	731
TOTAL	317	100	100	£E 1,813	$ 780

Overall, working capital loans have been the most common, accounting for 51 percent of the loans and 60 percent of the volume. Borrowers have applied their loans to purchase, expand and diversify stocks.

Loan terms for working capital are:

Interest rate	10%
Origination fee	2%
Collection fee	1%
Term	20 months

Shop improvement loans were intended to be used for the improvement of existing commercial outlets. However, some borrowers were able to receive loans with which they established businesses. Loans were used to paint, floor, and shelf shops. The maximum term for shop improvement loans was seven years. The interest rate was 8 percent with an effective annual charge of 8.16 percent after the origination fee. Shop improvement loans were expected to have only marginal impact on business revenues. Shop improvement was viewed as a complement to home improvement in which residences and facilities in the community would be made more permanent and hopefully more attractive, confirming the community development orientation of the project.

Equipment loans were extended to established businesses to purchase manufacturing, fabricating, and repair equipment. Through September 1988, equipment loans represented 10 percent of SELP loans and 9 percent of loan volume. Terms were the same as for working capital with the exception of a maximum term of five years. All SELP loans were on monthly repayment schedules that began after a two to three month grace period.

The high demand for working capital and shop improvement loans and the small number of equipment loans is consistent with the mix of microenterprises in Egypt which are primarily shops and service operations. This is confirmed by the following table which show cumulative loans made through June 1987 by type of enterprise.

Table 2. Cumulative Number of Loans by Type of Enterprise
(as of 6/87)

Type of Enterprise	# of Loans	% of Loans	Total Loans	%/Funds Loaned
Commercial	186 loans	67%	£E 338,436	70%
Services	60 loans	21%	£E 69,655	14%
Productive	34 loans	12%	£E 77,336	16%
TOTAL	280 loans	100%	£E 485,427	100%

3.2 Sustainability and Financial Viability of the Implementing Organizations

The two projects present some similarities and interesting contrasts which are important in analyzing the sustainability of the two loan funds. Most importantly, for each project, the loan fund and credit activities are but a small percentage of their overall activity. CEOSS had a total budget of £E 7.8 million in 1987, and the Comprehensive Development Program in which the loan fund operates has a total annual budget of £E 1.7 million ($731,000). For the Helwan SELP, the loan fund was only £E 300,000 ($129,000) out of a project with £E 10 million ($4.3 million) in its overall loan portfolio. See Annexes A and B for details on the two cases.

The relatively small size of the loan component in relation to the organization as a whole implies that the marginal cost of maintaining the loan fund is quite small. In both cases, the implementing organizations will continue to exist, but only with CEOSS is it certain that the loan funds will continue to serve its current function.

Direct evidence of the strength of the loan funds from the two organizations presents some very interesting contrasts. Both funds have grown, but neither CEOSS nor the parent projects have deducted any operating costs from the original revolving funds. In the SELP, a two percent commission on each loan was paid. Inflation, estimated at 22-25 percent, also poses a threat by eroding the capital base of the loan funds.

At the end of the grant in 1986, CEOSS had made a total of 421 individual and nine group loans totalling £E 99,225 ($43,000) and had £E 54,000 ($23,000) in outstanding loans. By July 1988, CEOSS had made a total of 370 new loans since the end of the project and the balance outstanding was up to £E 105,000. In fact, CEOSS had added about £E 21,000 of its own funds plus administrative fees paid in by borrowers totalling about £E 7,000 ($3,000) to bring the funds available for loans to £E 128,000 ($55,000). The loan fund has continued to grow and be used in the two years since the project officially ended. Only 14 percent of the outstanding balance is in arrears (averaging five months). Only five loans are in default, each because of the death of the borrower.

In Helwan, the project had loaned out all of its available funds (£E 300,000) by 1985. Today, the loan fund has grown to £E 383,000, and is fully loaned out. This implies that there is still significant demand for the funds. There have been no defaults to date, but as of June 1987, approximately 19 percent of the outstanding balance of loan payments is in arrears by an average of ten months. However, the future of the fund is in doubt. The remaining average term on most of the loans is getting short, and there is little prospect for on-lending the funds which are repaid now that the loan component of the project is over.

One major difference between the two projects lies in the goals of the implementing agencies. In Helwan, the EAJP's Project Implementation Unit (PIU), with advice from CHF, had been responsible for actually identifying the borrowers, analyzing the loans and presenting them to the CFE, which then disbursed the funds. Since the end of the project in August 1988, CHF is no longer there and the PIU is now moving on to new communities without leaving behind any of its social workers to continue analyzing loan applications. With no one to do its legwork, the CFE will not be able to seek out new borrowers on its own. This will lead to a continued decrease in the use of the fund in those communities.

This contrasts directly with CEOSS. Because of its community development orientation, it maintains contact with villages even after it moves its focus to new communities. The village committees created by CEOSS continue their functions, even when the village moves to the "follow-up" stage. The CEOSS loan officers and staff who had been resident in the villages return on a regular basis (at least once a month) to visit the borrowers and work with new loan applicants. Maintaining this ongoing contact is very important to the sustainability of the program and the positive impact on the borrowers.

An important pattern to note is the gradual shift by CEOSS to using professional business procedures and market interest rates (see below) as it continues its work with the microenterprises. CEOSS has achieved financial sustainability in most of its other activities and realizes that if it is to successfully maintain a small business program, the program must also be financially viable.

3.3 Cost of Lending

It is doubtful if the fees charged by either project can recover their direct costs of lending. In CEOSS, the administrative fees collected, totalling £E 6,600 for five years, would not even cover the direct annual cost of administering the fund, estimated to be £E 18,500 ($8,000) by CEOSS (£E 92,500 [$40,000] for five years). If indirect costs are added in, including overhead for CEOSS, this cost reaches £E 24,000 per annum. The different organizations involved with Helwan (EAJP, CHF, and CFE) have been unable to identify an approximate cost to operating the loan fund, but it is almost certain to be well above the £E 70,000 ($30,000) they have collected in fees.

CEOSS recognizes the disparity between the cost of lending and the fees they collect. As a result, in April 1988 they changed their fee structure. Originally it was a one time, small up front fee. Now they have raised their up front fee and are charging an additional assessment at the beginning of each subsequent year of the loan based on the balance outstanding. Table 3 shows the magnitude of the change:

Table 3. Administrative Fees Charged by CEOSS
(in percent)

Loan Value/Size	Admin. Fee '86	Effective Annual Int. for 2 Years	Admin. Fee '88	Effective Annual Int. for 2 Yrs.
£E 1 - 100	0	0	6	6.26
101 - 300	4	2.08	6	6.26
301 - 500	6	3.19	6	6.26
501 - 1,000	10	5.56	8	8.46
1,001 - 2,000	10	5.56	10	10.74
more than 2,000	10	5.56	18	20.62

CEOSS is now charging substantially more for its funds than it was in the beginning. This will help cover costs, but is far behind the real expense of running the fund. Given the current size of the fund, they would need to charge 15 percent just to cover their direct costs. While CEOSS is targeting specific groups by providing them with subsidized interest rates, they are considering rationalizing these differences by making the increases marginal rather than discrete. Taking inflation into consideration, the fund is losing its real value.

3.4 Beneficiary Impact

The intended target groups for the two organizations are quite different, but both programs reached their intended beneficiaries. Although all were among the poor majority in Egypt, CEOSS targeted the poorest and neediest members of its communities. Table 4 shows how its loans were distributed including the percentage of women receiving loans.

Table 4. Distribution of CEOSS Loans by Size Over Time

Loan Value (LE)	1985 #	1985 %	1986 #	1986 %	1987 #	1987 %	1988 #	1988 %	Total #	Total %
1 - 100	43	38	73	32	80	41	17	22	213	35
101 - 200	46	41	81	36	39	20	11	11	177	29
201 - 300	16	14	38	17	39	20	39	39	132	22
301 - 500	3	3	22	10	23	12	2	51	50	8
501 - 1,000	5	4	13	6	12	6	5	3	35	6
1,001 - 2,000					2	1	3	5	5	1
3,000 - 4,000							1	1	1	0
Total	113		227		196		77		613	
Avg loan (£E)	205		189		260		308		----	
Avg loan ($)	154		140		138		132		----	
(using parallel rate, source IMF)										

It is very clear that the smaller borrowers have been targeted. The average size of a loan has grown from 1983, when it was £E 143 ($171) to the current size of £E 308 ($132). Given the current twenty percent inflation in Egypt, this is appropriate. In nominal dollar terms, the average loan has actually decreased in size over time from $171 in 1983 to $132 in 1988. From the small loan size, it is clear that the borrowers are among the poor and represent the smaller enterprises.

Loans to women represented sixty percent of the loans made in the first two years of the project. This percentage dropped to twenty-three percent in the first half of 1988, and loans to women now represent thirty-eight percent of the total number of loans made in the EL Minia region from the fund.

Helwan targeted a different group of people. Rather than targeting the neediest, they targeted those people with ongoing enterprises. Eighty-six percent were family-operated businesses. Most of these firms employed fewer than ten people, but the average size of the loan was substantially larger than in El Minia.

Table 5. Distribution of SELP Loans over Life of Project

Amount	% of Loans	% of Loan Volume
0 - £E 500	6	1.5%
to £E 1000	21	10
to £E 1500	25	20
to £E 2000	20	22.5
to £E 2500	7.5	10
to £E 3000	17	30
to £E 3500	1	1
to £E 4000	.5	.5
over £E 4001	1.5	4
TOTAL	99.5	99.5

These figures show that the majority of the loans were between £E 500 and £E 2,000, with an average loan size of £E 1,734 ($750) (June 1987). Twenty-eight percent of the overall number of loans and of the loan value went to women. Characteristics of the loans were quite similar between the two sexes, but men received a greater percentage of loans for equipment than did women.

<u>Characteristics of the Borrowers</u>: No data were available regarding the average size of businesses in the loan program. However, in the original 1981-1982 survey, 86 percent of those surveyed employed either themselves or family labor only. Casual observation and discussion with other project officials indicate most borrowers are family operations that involve varying numbers of relatives.

Women accounted for 28 percent of all loans extended and 28 percent of the loan volume. Through 1987, women's participation in the overall portfolio was:

Table 6. Women's Participation in SELP Portfolio

Sector	Loans	Loan Volume
Working Capital	30%	28%
Shop Improvement	29%	31%
Equipment	16%	22%
Overall	28%	28%

Women's distinctly smaller participation in equipment loans may be explained by manufacturing businesses generally being controlled by men. The following table compares average loan size between male and female borrowers. These averages ideally should be in real pounds to discount any differences caused by timing and inflation, but that information was not available.

Table 7. Comparison of Loan Sizes by Gender

	Male	Female
Working Capital	£E 2,123	£E 1,902
Shop Improvement	£E 1,290	£E 1,430
Equipment	£E 1,531	£E 2,237
TOTAL	£E 1,731	£E 1,738

The following table shows the use of loans through June 1987 for men and women. With the exception of equipment loans, the mix of loans drawn by men and women is quite similar.

Table 8. Comparison of Loan Use by Gender

SECTOR	Male #	%	£E	%	Female #	%	£E	%
Working Capital	99	49	210,000	60	43	55	81,800	60
Shop Improvement	76	38	98,085	28	31	39	44,355	32
Equipment	26	13	39,801	12	5	6	11,186	8
TOTAL	201	100	348,086	100	79	100	137,341	100

Training for entrepreneurs in business management was not an element of either of the projects. While Helwan had envisaged a component for beneficiary training, they never found the time to implement the program. In CEOSS, technical skills training is an important element for strengthening the overall community and reaching the neediest. The resident staff identify skills needed in the village and people they believe can benefit from the training. This selection is based on need of the individual and lack of that particular skill in the village. Between 1983 and 1986 they trained 139 villagers in skills ranging from sewing and knitting to carpentry. All 139 received loans to buy equipment and tools related to the training (sewing machines, tool kits, etc.).

As part of an extension to the earlier grant, CEOSS is planning to add a business advisory service to the loan fund. Two business advisors will work with the firms receiving loans to identify ways they can improve the management of their businesses.

3.5 Financial Analysis of Beneficiary Enterprises.

Many of the ongoing businesses receiving loans in the CEOSS villages appear to have been able to make productive use of the loans. Some rough calculations of return on investment (ROI) for five selected microenterprises showed ROIs of about 250 percent (per annum) for two small working capital loans to village shops, and an ROI of 93 percent on a larger loan to buy a deepwell pump. One two year working capital loan to a brick maker showed an ROI of 950 percent, showing that he actually had little apparent need for a 24 month loan. These cases were the only ones for which data were gathered and therefore cannot be considered as statistically significant for the whole project.

The favorable return for the small loans for working capital to the village shops may be a function of the small size of the loans. Loans for working capital allowed village shops to more than double their inventories, and to increase turnover. A repayment period lasting as long as two years for a working capital loan of less than $100 does not make financial sense.

Though CEOSS performs market analyses before making a loan, the level of sophistication is quite low. For a small loan this is rarely a problem, particularly to an ongoing business. For a larger loan or an equipment loan for equipment to a new entrepreneur, a good market evaluation can make a large difference. One example is a young man who took the skills training course in sewing and learned how to make pants. He received a loan to buy a sewing machine from CEOSS for £E 225 ($100). In the three months since the training program, he has made and sold two pairs of pants which just covered the cost of his first repayment. There was obviously no sound analysis done to see if the young man could make effective use of a sewing machine or whether a less expensive method of continuing the business would be more appropriate until he had built up a clientele. A closer look at other loans made to graduates of the skills training program may reveal a similar trend.

3.6 Graduation of Firms

Graduating firms out of a program implies either that they are graduating into more formal, non-concessional markets, or that they have reached a point where they no longer need access to subsidized credit. In CEOSS, graduation is defined as the point where the enterprise earns enough to satisfy the basic needs of the family (no longer needs access to subsidized credit). CEOSS has discovered that its initial loan ceilings did not respond to the needs of its clients so it has gradually raised the ceilings from £E 1,000 to £E 5,000 ($430 to $2,100) for individual loans. CEOSS has also discovered the need for some of its borrowers to take a second loan once the original one is paid off. Originally CEOSS did not plan to make second loans, but they have realized that a firm may not be ready to graduate out of the program after only one loan. Consequently they have instituted a program to make second loans, from which 70 people have benefitted. About 220 borrowers have not returned for second loans, but there are no data on their present state of activities.

In the SELP, there is no definition of graduation. There is no place for a firm to graduate to. Once they have finished with loans from the EAJP, they will still not be able to get loans from regular financial institutions, where loans to enterprises start at about £E 100,000 ($43,000). In addition, the loans offered by the project are large enough to attract some attention. One case in particular presents an O'Henry twist: an early loan to a tile maker who became very successful. When the stock-taking team went to visit him, they found he had been closed down because his success had attracted the attention of the tax authorities and he could not pay his assessed taxes.

The question of where firms are expected to go after the program is an important question which had not been envisioned at the beginning of either of the projects. CEOSS has stuck with its enterprises, continuing to provide them with assistance and will look into this question more fully. EAJP has left the communities it was working in, leaving the enterprises to fend for themselves.

3.7 Employment Impacts

Without any hard data, it is difficult to make a comment on the employment impact of these two projects. In CEOSS, a 1986 report estimated that sixty percent of all the new borrowers had "previously not been self-employed or holding a remunerative job" (LaTowsky, 1986), and concluded that a majority of the loans provided first time employment for their recipients. This lending is difficult to assess, because most of the loans are targeted to existing enterprises or to graduates of the skills training programs. These latter rarely become fully employed, but use their new skills to generate some new income which can be used by the household. The majority of loans are to individual shops which would probably not expand their operations to include a new employee, simply because they are too small-scale. A loan which generates only £E 20 to £E 30 in additional income per month makes it difficult to increase employment.

CEOSS takes care to provide loans for activities which are needed in the village or for which it feels there is a demand. Consequently there appears to be virtually no employment displacement from CEOSS loans.

In Helwan, there has been very little employment impact from the program. One third of the loans have been for shop improvement. These consist of repainting and improving the appearance of their shops and are not directly business expanding operations. In addition, almost all original businesses surveyed were family operations. These did not add on any new employees after they received the loans. Therefore very little new full time employment was created.

3.8 Economic Impacts

CEOSS and the SELP are small funds for microenterprises. They cannot be expected to have any major impacts on the economy. Even though some of the loans to the CEOSS borrowers are yielding returns on investment greater than 200 percent, the number of loans and the small value of the loans makes their overall impact minimal. The director of the Comprehensive Development Program for CEOSS says they do not expect the program to have a large economic impact on the communities as a whole, because their loans cover only a minute portion of the demand.

It is impossible to make a calculation of the economic return on these two programs, because the comprehensive data are not available.

4. FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT

4.1 External

(1) The macro-economic policy environment in Egypt, is a key factor inhibiting the growth of clients of the microenterprise development projects in Egypt. Although Egyptian views about the role of the private sector are slowly changing--and the A.I.D. strategy in Egypt encourages such change--private firms still face an uphill struggle to play a full role in national development.

In general, Egyptian leaders still believe that a planned economy is better than an undisciplined free market. Parastatal production is widely subsidized, and market forces repressed, making it more difficult for private sector firms to compete. Price controls sometime make it uneconomical to produce certain goods, regulations limit imports of small firms, and low taxation thresholds hamper growth of small enterprises .

(2) The projects meet a real need by their focus on relieving the shortage of available credit and skilled personnel, which are the major constraints to enterprise development in Egypt. Egyptian entrepreneurs have limited access to formal credit for working capital. Capital usually comes from savings and family loans. The shortage of skilled labor, due to the lack of training resources and the lure of higher wages in the Persian Gulf states, constrain enterprise development. Technology is often out of date, and knowledge of alternative technologies is limited. Markets are generally confined to local demand and knowledge of new market opportunities is lacking.

The CEOSS project addresses the credit and skilled labor constraints. The SELP created a credit resource for small and micro entrepreneurs using a public sector bank assisted by a PVO and a government agency. While the SELP paid no attention to training, for CEOSS it was an integral part of the program.

(3) Inflation, estimated at 22-25 percent per annum, is eroding the two loan funds, and making sustainability that much more difficult to achieve. Controlled interest rates limit the access by small and microenterprises to formal credit (though CEOSS and the SELP have been using subsidized credit, so the limit on interest rates has had no direct impact on the projects).

4.2 Organizational

(1) While A.I.D. has generally supported private sector development, it had little direct interaction with the management of the projects allowing local institutions to develop their management skills. Consistent with the Government's Five Year Plan, A.I.D. is now encouraging more private sector investments to meet Egypt's economic and social objectives and to achieve privatization of many government functions. A.I.D.'s support for

SELP and CEOSS, in 1982 and 1983 respectively, was really a precursor to greater attention to small scale enterprise development and small-scale credit in its current program in Egypt.

Considering the relatively small size of the CEOSS and SELP budgets in A.I.D./Egypt's budget it is understandable why intervention was limited. A.I.D. intervention in the CEOSS project consisted mainly of periodic contact with evaluators, auditors, and other visitors. This exposed the CEOSS staff to new ideas, and helped CEOSS modify and adapt many elements of the program to better respond to the needs of the beneficiaries. The SELP was less than a quarter of a percent of the overall Helwan project, so it was not a priority component and received very little attention from the implementing organizations.

(2) Both projects were grafted successfully to existing organizations with an established field presence and knowledge of the environment. This appears to be the most cost-effective way to implement such a project. By contrast, starting a microenterprise development program from scratch can be very costly. Both projects succeeded in getting loans out rapidly to their target beneficiaries during the life of the projects with relatively little marginal cost. The concept of the project was well within the institutional capabilities of both groups.

(3) The CEOSS project was locally designed and implemented a feature which strengthened the overall project. CEOSS designed and implemented its own project, with some input from CRS, using A.I.D. local currency grant support. It was a development activity which could be observed and assessed with comparative ease, and which fit within the goals of the organization. This complementarity with CEOSS goals in general has had a visible impact on the success of the project.

(4) The CEOSS project maintained its focus on the community development strategy that is the long-term orientation of all their programs. Business development goals and community development goals were not mixed. For example, if a loan recipient was not able to make a monthly payment because of family circumstances beyond his control, CEOSS gave borrower dispensation greater priority than viability of the loan fund. CEOSS focused on poverty lending: its loan recipients, while on-going enterprises, were among the poorest members of the community and most in need of increased income. The goal was to increase their expendable income rather than to build strong businesses.

In the Helwan Project, the social objective of housing development, was the primary goal of the project. Management of the loan fund was hardly worth CFE's effort, since it was labor intensive with a low return. Initially CHF may have dissuaded active loan collection, but it eventually ascertained the need for it. The EAJP saw the project principally in terms of upgrading the infrastructure of the community; the loan component was a minuscule ($360,000) add-on to the $160 million project and maintaining it in the project areas received little special consideration when it was time to move on to other communities.

(5) CEOSS management has been competent and pragmatic. In the past three decades, CEOSS has learned the importance of sustainability of individual programs, and the majority of their activities are self financing. As a result, they have made many modifications to strengthen the management and financial viability while still reaching their prescribed target group.

However, as long as the interest rates on most CEOSS loans remain well below market rates, it is unlikely that the credit fund will become financially self-sustaining or that the technical assistance and training component can continue without subsidies. CEOSS, as an institution with a broadly-based community development program, will survive regardless of what it does about loans.

(6) The issue of sustainability of benefits is closely linked to the overall goals of the organization. The CEOSS loan fund benefits from CEOSS' long range interests, but the SELP does not fall within the specific goals of its implementing organizations. The latter, however, were a very effective mechanism for getting the loans to the field during the life of the project.

In SELP the situation is somewhat different. No single institution had the mandate or interest to continue this portion of the project, leaving the activity without a home as the project terminates. The project involved several interest groups, each with different objectives and motivations for involvement in the project.

(7) The CEOSS project's linked credit, technical assistance, and training approach appears to be steadily reaching their target group, and is appropriate for a community development orientation. The extensive integration of the project into the overall activities of the organization and the complementarity of the different components has provided a responsible, strong program.

By contrast, the SELP was designed so that no organization could take a leading role. SELP was appended to and buried in the larger project and it did not really fit into the long range plans of either the EAJP or the CFE. The design paid no particular attention to the beneficiaries after the project, with no plan to integrate the SELP into a long range effort in the community. But, whatever benefits the project did accrue would not have taken place if there had not been the larger project.

5. LESSONS LEARNED

(1) Delivery of credit is an appropriate point of entry for community development assistance because it provides a quick and efficient means for reaching entrepreneurs who in turn can generate further community benefits. For entrepreneurs, credit responds to a perceived need, and makes them more aware and receptive to technical assistance. Together, credit and technical assistance help the entrepreneur understand why (and

if) he needs the credit, whether it benefits his business, and how he will earn the revenue to repay the loan.

(2) Successful lenders to microenterprises need to work closely with their clients to know them and their working environments. Small borrowers have specific needs and capacities. Lenders must take some time to get to know their clients, which is imperative if the lender is to be able to balance the resources it will provide with the experience and capacity of the borrower. CEOSS lives and works with its beneficiaries, and the only defaults to date have been because of death of the borrower. The SELP has also been successful in making and collecting loans, and it had a close link to its target audience.

(3) The use of the co-signer system is quick and appears to be an efficient means of guaranteeing loans to microenterprises. Both CEOSS and Helwan used the co-signer system as their principal form of guarantee and it has worked quite well. This does not exclude the use of other forms of collateral, but these are often more expensive and difficult to produce.

(4) Organizations that implement microenterprise programs need to carefully identify their goals and know where they expect their beneficiaries to be at the end of the program. There should be no conflict between poverty lending or business development lending. The projects should know if they expect beneficiaries to be able to access formal sector bank credit, to raise individual living standards, or to have a positive impact on the local economy by generating employment or products.

(5) For a project to be sustainable beyond its completion date, its goals must be consistent with the purpose and goals of the implementing organization. Sustainability of an institution delivering services to microenterprises should be a project goal. There are many ways to induce intermediary organizations to participate in a project. Some involve an immediate up front inducement such as equipment or vehicles, but institutions have little to keep their interest later in the project. Others involve providing an inducement which lasts for the life of the project, such as free capital, but this benefit disappears after the project is over. However, if the project itself is consistent with the goals and ideals of the implementing organization, they will continue to sustain it, even if it is only marginally self-financing.

(6) Microenterprise credit projects need the flexibility and latitude to deal with a broad range of circumstances. Projects need to be able to modify their tactics and approaches as they encounter specific problems related to their environments and clients, and which may change as their program evolves.

CEOSS has gradually shifted to a more business-like way of doing business because it realized over time that the best way to serve the needs of small businesses was to treat them like businesses. They found they do not need to subsidize credit to their target group as heavily as they thought, and may eventually end up charging rates of interest sufficiently high to cover their real costs. Similarly in Helwan, the PIU has learned that someone must go out and actively collect the loans in arrears, rather than adopting a "wait until they come in" attitude.

(7) Microenterprise development programs cannot graduate clients to the formal sector if there are no intermediary firms or institutions to accept the graduated clients. Simply preparing a client enterprise for the formal sector does not insure that there will be a bank or institution operating at that level that is willing to accept or service the newly "graduated" enterprise. Even repeat borrowers of both CEOSS and SELP are still too small or too distant from formal sector financial institutions to attract their interest.

(8) Microenterprise development projects with a community development orientation should not view graduation of clients to the formal sector as an objective. Projects with this type of orientation work with the smaller of the microenterprises, and are more interested in alleviating the condition of the poor through income and employment generation than in the development of businesses. By making small loans to upgrade the buildings of traders SELP is doing little to enable the client to borrow from the formal sector.

(9) Microenterprise development projects with a community development orientation rarely create new employment, but reduce underemployment. Most of the affected microenterprises employ family members. If the level of business activity increases outside workers are seldom employed; family workers simply become more productive. Eighty-six percent of SELP clients are family-owned businesses usually employing members of the extended family.

APPENDIX A

DESCRIPTIVE INFORMATION: CEOSS ASSISTANCE AND TRAINING COMPONENTS

1. STRUCTURE

Training and technical assistance are integral parts of the CEOSS development process. Building on several years of experience in skill training women in sewing, CEOSS established the Itsa Training Center in 1980. Training has been available for entrepreneurs from the CEOSS programs since the beginning of the project. During the project period 1983-1986, skill training was offered to 139 trainees in fourteen courses; the trainees were also loan recipients.

There is no formal process for need identification. CEOSS observes economic conditions in the villages and determines demand for training. At the outset, the program identified a large demand for skills in the construction industry in the El Minia area and began with courses in basic carpentry. Demand for this skill apparently continues to be strong. For example, in the last year of grant funding there were nine trainee/entrepreneurs in carpentry (windows and doors) and eight more in carpentry (furniture). Over the project period courses also have been offered in painting, building, plumbing, electricity, upholstery, and sewing and garment making. Trainees spend from two to eight months either fulltime or part-time learning a skill and when they graduate they receive business startup loans from the Loans for Development Program.

CEOSS does do follow-up on trainees. Not only does their community development process involve regular contact or follow-up visits to most of the villages, but some trainees have been brought back to the Itsa Center for refresher instruction, discussion and feedback. The first gathering was for former sewing trainees. It was mounted in January 1986 for 52 of the total 89 trainees representing some 25 communities. CEOSS has also offered staff training in various topical areas, which is also made available to other agencies. During the team's visit, CEOSS offered a one week seminar to forty fee paying PVO staff on "Exploring and promoting Income-Generation and Enterprise Development Alternatives at the Local Level."

2. COST

Based on the audit report, £E 94,641 was spent on skills training under the project and an additional £E 17,428 on other project training, representing a total direct training cost of £E 112,069. In comparison, the original project proposal approved by A.I.D. called for a total of $106,075 to be spent on the Skills Training Program. The training cost for 139 trainees, thus, averaged £E 806 per trainee. These costs covered training, materials, room and board at the Itsa Center, and some travel costs to move day trainees to the site. Tool kits were also purchased by CEOSS for carpentry trainees upon graduation. CEOSS fully subsidized the cost to trainees under the project.

2.1 Effectiveness

The team was not able to measure the training effectiveness in the short time available. We were told that numbers of applicants well exceed the slots available for CEOSS training courses.

3. SUSTAINABILITY OF THE IMPLEMENTING ORGANIZATION

CEOSS has a very high probability of sustaining itself as a viable institution for development activities, including micro enterprise development. It is well organized, well managed, possesses continuity of leadership, demonstrates commitment to the needs of the poor population it has targeted, has good sources of income from fees and sales, and has an excellent reputation with the Government of Egypt and external donors. This is especially true in El Minia and Assuit where the program has been on-going for some 36 years. Although Save the Children and other international PVOs have development programs in this area of Upper Egypt, including credit activities, the CEOSS program is far and away the most experienced in delivering assistance to the rural poor.

Closely tied to the future of the organization, the income and employment generating program stands a good chance of enduring. With marginal changes in shortened loan recovery periods and higher interest rates for the small loans, CEOSS would be able to increase the cost effectiveness of the small business component and increase chances for overall institutional sustainability.

3.1 Management and Direction of CEOSS

Senior management in CEOSS plays a strong role in strengthening the program and has been making strategic changes in all of its programs to best respond to their environment. Many of their other operations are currently self-financing so they have a sound basis for understanding of the requirements for achieving financial sustainability and viability for the loan fund.

The organization is committed to continuing the loan program. Because the program represents a very small percentage of their overall operations, it will certainly be continued by CEOSS, even if it requires some subsidization. All evidence indicates that the Comprehensive Development Program is interested in raising the revenue from the program to the point where it covers the operating costs of the program and perhaps some portion of the loss to inflation. They will certainly take these into consideration, measuring them against the overall goal of the program which is to provide resources to the neediest people in the villages.

CEOSS has just begun implementing a computerized accounting system for all of their activities. Records in central accounting are current to within two to three months. The delays often stem from slow transmission of information from the loan officers and resident staff to the accountants. Because CEOSS is not experienced in managing a loan fund, they have not set up a financial and cost accounting system which responds to many of the needs of a financial institution: age of arrears (they know which are late, but not by how much), current balance in the loan fund, breakdown of administrative fees versus principal repayments, summaries of the average loan size, purpose of the loan, etc. Before CEOSS expands the loan program, they should invest in the development of a sound accounting program on their new computer to gather and produce the necessary information.

3.2 Personnel

Staff hired by CEOSS are generally young but college educated. CEOSS looks upon itself as a preferred alternative to the normal government service that many Egyptians have come to assume is the norm. They pay higher salaries and offer a better work environment than most government jobs. Thus, CEOSS generally hires staff for careers not just for projects. As noted above, staff training is an important and integral part of CEOSS' program. Most of the personnel have been with the organization for more than five years, and they are very flexible in their staffing patterns to accommodate particular family needs of the staff.

3.3 Financial Analysis of Implementing Organization

It is very important to place the credit fund within the overall CEOSS organization. This is an organization with an annual budget of L.E. 7.8 million. The sector within which the credit fund falls, the Comprehensive Development Program, has an annual budget of more than L.E. 1.7 million, so the credit program is only a small portion (seven percent including the total loan fund and direct costs) of the sector within which it is located. It will be worth CEOSS' time to occasionally supplement the fund to maintain its existence rather than to charge fees which will maintain the real value of the fund (cover inflation) and cover their administrative costs.

Considering the nature of the program, the target beneficiaries and the general cost of lending to micro programs, CEOSS has done a good job in keeping their cost of lending relatively low. During the life of the grant, lending costs averaged £E 100 per loan made (combining group and individual loans), with a cost of £E 0.42 per pound loaned. In 1987, this average was brought down to £E 90.8 and the cost per pound loaned dropped to £E 0.30. Since the average length of a loan is two years, this comes out to an effective annualized cost of £E 0.15 per pound in loans outstanding.

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The very positive results in reducing the cost of lending are matched by positive steps in increasing to the cost to the borrowers to more accurately reflect the real cost of lending. However, with the interest rates for more than 80 percent of the loans at about 6 percent, they are still a far short of self financing. If the cost of lending remains the same, they will need to raise their average interest rates to about 15 percent to cover costs.

The institution is not protecting itself fully from the effects of inflation. It has taken several steps to increase the return to the loan fund, raising average annual interest rates as discussed in section 4.5 above. But these interest rates still will not maintain the real value of the fund. CEOSS management is now aware of the problem of inflation and has shown serious interest in taking these elements into consideration.

4. IMPACT OF THE PROJECT ON BENEFICIARIES

The AID grant to CEOSS through CRS for the establishment of a loan fund for small business activities has performed better than the outputs presented in the grant proposal. It has delivered a steady supply of credit to needy borrowers in the villages surrounding Minia, in addition to training 139 people (during the AID funded portion of the training) in different skill areas to help them begin income generating activities.

It is very difficult to ascertain the exact impact of the project on the beneficiaries. Over the last year or so, CEOSS claims that they have been gathering impact data on all borrowers.

There is no "without project" evidence from non-assisted enterprises to compare to the "with project" assisted firms. nor has evidence been gathered to provide an accurate estimate of the relative performance of assisted and non-assisted firms. Because CEOSS is a community focused organization, it makes a point of identifying the need for the activity to be undertaken before it is funded. Therefore, if an applicant wants to undertake a venture which is already being performed in the village, CEOSS will most likely not fund it unless their assessment determines that there is excess demand which is not yet being met. This drastically reduces the likelihood of new businesses simply taking away from existing businesses -- i.e. the displacement effect.

The project is functioning in more than 20 villages right now and has graduated out of another 23. It has made a total of 786 loans in this region. This comes out to an average of nearly 20 loans per village, but each of these villages has a population around 20,000, so it is unlikely that there will be any major impact on the community as a whole from these loans.

5. SOCIO-ECONOMIC ANALYSIS

The team collected information on the return from the loans for the following entrepreneur interviewees:

1. A group of farmers in Azbet Ayoub needed £E 3,000 to complete the amount of £E 10,000 necessary to buy and install a deepwell pump to water their 20 Fedan field. The drought had so lowered the water level in the river that the irrigation pump they had been renting was insufficient. They received the loan at 18 percent fee up front (they actually on received £E 2,460) with a grace period of 6 months and £E 500 repayments every six months for three years. Up to this point they have been paying someone else with a shallow irrigation pump to water their fields twice a month for £E 100 per time. By using their own pump, the cost to the farmers is reduced to £E 50 per time for fuel and maintenance, or a net savings of £E 100 per month. In addition, they can now rent their pump to water the fields of their neighbors for an additional revenue of £E 8 per fedan. They estimate that they will do 20 additional fedans per month for a revenue of £E 160. The pump is estimated to last for 15 years, but with 25 percent inflation, the pump will retain its nominal value at the end of three years, even after depreciation. The rate of return for the project as a whole, including the £E 7,000 contribution by the entrepreneurs is 36 percent. The return to the loan by itself is 93 percent.

2. A group needed some working capital to operate their brick making operation. They already had the equipment, but needed the resources to buy sand, gravel, cement, and pay their workers. They can manufacture 4,000 bricks a week which they sell for £E 250 per thousand. Their equipment is very simple and sturdy, with the occasional breakdowns easily fixed by the crew. They received a £E 3,000 loan for three years. An analysis of the operation reveals that they make money on every load of bricks, which costs them less £E 200 to manufacture. Therefore the operation is very lucrative, yielding about 950 percent over three years. In fact, it is uncertain why the group received such a big loan. This will more than cover their operating costs for one month, and they must receive some repayments from their clients, or get some similar credit from their suppliers.

3. A vegetable grocer in El Saranqh received a £E 200 loan (less £E 9 fee up front) for two years to buy coca cola for sale and to increase the number of vegetables he can sell. Before the loan, the grocer had ten cases of Coke which he sold in the two week between visits from the Coca Cola truck. The loan allowed him to increase his stock of cokes to twenty cases which he could sell in the same two weeks. This allowed him to earn an additional £E 9.80 every two weeks. In addition he makes a weekly trip to the city of Minia to buy vegetables which he then sells in El Saraqna. He estimated that he clears £E 5 per week from these additional sales, but the loan officer said that he made closer to £E 10. The £E 200 working capital loan is allowing the grocer to clear an additional £E 10 - 15 per week. The grocer has almost completed the twenty payments of £E 10 per month. The return on this investment is

approximately 510 percent after 2 years, or 255 percent per year. Despite this favorable return, total level of income of the grocer is so small that he consumes the majority of his additional earnings. His managerial ability does not appear to have improved so that he is better able to manage his new resources to make more money from them.

4. A kiosk owner in El Saraqna, in conjunction with his son, took out a £E 300 loan (actually receiving £E 282) with which he made a down payment on a new freezer for £E 100 (value £E 380) and bought £E 180 of new merchandise. The new freezer replaces an old refrigerator they had before. With the freezer, they can now sell ice cream in addition to soft drinks. The son estimates that they sell £E 100 of ice cream per week, which costs them £E 85 and are now able to pay cash for their merchandise instead of getting it on credit, which lowers their cost of doing business. The estimated return on investment over a period of three years is 750 percent, or 250 percent per year (this assumes that the freezer has no salvage value after three years).

5. One 19-year old who we interviewed had received training in garment making and had a loan of £E 225 for a sewing machine, iron and scissors to start his business. At the time of the interview he was getting very limited business from his village although his father was an established tailor in the community. CEOSS' loan actually paid for the capital investment; no money went directly to the loanee. The new tailor was repaying at £E 10/month (i.e. nearly two years to repay) after an initial three-month grace period. The tailor seemed less than enthusiastic about his new business opportunity, and he had apparently told his father he wanted to go to Iraq to find work. Both the father and CEOSS village-based staff were encouraging the young man to continue to develop his business. However, since this was the only trainee we interviewed we have no basis for concluding that the training is having less than the impact desired by CEOSS. Yet the established entrepreneurs we interviewed seemed more fully committed to their work than this young tailor.

There is no way to estimate the number of jobs actually created. It is safe to say that almost all those who borrowed money have become more productive, like the grocer, kiosk owner, and the brick maker. Others have simply replaced a service previously being provided, but in a different way, like the deepwell pump replacing a shallow irrigation pump.

According to the LaTowsky evaluation (LaTowsky, 1986) a followup study by CEOSS in 1986 indicated that of 54 graduates of the sewing/garment-making courses, 52 percent said their productive activities brought in significant income to the households. Only 11 percent said that their work provided no additional household income. Latowsky estimates that roughly 50 percent of all early loans represented some form of new employment for the borrowers. These cannot necessarily be considered as new employment because they are not full time operations, but simply supplement already existing earnings. There is also some question whether the loans made to them are sound loans, as in the example of the young man who had received training in the confection of pants. Though these data are subjective, there is no

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question that the training program is very popular in the CEOSS communities and specifically among the trainees.

5.1 Conclusions and Recommendations

1. CEOSS has reached its target beneficiaries and will continue to operate the revolving credit fund for a long time.

2. The credit fund will be sustained even though it is not now financially viable because it fits very well into CEOSS' overall program goals and purposes.

3. CEOSS is gradually adapting its management of the credit fund to reflect a business like approach which will be necessary to make the project more financially viable.

4. The term of many of the loans is too long and interest rates remain too low to cover the cost of lending. CEOSS has discovered that it can continue to raise interest rates and still reach their target group with a necessary and affordable service.

5. The project's impact is increased by CEOSS' ability to maintain contact with its beneficiaries and target group well after the loan has been repaid or CEOSS has ceased its direct work with the village.

6. Strong indigenous PVOs can be an effective vehicle for international donors and the GOE to get resources directly into the field.

5.2 Recommendations

1. A.I.D. should provide CEOSS with some technical assistance to identify information which CEOSS should be constantly monitoring to improve the management of the fund (such as arrears, cost of lending, rate of return on different kinds of loans, size of the loan fund, total of loans outstanding, fees received for services, balance of the fund in the bank, etc.).

2. With the specific needs identified, A.I.D. should then assist CEOSS to develop the software necessary to monitor this information on their newly installed computer. This is an ideal time to do this, since they are just in the process of setting up the system and changes will be easier to accommodate now than in a few months.

3. CEOSS should perform an in depth evaluation of the loan program to graduates of their training programs. This will help it to determine whether this is the best use of its available credit resources.

4. CEOSS should make better use of its available resources. Though the number of loans outstanding has increased over time, there is still a sizable balance of unlent funds in the bank. CEOSS should get these funds out to borrowers.

5. CEOSS should re-examine the length of their working capital loans and some of their equipment loans. The two year period is very long, particularly for enterprises with a viable use for the funds. A shorter loan term would make borrowers understand how the loans are strengthening their businesses. The higher turnover would make the funds available to more people, increasing impact.

6. CEOSS should continue to increase the cost of funds to its borrowers. With over 80 percent of its funds lent at six percent, the program continues to require a subsidy from CEOSS.

7. As a long term goal, CEOSS should rationalize its interest rates at a level sufficient to maintain a viable fund, currently at 15 percent. In the short term, CEOSS should begin to reduce the differences which exist between the different interest rate structures by making the increases marginal rather than discrete.

APPENDIX B

DESCRIPTIVE INFORMATION: HELWAN

The overall Helwan Project was closed on 8/26/1988. All SELP monies were disbursed by 1985. AID, through CHF, has been effectively disengaged from the project except for monitoring. Furthermore, EAJP is withdrawing from the original 7 up-grading areas where SELP has been active. This means that potential borrowers will have to seek out PIU social workers. EAJP would like to extend the program to 6 new up-grading neighborhoods. CFE would like to extend the program outside the up-grading areas altogether. The CFE Helwan branch has also proposed to CFE that it consider funding its own SELP. Similar proposals were discussed in 1985. No action has been taken on either initiative.

It is unlikely that SELP can sustain itself on a cost basis. However, given that CFE will remain in Helwan for the new community project, it is likely that SELP will remain active if only in collection. With no support from PIU on SELP loan generation, loan volume will dwindle and it can be expected that the percent of free balances in the account will grow as outstanding loans are either paid or written off.

It appears that specific provisions were not made to insure that the program, if not financially profitable, would at least have operated at the maximum return possible. Although there were some earlier indications that CFE might have taken on the program by itself, that appears unlikely. Whereas EAJP was the implementing agency, its withdrawal from the target area has made CFE the de facto implementing agency. Without "barefoot" bankers, CFE is not in a position to take up where PIU left off.

Nevertheless, the CFE Helwan branch is dedicated to the program, not because it believes the program has made any significant social impact in the community, but because it has been so directed by the central office. CHF believes, on the contrary, that the program significantly assisted loan recipients. Without an extensive survey of a statistically significant portion of the borrowers, all such assertions remain anecdotal.

USAID can expect SELP to continue as long as there is no change in management initiative from CFE. As long as CFE remains committed to supporting the fixed costs of the Helwan branch, it will be in CFE's financial interests to maximize loan generation and collection.

1. MANAGEMENT AND ACCOUNTING

The director and chief accountant at the CFE branch have 55 years of combined banking experience in one of Egypt's older financial institutions. They believe they are implementing their portion of the program to the letter. Whether they will take the initiative to expand their activities as PIU and CHF reduce theirs is unknown.

CFE/Helwan has a 1981-2 Texas Instruments computer installed at the branch. The system is now ready and it should be fully operational in 2-3 months after completion of data input. CFE staff has noted the value of computerized operations and the bank will continue its development of electronic record keeping.
The computer was part of USAID's contribution to CFE for participation in the project.

CFE's financial records appear to be current. The Helwan branch does not keep a cumulative, running aging of all SELP loans, but information is available on each account documenting its status. The stock-taking team had a difficult time reconciling some figures from CFE with those that had appeared in a variety of consultant and advisor reports. Therefore, the figures that appear in this report should be considered as roughly correct, not absolute. Any difficulties the stock-taking team had were due primarily to communication problems. CFE is a commercial bank and record keeping is part of standard operations. CFE appears to be managed professionally, with the discipline expected of any fiduciary institution anywhere in the world.

1.1 Institutional Viability

As stated above, institutional support for SELP has changed since its inception. CFE is the only organization still fulfilling its role as originally envisioned. The Helwan branch director stated his interest in undertaking a small enterprise credit program with CFE funds that would reach out to the entire Helwan community. This indicates that, although he doubts the economic and social impact of the program to date, he believes such a program could be profitable for the bank. He, however, does not have to consider the cost of capital used in such a program. His proposal to CFE has not been acted upon.

The bank staff also intimated that initially CFE thought it might earn fees on the entire $80 million USAID planned to put into the program. The staff felt CFE's decision to become involved in SELP (and the other project components) may have been based on a misunderstanding of how much money would actually be earning revenues for CFE.

They also noted that the standard list of factors that negatively effect small business lending are valid in Egypt: estimated high administrative costs, lack of strong business opportunities, lack of collateral or effective guarantees, more profitable investment opportunities. There is no indication that these factors will shift to favor small business lending in the future.

2. IMPACT ON BENEFICIARIES

SELP has delivered services to the residents of the up-grading communities very much in line with the original program documents. Shortfalls in SELP are better

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attributed to program planning than implementation. Beneficiaries were made aware of the program, assisted with loan applications, extended credit and then allowed to run their businesses with the expertise they were expected to possess.

Although a survey was made of existing businesses prior to the start-up of the program, no follow-up survey has been made. As a result, no statistical evidence concretely documents the impact of SELP. Widely divergent anecdotal evidence can be used to support or undermine the impact of this project.

Helwan, like Cairo, is a rapidly growing community and it can be assumed that there was no displacement effect from SELP. During the stock taking exercise, a dozen loan recipients were visited. Several, including an electrical components store in Sedqui and a muffler shop and plumbing supply store in Rashid, were unique enterprises in their communities. SELP gave them the wherewithal to expand their inventories or manufacture new components. Other SELP recipients, such as tailors and carpenters, were not sole suppliers, but apparently were able to compete effectively with similar businesses near-by. Perhaps the most problematic recipients for casual, anecdotal evaluation are the numerous small shops and grocers who have taken SELP loans. Whether they have been able to increase income or employment in the face of numerous, well heeled and well established competitors is unknown.

2.1 Financial Performance of Assisted Enterprises

There is no information other than anecdotal case studies that confirms the impact of the project on assisted businesses. Although most borrowers are paying or are expected to make their monthly payments, loan repayment does not mean the underlying enterprise is healthy, profitable, or better off than it was before. There is also no information regarding augmentation of overall employment or income as a result of the program.

Over the life of SELP, a handful of abbreviated case studies have been made by CHF and others. Use of those case studies, which included some of the program's star performers, as representative of the borrower pool would lead to a benefit cost ratio of greater than one if only the costs to the borrower were assessed. The picture is much less clear if overhead costs of PIU, CFE and CHF are considered. Furthermore, several of the most successful cases of a year or two ago are no longer in business, which indicates the dynamic nature of small enterprise and the danger of stating that SELP created "x" number of jobs at "y" cost per job, reached "x+1" people, created "x+2" new enterprises, etc. The stock taking team was not able to gather concrete evidence on a representative group of borrowers and no such information was available.

2.3 Macroeconomic Policy Framework

The Egyptian economy remains highly oriented towards state enterprises. Although private businesses abound at the small and micro level, government policy

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does not favor them. Financing opportunities are limited and most micro-businesses remain family enterprises.

A commonly noted success story in SELP was a tile maker in the Rashid squatter community. Beginning with a SELP loan, his business grew dramatically as he added employees, vehicles, more equipment. As one of the most prosperous borrowers, the stock taking team visited his business to discover he had upped and gone. Neighbors stated that the dramatic, visible success of his business attracted the taxation authorities who assessed significant liabilities. The entrepreneur subsequently abandoned his work site, closed the tile business and has relocated. This anecdote, although one of a kind, represents what can happen when a mnicroenterprise "graduates," but is not prepared for the larger macroeconomic circumstances in which it must operate.

3. SOCIO-ECONOMIC ANALYSIS OF THE PROJECT

There is no information which allows an overall cost benefit or IRR analysis of the entire program. Positive indicators are that the fund has increased its nominal value, that target beneficiaries did apply for and receive loan funds, that there were cases of repeat borrowers, that certainly some businesses did prosper as a result of the program, and that few, if any, borrowers are known to be worse off for participating in SELP. Additionally, CFE's conversion to computerized banking operations are a positive result of the project.

Negative indicators include the slow growth of the program, the high level of arrears, the decrease in the power of the loan account in real terms, and that no financial institution has duplicated SELP with its own funds. Although there are many other well healed "small" business programs funded by aid organizations in Egypt, SELP does not appear to have had any direct effect on their activities.

4. COMMENTS AND OBSERVATIONS

1. SELP carefully defined who would be able to borrow and for what purposes. This insured that the intended beneficiaries would have access to the credit fund. However, as loan generation declined, these stipulations prevented the fund from being fully invested, which causes CFE to lose origination and administration fees and slows growth in the fund from recycled reflows. Future programs should consider lending idle balances, when they occur, to businesses outside the intended beneficiary group. This would help speed the growth of the fund by insuring its full utilization. Whenever the fund is fully lent, a waiting list could be started with intended beneficiaries immediately becoming the first in line for new loans. Differential or premium interest rates could also help the fund grow while keeping rates low for poor, disadvantaged borrowers.

2. The shop improvement loan component of SELP more closely resembles HILP because it does not directly lead to employment or income generation. If a program opts to lend for this purpose, the analysis required of the loan should be no different from that of a home improvement loan as neither one truly has income or employment impact. Inclusion of shop improvement loans in a small enterprise portfolio makes analysis of the economic impact of the program more difficult.

3. Term, if not rates, should be closely configured to the actual needs of the borrower and ability of the lender. Working capital loans, which were extended for a maximum of 20 months, are an example of credit given with too long a term. Grocers and retail shops should be turning inventory monthly, weekly or daily and, if efficiently managed, should not need credit for nearly 2 years. This encourages slow repayment and poor management. It also means that fees and reflows are generated more slowly than need be.

4. When devising a credit program, the incentives for the financial intermediary should function for the life of the project. In SELP, the meager fees accruing to CFE hardly justify a serious collection process. A rigorous costing might reveal that it costs CFE more to collect a payment than it does to let it go. This is particularly true because none of CFE's money is at stake. The program must create long term inducements for the financial intermediary (and other implementing bodies) that motivate continued interest and activity throughout the program's life.

APPENDIX C

A.I.D. PROJECT ACTIVITIES IN SUPPORT OF MICROENTERPRISE

I. PAST INITIATIVES

1. Development Decentralization I (#263-0021 & 0161.0, 1978-1987)

This $26.2 million project supported training and technical assistance for ORDEV, the Organization for Reconstruction and Development of the Egyptian Village, a government body operational since 1973. A local development fund (LDF) was capitalized at $5 million. The LDF was lent to village councils at 4% and the village councils relent funds to village projects at 6%. These projects, as described in the project paper, were supposed to create income, generate employment and support the financial autonomy of the village council through the 2% spread in lending rates. Loans were generally limited in size to LE 15,000 with medium terms of 3 to 5 years. Typical projects included poultry operations, transportation, and agricultural production and mechanization. During the project, LDF made 952 loans including 225 to private individuals for a total of LE 23 million.

A 1979 evaluation of DDI was highly critical and controversial. Concern was expressed regarding use of LDF to support projects already well established in the private sector and that few recipients of prior funding for SSE village based activities were able to pay their loans back to the village councils let along retain an expected 15% profit margin. However, ORDEV's cumulative 1980-1983 report states that LDF was operating in nearly 48% of all local political units, that 500 loans ranging from LE 6,000 to LE 210,000 and totalling LE 10 million had been made with benefits accruing to 3000 people. This type of project, which supports increased government involvement in enterprise projects and below market interest rates is no longer consistent with AID's interest in supporting private business initiatives. A close of project evaluation was not available.

2. Agricultural Mechanization (#263-0031, 1979-87)

As part of this $37.6 million project, approximately 100 village workshops received loans for workshop improvement that averaged LE 25,000. The workshops were expected to provide an improved base for future agricultural mechanization.

3. Small Farmer Production (#263-0079, 1979-87)

This $49 million project worked with the Principal Bank for Development and Agricultural Credit (PBDAC) which works with input support for farmers. The project capitalized a loan fund and supported technical assistance and training. The loan fund has reached 90,000 farmers through 150,000 loans valued at LE 95 million. The project has been successful and components have been continued in the Agricultural Production and Credit project (see below).

One lesson learned by the project was that loans made to participants to a program are sounder (get repaid more regularly) than random loans for small enterprises. For example, the services provided to a borrower who is part of a sewing machine lending program can be more effectively supported and followed because the bank understands the needs, uses, and benefits of the program.

4. Small Scale Agricultural Activities (263-0096, 1979-83)

One goal of this $1.6 million project was to increase rural employment through expansion of small agribusinesses. The project introduced appropriate technologies including beekeeping and silkworm rearing among others. The project provided income enhancement to rural, farm families and the status report suggests that women especially benefitted from the project.

2. PRESENT INITIATIVES

5. Agricultural Production and Credit (#263-0202, 1986-93)

Awarded but not yet underway. No precise definition of small enterprise lending in the project.

6. Private Enterprise Credit (#263-0201, 1986-91)

This $235 million project has a subcomponent for an SSE Credit Guarantee Fund, which will receive no additional funding. The mechanics of the Guarantee Fund and the cooperating banks have not yet been finalized.

7. Local Area Development II

Buried in the $318 million Local Area Development II Project is the Rural Small Scale Enterprise Project (RSSE). The RSSE is a $1.63 million project to institute a rural enterprise loan program. Based on the successful projects loan program of the Bank Kredit Kecamatan (BKK) in Indonesia, this program was originally designed in 1986 for Partnership for Productivity (PfP) but was adopted by ACDI after the demise of PfP. The program is to be jointly implemented by ACDI and the National Bank for Development (NBD).

2.1 Inputs

Agricultural Cooperative Development International has already received a grant for $879,000 to cover the start-up and operating costs of the project for one year, including one year for a credit specialist, training for NBD staff and purchase of project equipment. The NBD is to receive $750,000 to start a revolving credit fund once the agreement is fixed.

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2.2 Concept

The program will target firms with 1-5 workers, averaging assets of LE 25,000. It will make $100-$1,000 working capital loans for very short periods of time, four weeks to six months. The technical assistance will be focussed on the NBD village credit teams which will consist of a cashier, bookkeeper and loan officer. Each team will visit about 9 villages per week on a regular schedule, with the authority to distribute loans on the spot. Each borrower must have the approval from his village council, which in turn must be registered with the bank. There will be a Village Credit Rating, so credit to the entire village will be jeopardized by one or two bad borrowers. It is anticipated that there will be 25-50 borrowers per village and they will make a total of 1200 loans in the first year.

The program is expected to achieve breakeven within three years. It will charge the legal limit of 18% interest for commercial loans up front plus a 3-4% service fee for an annual rate between 25 and 30 percent. After a borrower repays his first loan, he may get a 50% increase for his second loan. Each borrower is required to have ten percent of the loan amount in savings, receiving 10% interest.

2.3 Present Status

ACDI has received their funds and has already implemented training programs for NBD village credit teams. In addition they took a delegation of Egyptians to Asia in the summer of 1987 to observe the Grameen Bank and the BKK. Unfortunately the NBD has been wary of participating in the program and still has not given its final approval to start lending funds. As a result, the long term credit advisor is still in the U.S., with all actions to date taken by ACDI's regional office in Cairo. There is a chance that the loan fund will never get off the ground.

2.4 Future Initiatives

8. Small and Microenterprise Project (263-0212)

The Small and Micro Enterprise Project will provide $20 million to channel credit to entrepreneurs in the Alexandria and Cairo urban areas. This project was approved in FY 1988 and will begin in FY 1989 for a seven-year period. The RFP goes out in October 1988. It is anticipated that if demand warrants that additional funding will be given to this project.

Loans will be available to micro entrepreneurs (defined as having up to five workers) up to LE 25,000 (approximately $10,775 at the current exchange rate) and to small entrepreneurs (defined as those with 6-15 workers) up to LE 250,000 (approx. $107,750). The Project Paper projects a total of 32,000 loans with seventy percent going to micros and thirty percent to smalls.

&2 The loans will be approved and managed by two separate foundations operating in the two locales. The Alexandria group has been in existence for some years but has done charity rather than loans programs. It consists of fairly wealthy businessmen from Alexandria. The Cairo foundation called the Egyptian Small Enterprise Development Foundation was newly formed at the behest of the A.I.D. mission just for this project and is only a paper structure.

The loan portfolios will be managed by banks, several of which have already indicated interest in participating. Interest rates will initially be below market with the prospect of being at market in three to six years. Banks will collect loans using extension agents. A.I.D. really provides a 100 percent guarantee program. The foundations will get repayments credited to their accounts to allow revolving. The project will attempt to reach its target groups despite the facts that banks are limited to 15% interest rates on industrial loans, Islamic culture precludes the charging of interest rates per se, and foundations cannot charge interest rates directly. A.I.D. assessments suggest that the demand for credit among target groups in Alexandria and Cairo is huge. One study in the mid 1980s indicated that there were some 250,000 small and micro enterprises in Egypt.

The Mission would like this project to demonstrate the role and value of private sector loan programs in Egypt. A.I.D./Cairo hopes to influence policy. The Mission thinks the project has the potential for considerable expansion. However, at the outset it is seen as experimental.

3. OTHER PRIVATE SECTOR AND DONOR INITIATIVES

R. M. Jones, in "Small Scale Industry in Egypt: An Examination of Channels Available to Donors for Activities in Small Scale Industry Sector in Egypt (June 1988)," reviewed donor and GOE initiatives in SSE, concentrating on productive enterprises. This paper, which was written for the Development and Co-operation Division of the Dutch Embassy in Cairo, implies that assistance in the sector, although perhaps not always reaching the intended beneficiaries, has had substantial resources already put into it.

4. GOVERNMENT OF EGYPT INDEPENDENT PROJECTS SUPPORTING MICROENTERPRISE

Judith Tendler (1987) describes the Ministry of Social Affairs projects to do focus on the problem of unemployment. The Productive Families Program (PFP) reached 110,000 families with asset producing loans in kind. These included sewing machines, equipment for carpenters, and other artisans. There is limited data available on this, but the PFP appears to be helping to generate additional income for many of the beneficiaries. There is no data on loan recovery.

The Pension Substitution Program (PSP) allows pensioners to take their pension in a lump sum to apply it to a business investment. There are an estimated 500,000 people who have taken advantage of this program. It is limited by the small size of the payment people can get, averaging LE 300. The assistance is made in kind, and is limited to fourteen specific trades.

APPENDIX D

LIST OF PERSONS CONTACTED

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Fred Zobrest, Associate Mission Director for Development Resources.

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The following reports on related topics are available from CDIE:

A.I.D. MICROENTERPRISE STOCKTAKING

Special Studies

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Taking Stock of A.I.D.'s Microenterprise Portfolio: Background and Conceptual Overview.

A Statistical Look at A.I.D.'s Microenterprise Portfolio.

A.I.D.'s Experience With Small and Microenterprise Projects.

A.I.D. Evaluation Occasional Papers

A.I.D.'s Microenterprise Stock-taking: Malawi Field Assessment, July 1989, No. 20,(PN-ABC-701).

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A.I.D.'s Microenterprise Stock-taking: Guatemala Field Assessment, July 1989, No. 22, (PN-ABC-703).

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