PN ABZ-631
92413

Small and Micro Enterprise Development in Egypt:

Opportunities for Outreach and Sustainability

MAY 1995

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A collaborative research effort between the National Cooperative Business Association and Environmental Quality International, under USAID contract 263-0212-C-00-3101-00

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GLOSSARY OF TERMS

ABA --Alexandria Business Association
APCP - Agricultural Production and Credit Project
ADEW -- Association for the Development and Enhancement of Women
AID -- Agency for International Development (referring to the Washington Headquarters Office)
CID -- Community Initiated Development Project
CEOSS -- Coptic Evangelical Organization for Social Services
CGC -- Credit Guarantee Corporation
CRS -- Catholic Relief Services
CSE -- Credit for Self-Employment and Small Enterprise Program
DANIDA -- Danish International Assistance Agency
ENGO -- Egyptian Non-Governmental Organization
ESED -- Egyptian Small Enterprise Development Project
GOE -- Government of Egypt
GSME -- Growth in Small and Micro Enterprises
IB -- Institution Building
LD -- Loans for Development Program
MIC -- Ministry of International Cooperation
MOSA - Ministry of Social Affairs
NBD -- National Bank for Development
NGO -- Non-Governmental Organization
PBDAC -- Principal Bank for Development and Agricultural Credit
PVO -- Private Voluntary Organization
RCID -- Rural Cottage Industrial Development Project
SBA -- Sohag Businessman's Association
SECP -- Small Enterprise Credit Project
SEDAP -- Small Enterprise Development Association of Port Said
SFVO -- Street Food Vendors Organization
SME -- Small and Micro Enterprise
TI - Office of Trade and Investment
USAID -- United States Agency for International Development (referring to the Cairo Mission)
YES -- Youth Entrepreneurs Society

ACKNOWLEDGEMENTS

The authors would like to thank the many, many people at the National Bank for Development Environmental Quality International, Alexandria Business Association, the Egyptian Small Enterprise Development Project, and USAID for all their help and input into this document

We would like to thank all the NGOs, funding agencies, banks, and consulting firms contacted for this study and their willingness to share information We think that by sharing this type of information we can all help each other design and implement better development programs

It is the hope of the authors that this study will provide input to USAID/Cairo's strategic planning process while at the same time serve the Egyptian SME community as a whole

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EXECUTIVE SUMMARY

Introduction

The Office of Trade and Investment (TI) has been involved in small and micro enterprise (SME) development efforts since 1989 Although various project evaluations have been completed over the last five years, few systematic reviews of the entire SME portfolio have been conducted As such, TI had several questions about its SME programs which centered around issues of outreach and sustainability

Outreach

> What is the range of SME activities funded by USAID/Cairo? What are the geographical and technical areas covered by other donor and NGO SME efforts in Egypt?
>
> What are the areas of SME assistance that fall *outside* current programs? Should the Mission fund new SME activities to address these needs?
>
> In terms of outreach, how do USAID/Cairo's SME efforts compare to other successful SME programs?

Sustainability

> How does the Office of Trade and Investment's "foundation" model compare to its SME funding through the formal financial system?
>
> Should USAID consider alternative vehicles beyond the bank and foundation model?
>
> In terms of sustainability, how do USAID/Cairo's SME efforts compare to other successful SME programs around the world?

These themes are addressed in the following chapters

Chapter I -- addresses questions regarding USAID and other donor SME portfolios and identifies technical and geographic areas of need

Chapter II -- compares TI's two SME models, i e , the foundation and bank models to answer questions of outreach and sustainability

Chapter III -- reviews experiences from eleven successful SME programs with TI's SME projects (e g ABA, ESED, NBD/SECP)

Chapter IV -- provides lessons learned on the use of NGOs and formal financial systems for delivery of credit and technical assistance to small and micro entrepreneurs

SME Needs in Egypt

The SME sector in Egypt is a dynamic field There are scores of donors, consulting firms, and Egyptian non-governmental organizations (ENGOs) implementing programs with different approaches and target groups USAID is known for its large scale credit assistance to small and micro entrepreneurs and maintains the largest SME projects in the country

Many of the other SME efforts in Egypt focus on poverty alleviation and have strong training and technical assistance components Although these programs have broad geographical coverage, most have not reached significant numbers of clients

One of the main findings of chapter I is that access to credit is still one of the major constraints to small and micro entrepreneurs in Egypt Chapter I's preliminary assessment also indicates a range of needs and outstanding issues for the small and micro enterprise field in Egypt

- Continued institutional strengthening of local organizations (ENGOs, PVOs, and Community Development Associations) delivering SME services

- Support for targeted and practical training and technical assistance to entrepreneurs

- Establishment of advocacy groups for small and micro entrepreneurs

- Provision of and access to new technologies for small and micro entrepreneurs

- Encouragement of better working conditions and child labor practices in small and micro enterprises

- Promotion of SME's contribution to the economy (to address growing GOE restrictions on issues such as space, taxation, and regulations)

- Formalization of linkages between SMEs and medium and large firms

In terms of geographical needs, recent data indicates that Upper Egypt has millions of small and micro entrepreneurs who could benefit from some form of SME assistance Major urban areas and the Delta region are other realms of unmet need Cities such as Tanta, Mansura, and Zagazig, as well as their respective governorates of Gharbia, Dakahlia, and Sharkia all offer large untapped markets

The Bank and the Foundation Model

TI's foundation and formal financial institutional (bank) models offer interesting examples of credit programs using different funding vehicles The foundation approach was designed to establish private, non-profit, community based organizations to act as financial intermediaries for small and micro entrepreneurs The bank model has been implemented through the National Bank for Development (NBD) The NBD program has used an NGO-style strategy for reaching entrepreneurs with small, working capital loans

Both models are founded on similar methodologies for reaching small and micro entrepreneurs

Small loan sizes (around LE 2,300)
Loans are used for working capital
Existing businesses are clients
Client groups include informal enterprises
Loan terms average 6-7 months
Few collateral conditions
Hands-on client assistance
Flexibility in loan repayment

Both models have functioned well and maintain high growth rates, strong productivity rates, and sound organizational structures to support sustained delivery of credit services Although each model has had its problems, most of their differences are a result of organizational management rather than approach

Key strengths of each model include

Foundations

* Capacity to provide client level training and technical assistance
* Institutional mandate to deliver credit to small and micro entrepreneurs

NBD

* Capacity to reach large numbers of clients in a relatively short time frame
* Extensive geographical coverage through existing branches

These programs also share outstanding issues including the ability to mobilize savings, leverage funds on a commercial basis, and continued dependencies on external technical assistance

Comparisons with Other Successful International Programs

Chapter III compared the three programs' (ABA, ESED, NBD/SECP) repayment rates, interest rates, borrower growth rates, credit officer productivity, numbers of clients served, and loan sizes with eleven of the most successful programs around the world In most categories TI's programs fair well when measured against other successful SME programs

Repayment Rates

Achieving high repayment rates is usually a necessity to eventually reach program sustainability Many evaluators consider 95 percent repayment rates and above as the minimum standard for all SME projects TI's SME programs have all been able to maintain consistently high repayment rates In 1994, average repayment rates were

ABA	98 %
ESED	94 %
NBD/SECP	99 %

Interest Rates

If a program is to achieve financial independence it must charge an interest rate that allows it to recover costs -- once inflation is considered Successful international SME programs introduced in this report present a wide range of real, effective interest rates ADOPEM in the Dominican Republic has the highest rate with 67 percent while K-REP in Kenya charges -9 percent

Although USAID/Cairo may consider their programs' effective interest rates to be high, once they are adjusted for the country's 12 percent rate of inflation (in 1993 terms) they are similar to those of other programs

Real Effective Interest Rates

- ✔ ABA -- 20 %
- ✔ ESED -- 20 %
- ✔ NBD/SECP -- 29 %

These interest rates have allowed ABA and NBD/SECP to implement credit programs that are currently operational self sufficient ABA's lower real effective interest rate in addition to its smaller loan portfolio have resulted in a longer break even period of 30 months NBD/SECP's larger portfolio and higher interest rates have allowed it to break even in 19 months The case of ESED's inability to reach break even in over 48 months indicates that a sound interest rate policy alone cannot create a financially solvent organization

Borrower Growth Rates

High borrower growth rates demonstrate strong client demand and satisfaction in the types of services provided TI's SME portfolio has a very high borrower growth rate and fairs well compared to other programs around the world

Average borrower growth rates for the programs presented in this study range from 14-120 percent The younger programs (less than five years old) usually maintain higher annual averages of around 70-80 percent TI's programs maintain growth rates above these averages

1994 Borrower Growth Rates
ABA - 138 % annual
ESED - 167 % annual
NBD/SECP - 15 % monthly

These consistently high borrower growth rates are a good indication that TI's programs are providing a needed service to the local community

Productivity

The productivity of loan officers is often considered a good proxy to an organizations' operational efficiency Loan officers are the key to finding new clients, the timeliness of loans disbursed, follow-up, and loan repayment

TI's SME programs all maintain sound borrower/client ratios which compare favorably to even the most successful programs around the world

Program	**Borrower per EO**
ABA	100
ESED	117
NBD/SECP	.99
ADOPEM/DR	74
BancoSol/Bolivia	139
BRI/Indonesia	118
Grameen/Bangladesh	152

Clients Served

TI's SME programs have achieved significant outreach for their early stage of development When measured against other similar initiatives, their range of outreach is comparable For example, two to six year old programs in Africa and Asia are reaching numbers around 10,000-20,000 clients while over the last five years, the TI SME programs have averaged around 15,000 clients served

Cumulative Borrowers, 1994

ABA -- 14,590 (in five years)
ESED -- 9,444 (in four years)
NBD/SECP -- 19,419 (in 18 months)

These numbers are small when compared to the potential market for small scale credit in Egypt Although the exact figures of the Alexandria and Cairo markets are not available, none of TI's programs probably serve more than 1-2 percent of the potential client market for credit This is low compared to market outreach of other successful programs For example, BancoSol reaches about 10 percent of the total market in Bolivia and Actuar reaches around 5-8 percent of the market in Colombia

Loan Size/Loan Terms

Experience indicates that loan sizes do not reflect a program's ability to achieve substantial outreach or sustainability Loan size and loan terms do, however, demonstrate a program's capacity to reach different client groups For example, small loan sizes are considered an indicator of a program's ability to reach the poor Most of the programs discussed in this report maintain average loan sizes of around $200-400 with repayment periods of 4 to 12 months Loan sizes of ABA, ESED, and NBD are fairly high ($700) in comparison

When assessing loan size, a country's economic conditions should also be taken into consideration Comparing loan sizes to GNP per capita is a method often employed For example, FINCA's average loan size of $317 represents only 17 percent of GNP per capita in Costa Rica There are exceptions to small loan sizes in this sample of successful SME programs, including ACEP, BRI, and BKD For example, ACEP's average loan size of $1,645 is well above Senegal's GNP per capital of $720 Another notable exception is Grameen Bank's program whose average loan size of $113 equals Bangladesh's GNP per capita of $110

ABA, ESED, and NBD's loan sizes remain relatively high when appraised by GNP per capita In fact, most of the programs' average loan sizes are above Egypt's GNP per capita of $610 Some experts claim that programs operating in poorer countries tend to serve a more mainstream clientele, whereas programs in better off countries focus more exclusively on the poorer parts of the population[1] While this finding may be true, TI's loan size does exclude many potential clients from participating in its programs

[1] Christen, Robert Peck, et al "Maximizing the Outreach of Micro Enterprise Finance An Analysis of Successful MicroFinance Programs" Prepared by IMCC for CDIE Washington D C USAID, 1994 page 21

Conclusions

This study has provided a profile of small and micro enterprise programs in Egypt It has emphasized issues of outreach and sustainability as key elements of SME programming and suggested that while these characteristics may seem incompatible, this may not be the case

For example, many of the existing needs in Egypt's SME, sector indicated in Chapter I could be addressed through greater efforts of outreach by donors and ENGOs Matters of sustainability also emerge as central to the continuation of donor supported programming Together, these elements strengthen long-term program impact

The number of NGOs and donors working in Egypt has left the country without a uniform approach to small and micro enterprise development Efforts to coordinate this diverse portfolio have been limited Although every donor agency or organization has its area of expertise improved coordination of organizational priorities would better serve Egyptian entrepreneurs

This study's conclusions indicate that the Office of Trade and Investment's small and micro enterprise portfolio has performed well In areas of efficiency and productivity it stands up against the best programs in the world Charging market interest rates and implementing well proven strategies, TI's programs have served a small, but significant community of entrepreneurs in urban areas

TI's SME programs do have several weaknesses regarding outreach and sustainability Concerning sustainability, one of the key weaknesses is their continued dependency on external technical assistance -- which may render them non-sustainable in the long-run In addition their inability to mobilize savings or generate new sources of funds for operations will have important implications for the long run viability of these projects These programs' inability to attain meaningful outreach -- in terms of numbers or diversity of clients served -- will also weaken their overall performance and sustainability

The conclusions reached in this report will hopefully be useful not only to USAID but other donors and NGOs as they identify new projects and programs for small and micro entrepreneurs in Egypt The range of needs is broad and can be met through different levels of activities including

- Greater attention to business formation activities
- Support for existing training and technical assistance efforts
- Strengthening Egyptian NGOs currently serving the SME community
- Developing a strategy to encourage the participation of Egypt's formal financial system in small and micro enterprise lending

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Outreach

- What is the range of SME activities funded by USAID/Cairo? What are the geographical and technical areas covered by the other efforts of donor and NGOs in SME projects in Egypt?

- What are the areas of SME assistance that fall *outside* current programs? Should the USAID Mission fund new SME activities to address these needs?

- In terms of outreach, how do USAID/Cairo's SME efforts compare to other successful SME programs?

Sustainability

- How does the Office of Trade and Investment's "foundation" model compare to its SME funding through the formal financial system?

- Should USAID consider alternative vehicles beyond the bank and foundation model?

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These are the themes discussed in the following chapters

Chapter I -- addresses questions regarding USAID and other donor SME portfolios and identifies technical and geographic areas of need

Chapter II -- compares TI's two SME models, i e , the foundation and bank models to answer questions of sustainability and outreach

Chapter III -- answers questions of outreach and sustainability in terms of experiences from other country SME programs by comparing eleven successful SME programs with TI's SME models (e g , ABA, ESED, NBD/SECP)

Chapter IV -- provides lessons learned on the use of NGOs and the formal financial system to delivery credit and technical assistance to small and micro entrepreneurs

CHAPTER I

EGYPT'S SMALL AND MICRO ENTERPRISE DEVELOPMENT PROGRAMS

This chapter presents an overview of USAID/Cairo's small and micro enterprise (SME) development programs along with other donor and PVO/NGO SME activities in Egypt It examines major client groups, geographical coverage, and assistance vehicles for these programs In conclusion, a profile of existing technical, geographic, and human resource needs for future SME initiatives is suggested

USAID'S SME PORTFOLIO

USAID/Cairo funds a variety of small and micro enterprise development programs, many of which are funded through the Missions' Office of Trade and Investment (TI) However several significant programs are supported by the Office of Human Resource Development and the Office of Agriculture Table 1-1 summaries the major characteristics of these programs Annex A gives a complete description of each project including achievements to date

Program Coverage

To get a better sense of the range and size of USAID's programs, the following two sections present an overview of its geographical coverage and program outreach

Geographical Coverage

USAID's SME initiatives operate in 20 out of 26 governorates in Egypt, including the two major cities of Cairo and Alexandria and several secondary cities such as Port Said and Assuit Upper Egypt and the Delta are mainly assisted through the PBDAC program ranging from Kafr El Sheikh and Sharkia (in the Delta) to Sohag and Qena (in Upper Egypt) Table 1-2 is a list of the governorates of Egypt, with the shaded governorates marking USAID/Cairo's current SME related activities

TABLE 1-1

SUMMARY OF USAID SME PROGRAMS

PROGRAM	Project Life	USAID Office	Total Funding (mill)	Client Group	Delivery Mode	Geog Cover-age	Avg Loan Size (LE)
APCP	'86-96	AGR/ ACE	$309	Rural Clients/ Women	Credit TA	Rural	1000-5000
PVO UMRELLA	'92-96	HRD	$12 5	Poor/ Disadv	IB	Rural & Urban	
RCID			$ 719	Rural Women	IB	Alex	3000
CID			$3 9	ENGOs PVOs	IB & Credit (lmt)	Aswan Qena Sohag Fayoum	500
SBA			$ 233	Existg SMEs	IB	Sohag	1000-10000
GSME	'94-99	HRD		Existg SMEs	Credit	Sohag Qena	2500-10000
SECP	'92-95	TI	$20	Existg SMEs	Credit	Cairo	2668
SME	'89-96	TI	$36	Existg SMEs	IB & Credit	Alex Cairo Pt Said Assuit	2800
CGC	'91-96	TI	$2 + LE 60 mill	Medium Business	Credit	Rural & Urban	50 K - 700 K

Abbreviations

- APCP -- Agri Production & Credit Project
- CGC - Credit Guarantee Corporation
- CID - Community Initiated Dev Project
- IB - Institution Building
- GSME - Growth in SME
- SBA - Sohag Businessmen's Association
- SECP - Small Enterprise Credit Project
- SME - Small Enterprise Project
- RCID - Rural Cottage Industrial Development Project

TABLE 1-2
Geographical Coverage

Alexandria	Kaloubia
Assuit	Matrouh
Aswan	Menia
Behera	Menoufia
Beni-Suef	New Valley
Cairo	North Sinai
Dakahlia	Port Said
Damietta	Qena
Fayoum	Red Sea
Giza	Sharkia
Gharbia	Sohag
Ismalia	South Sinai
Kafr El-Sheikh	Suez

As shown in Table 1-2, USAID/Cairo's SME portfolio includes rural and urban client groups The largest rural SME initiative is implemented through the Principal Bank for Development and Agricultural Credit (PBDAC) called the Agricultural Production and Credit Project (APCP) This project provides loans to rural clients in 450 villages in 14 governorates across Egypt Other rural initiatives include the Rural Cottage Industrial Development Project whose capacity building assistance supports the Alexandria Association of Home Economics to promote rural women's enterprise development

USAID's largest SME urban programs have been implemented in Cairo The Office of Trade and Investment (TI) has undertaken two major initiatives in Cairo The first program began in 1989 with the founding of the Egyptian Small Enterprise Development Project (ESED), a private, non-profit foundation that provides non-collateralized loans averaging around LE 2,500 to existing small and micro enterprises in trade, services, and manufacturing The second initiative in Cairo has been implemented through the National Bank for Development (NBD) Launched in 1992, this formal financial program is called the Small Enterprise Credit Project (SECP) and operates with a target group and methodology similar to the ESED program

The TI Office also funds a credit program in Alexandria run by the Alexandria Business Association (ABA) The ABA program began in 1990 and currently provides the city with its largest credit program for small and micro entrepreneurs, reaching over 14,000 clients in its five years of operation

Program Outreach

One measure of a successful SME portfolio is its outreach - in terms of numbers and depth of services, i e , poverty orientation USAID/Cairo's SME programs have reached a sizeable number of clients through its credit and institution-building efforts Below are a few highlights depicting the Mission's efforts

✓ Numbers of Clients ✓

- ✓ APCP has reached 2 8 million rural clients
- ✓ CARE's CID Project has reached 26,000 clients
- ✓ NBD has reached 20,000 entrepreneurs
- ✓ SME Project clients include ABA with 14,590, ESED with 9,444, and SEDAP 150 clients
- ✓ CGC has guaranteed 5,000 loans to small entrepreneurs and medical practices

USAID's SME programs have a more mixed picture when factors of hard to reach or poorest of the poor are considered For the most part, the projects of the Office of Trade and Investment have a client base of only established businesses and do not extend loans to unskilled workers or new graduates The Credit Guarantee Corporation project is an exception as they guarantee loans to start-up and existing businesses, however, their loan sizes are quite large starting at LE 50,000

PBDAC's USAID-funded APCP program works exclusively in rural areas Until recently, most of PBDAC's loans were made to farmers for agricultural or agricultural related activities In 1993, the APCP program began to diversify the Bank's lending beyond agricultural production and developed a program to mobilize rural savings In 1995, APCP introduced a pilot initiative in six village banks to lend non collateralized loans exclusively for income generating activities

APCP may also run one of the largest credit program for women in the country Since 1991 APCP has implemented a women's credit program, which began in Kaloubia and is now operating in 14 governorates in 342 villages The entire lending portfolio is LE 123 million exclusively for income generating activities such as small livestock production, food processing, and arts and crafts Loans are made at market interest rates with most loans averaging around LE 2,000 As of 1995 this WID initiative has been very successful, reaching around 120,000 women borrowers at a near 100 percent repayment rate

USAID's Office of Human Resource Development (HRD) also funds small and micro enterprise-related programs Most of these programs are funding through HRD's PVO Umbrella Project and provide grants for institutional strengthening and revolving loan funds These efforts have attempted to work through existing local organizations and have had a significant grassroots impact For example, CARE has received a grant through the PVO Umbrella project to assist ENGOs and Community Development Associations CARE has been able to reach more than 25 000 poor clients through this institution building and small scale loan program

Technical Assistance

USAID's larger SME programs focus on credit delivery, with significant funds for institutional strengthening for the implementing organizations Capitalization funds are often quite large for programs such as PBDAC's APCP which has included a $275 million capital component[2] The National Bank for Development's SECP has received $8 9 million for its capital component while the four foundations, under the SME Project, each have access to an $8 million collateral fund that is held in US dollars and borrowed against in Egyptian pounds The PVO Umbrella Project provides very small amounts of money to launch its revolving loan funds

In addition to credit delivery, USAID's SME efforts have supplied extensive funding for institution-building Most of these efforts target the implementing institution to strengthen its management and organizational structure Assistance to PBDAC has included a $34 million grant to provide technical assistance, training, and equipment The provision of full banking services, an efficient loan approval system, and increased extension services to rural clients is fostered through this assistance NBD's SECP and the SME project's four foundations also include a substantial institution-building component to strengthen the implementing organizations

Institution-building is also the major thrust of the Human Resources Division PVO (Umbrella) Development Project This project's main objective is to strengthen the capacity of Egyptian NGOs (ENGOs) and Community Development Associations (CDAs) that are working at the grassroots level The projects in this portfolio include a notable activity by CARE called the Community Initiated Development (CID) Project To date, CID has assisted approximately 130 ENGOs in the governorates of Aswan, Qena, Sohag, and Fayoum acquiring the skills needed to plan and manage community development activities A major focus of this project has been to assist ENGOs in establishing revolving loan funds for low-income members of the community To ensure these credit initiatives become self sustaining, ENGOs have received training in community organization, local resource mobilization, project planning, implementation, and monitoring and evaluation.

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[2] USAID provides grants in tranches in dollars to the Government of Egypt in support of agreed-upon agricultural policy changes The equivalent amount in Egyptian pounds is subsequently made available to PBDAC to capitalize its SME credit component

OTHER DONOR AND NGO SME PROGRAMS

Egypt's SME sector is a dynamic and growing field SME initiatives are currently being funded and implemented by a wide range of PVOs, ENGOs, and donors Table 1-3 summaries these programs and their major characteristics Annex A details program objectives and achievements

These donor efforts cover a broad spectrum of program styles, sizes, and methodologies The sections below describe them in terms of program coverage (geographical and project outreach) and the type of technical assistance provided

Program Coverage

Geographical Coverage

Upper Egypt represents some of the poorest and neediest governorates of the country Many organizations have selected to work in this region to reach client populations representing the poorest of the poor Currently, there are about 26 SME projects actively disbursing loans and providing technical assistance in the governorates of Upper Egypt as detailed below (The geographical and technical coverage of these programs is detailed in Table 1-3)

Assuit - 6 projects
Aswan - 6 projects
Qena - 6 projects
Sohag - 6 projects
Menia - 1 project
Beni Suef - 1 project

One of the institutions with the largest geographical coverage is the Social Fund The Social Fund's major small and micro enterprise program is called the Enterprise Development Program The Enterprise Development Program works through a variety of Egyptian banks, non-governmental organizations, and local institutions to assist clients in Upper Egypt (Assuit, Aswan, Qena, Sohag, and Menia), the Delta (Tanta and Ismalia), Cairo and Alexandria

Several donors also work in the larger urban centers Cairo maintains four SME efforts, most of these being small, targeted credit and technical assistance programs serving one particular neighborhood Alexandria also houses several SME programs including assistance from the Social Fund and UNICEF

TABLE 1-3

SME PROGRAMS IN EGYPT

PROGRAMS	YEARS OF OPERATION	FUNDING SOURCE	GEOGRAPHICAL COVERAGE	CLIENT GROUP	SECTORS SERVED	TYPES OF BUSINESS	INTEREST RATES	LOAN SIZE	TECHNICAL ASSISTANCE	CURRENT DONOR FUNDING
WOMEN'S INITIATIVE FUND	1990 present	CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA)	Qena Governorate	Low income women	Trade Production Services	Pre formation Existing/ Expanding	NBD - 18% *New activities* 12% PBDAC - 14%	LE 250 - 2500 LE 50 000 200 000 LE 200-5,000	YES	YES
ADEW	1987 Present	FORD FOUNDATION	Manshiet Nasser	Low income urban women who are heads of households	Trade Production Services	Pre formation Existing/ Expanding	18%	LE 150 400	YES	NO
CEOSS i) CSE ii) LD	CSE 1992 LD 1983	National Council for Negro Women	Minia Assuit metropolitan Egypt	Educated unemp entrepreneurs Low income self employed business	Trade Services Production	Pre formation Existing/ Expanding	2% less than market	CSE LE 1500 15000 LD LE 1500	YES	YES
SFVO	1986	CRS FF	Minia Sohag & Cairo	Street Food Vendors	Production	Existing/ Expanding	24%	Max loan LE 800 1000	YES	YES
ENTREPRISE DEVT. PROGRAM	1990 Present	SOCIAL FUND FOR DEVELOPMENT (SFD)	Assuit Aswan BeniSuef Cairo Tanta Qena Sohag Ismai Mansoura Minia Damanhour	Displaced Public Enterprise Workers Gulf Crisis Returnees New Graduates Existing Small Entrepreneurs Unemployed Women	Production	Pre formation Existing/ Expanding	12%	Individuals LE 35000 50000 Partnership LE 200 000	YES	YES
RURAL WOMEN PROJECT	1981 82 expansion in 1985	MOSA UNICEF	Assuit Sohag Qena Aswan El Beheira	Rural Women	Trade Production	Pre formation	10%	LE 205	YES	NO
YES	1988 Present	MIC SFD	Cairo	University Graduates	Production	Pre formation	12%		YES	YES
WOMEN'S CREDIT FUND	1993 Present	UNICEF	Alex Cairo Qena Aswan Assuit Sohag	Disadvantaged Women Local Institutions	Trade Production Services	Pre formation Existing	29 75%	LE 100 2500	YES	YES
NATIONAL BANK FOR DEVT	1989 - present 1992 1992 1995 1988 - 1994	FF UNICEF CIDA DANIDA	Minia Qena Governorate Rural Qena Gov Rural areas Sharkia, Damietta	Urban SMEs Rural Women Women Informal SMEs	Trade Production Services	Pre formation Existing/ Expanding Existing/Expanding	Market Rates	LE 250 10 000	NO NO	YES NO
PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT	pre-1990 1992 Present 1993 Present 1994 - Present 1995 - Present	FF and PBDAC UNICEF SOCIAL FUND SOCIAL FUND SOCIAL FUND SOCIAL FUND	Damietta Fayoum, BeniSuef G Rural and Urban Governorates Aswan North Sinai	Household women Rural Women New Graduates anyone suffering from privatization	Trade Production Services Livestock Livestock	Pre formation Existing/ Expanding	Market Rates 4% 12% 9% 8%	Maximum LE 2 000 LE 200 25000 LE 200 25000 LE 900 - 15000 LE 500 - 15000	NO YES YES NO NO	NO NO YES
SMALL SCALE INDUSTRIES	March 95	DANIDA	Aswan and Upper Egypt governorates	New Enterprises Women	Production Services	Pre formation Existing/ Expanding	Market Rates	LE 25000 100000 (long term) LE 1000 2500 (short term)	YES	YES
COMMUNITY INITIATED DEVT. (CID)	1990 93	USAID CARE (USA)	Aswan Qena Sohag Fayoum governorates	Households below GOE poverty line Women	Production Trade Services	Pre formation Existing/ Expanding	15% 21% on fixed balance	Avg LE 500 Max indiv LE 1500 Max group LE 3000	NO	NO

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SFVO Street Food Vendors Organization
YES Youth Entrepreneurs Society
DANIDA Danish International Development Assistance
LD Loans for Development Program

NBD National Bank for Development
PBDAC Principal Bank for Agricultural Credit
MOSA Ministry of Social Affairs
MIC Ministry of International Cooperation
CSE Credit for Self Employment and Small Enterprise
FF Ford Foundation

Program Outreach

Many other donor SME projects in Egypt target disadvantaged client populations Below is a sample of major client groups

- New Graduates (Social Fund for Development and YES)
- Gulf crisis returnees (Social Fund for Development and CRS's program in Assuit)
- Public enterprise workers displaced due to the structural adjustment program (Social Fund for Development)
- Women heads of households (ADEW, CRS's Women Household Loan Program, UNICEF's Women's Credit Fund Program and the Rural Women's Program, and CIDA's Women's Initiative Fund)
- Street Food Vendors (Street Food Vendors Organization Project)

Most of the projects described in Table 1-3 target fairly poor clientele with little or no previous business skills In fact, out of the twelve programs described, eleven are designed to assist in business formation in addition to business expansion By assisting clients with no previous business skills these programs are able to have a significant impact in terms of job creation and outreach to the unskilled, unemployed poor

Because there is an emphasis on business creation, loan sizes tend to be larger than what could be considered appropriate for poverty alleviation programs For example, DANIDA's project in Aswan will provide long-term loans ranging from LE 25,000 to 100,000, the Women's Initiative Fund's business formation component provides loans between LE 50,000 to 200,000, and the Social Funds loans range from LE 35,000 to 50,000

Beyond the business formation efforts, most of the other donor programs maintain very small average loan sizes in an attempt to reach the poor and disadvantaged For example, the Street Food Vendors Association loans range from LE 800 to 1,000, UNICEF's Women's Credit Fund has loan sizes of LE 100 to 2,500, and PBDAC's micro enterprise loan program averages around LE 2,000

In addition to reaching poor clientele, many of these programs also target women Including PBDAC's WID project, seven programs presented in Table 1-3 exclusively lend to women These include efforts in Upper Egypt such as UNICEF's Rural Women's Project in Assuit, Sohag, Qena, and Aswan UNICEF also funds the Women's Credit Fund that provides loans to women in Alexandria, Cairo, and Upper Egypt Another urban based project is the Association for the Development and Enhancement of Women (ADEW) which provides small loans (LE 150 - 400) to women in a poor Cairo neighborhood

It is difficult to quantify the number of clients served for such a diverse array of programs A very rough estimate indicates that less than a five percent of potential SME clients are assisted by current programs, indicating a continued need for credit assistance throughout the country

Technical Assistance

Most of the donor, PVO, and ENGO SME programs in Egypt have a credit component Few adhere to the minimalist credit approach adopted by USAID, however, and have used a more comprehensive approach to SME development that includes training and technical assistance to clients

Most of the programs that offer credit assistance provide non-collateralized loans Disbursement is based on the feasibility of the project, job opportunities created by the project, and personal recommendations Most loans are for short term working capital and average around LE 1,350 Targeted programs (for women, street food vendors, and others) tend to be much smaller These programs usually offer market determined interest rates though several maintain subsidies

Organizations that work with less-skilled individuals or provide assistance in business creation tend to provide a wider range of training and technical assistance to clients For example one of the components of CIDA's Women's Initiative Fund (WIF) is called New Economic Activities (NEA) NEA attempts to expand income generating opportunities for women by assisting those with little or no entrepreneurial experience To support these efforts, NEA provides extensive technical assistance and training to clients establishing new businesses Results have been impressive with over 100 new, women-owned enterprises created through program support

At the same time, the difficulties in implementing a job creation program though business formation must be considered These types of programs can be expensive and difficult to manage as can be seen from administrative and technical problems experienced by the Social Fund's Enterprise Development Program The Social Fund's Enterprise Development Program has attempted to support business formation through credit and technical assistance packages However, many of these efforts have been plagued by implementation problems and a lack of technical expertise resulting in clients attaining lower than expected levels of performance

AREAS OF NEED

The sections above have provided descriptive information on existing SME programs in Egypt Based on this data, a variety of technical and geographical needs present themselves and are described below

Geographical Needs

The vast majority of SME projects have been located in Upper Egypt Once the PBDAC and the Social Fund programs are included, almost every governorate maintains at least one small and micro enterprise initiative In terms of clients reached, however, the numbers are fairly small compared to demand For example, one 1990 estimate suggested that there are one million small scale enterprises in secondary and rural cities of Egypt [3] Another study completed in 1984 indicated that one out of every 15 persons in rural and secondary cities were involved in some form of small scale manufacturing [4] These figures, along with more recent preliminary data, indicate that there are literally millions of small and micro entrepreneurs in rural and secondary cities that could benefit from some form of SME assistance

There is also an unmet demand for credit in major urban areas and the Delta region The Delta is a vibrant and growing region that has been historically devoted to small and micro enterprises Although Alexandria has been targeted by several SME programs, including a large USAID initiative, the rest of the Delta region remains basically unserved

Cities such as Tanta, Mansura, and Zagazig in the governorates of Gharbia, Dakahlia, and Sharkia, respectively all offer huge markets for future SME activities

The Canal Cities are another area that has received limited SME assistance Although a USAID program was recently launched in Port Said, the cities of Suez and Ismalia are still unserved by SME credit assistance

UNTESTED WATERS
Gharbia, Ismalia, Dakahlia, Suez, Sharkia

Time and resources would be well spent to gather further data on the small and micro enterprise needs of the Delta and Canal areas These locations offer a large market for credit-type programs, and further research may also demonstrate more comprehensive technical assistance needs

Technical Needs

Findings from various studies indicate that access to credit is still one of the major constraints facing small and micro entrepreneurs in Egypt For example, a survey of 323 SMEs in 1992 revealed that over 95 percent of male and female respondents listed some type of working capital as either the most important or second most important constraint faced at business start up [5] Another 1992 survey of the Qena governorate showed that 62 percent of respondents (388 out of 620) expressed an interest in having access to credit to increase generated income[6] of the

[3] John Gardner and Jack Proctor Technical Assessment Rural Small Scale Enterprise Pilot Credit Activity in Egypt Washington, D C USAID, 1990 page 10

[4] Stephen Davies "Small Enterprises in Egypt A Study of Two Governorates" Michigan State University Washington, D C USAID, 1984

[5] Weidemann, Jean Egyptian Woman and Micro Enterprise The Invisible Entrepreneurs Washington, D C USAID, 1992 Page 23

[6] SPACC Market Survey for Credit Demand among Women in Selected Areas of Qena Governorate Cairo, Egypt Women's Initiative Fund, 1992

family, the majority of respondents noted that working capital would be the primary use of funds[7]

These surveys clearly illustrate the unmet demand of continued credit services for small and micro enterprises Regardless, current assessments of Egyptian SMEs have uncovered vital issues that cannot be addressed solely through credit-only programs

The following ideas reflects some of the topics being discussed and debated in Egypt's SME community They represent two major areas of need (1) at the organizational level, and (2) at the enterprise level

Institution Building

A range of organizations provide assistance and services to small and micro enterprises in Egypt These include ENGOs, CDAs, PVOs, and consulting firms Many of these organizations still need assistance to develop sound management systems, organizational procedures, personnel policies, and efficient credit and technical assistance delivery systems

Technical Assistance

Lack of access to technical assistance continues to be a major constraint to business expansion Technical assistance is needed to gain access to marketing techniques, information on suppliers, government regulations, taxes, availability of skilled labor, as well as quality control issues

Advocacy

Small and micro entrepreneurs have limited organizational representation to inform or influence decision makers Issues such as land use planning are prime examples of the types of issues that need to be resolved through community and business participation. Law 32 of 1964, which tightly controls the formation and operation of NGOs, needs to be amended to allow SMEs to form representative NGOs.

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[7] Furthermore, the same survey revealed a significant higher interest in urban than rural districts, 66 percent and 49 percent respectively

New Technologies

Egyptian small and micro enterprises are rarely exposed to new ideas, concepts, or technologies It is through the application of simple but efficient technologies that SMEs will be able to expand and gradually compete with larger firms By providing SMEs with access to new technologies through training, technical assistance, and up-to-date equipment, these firms will gain the capacity to grow and expand into new markets

Working Conditions

The working environment in Egyptian small and micro enterprises is usually very poor Conditions for workers often include an absence of social insurance, long working hours (frequently 50 hours or more), and lack of sanitary conditions and safety regulations Poor working conditions limits the efficiency of workers and the quality of production. These issues need to be addressed through the application of new (enforceable) regulations, training, and technical assistance.

Child Labor

Micro and small scale enterprises in Egypt are known for their use of child labor Although this is often considered part of the apprenticeship system, taking children away from educational activities before secondary school impacts negatively on society, producing an illiterate work-force More research needs to be done to assess viable alternatives and strategies in this area

Training

Lack of skills to track simple account transactions and basic business management skills limit Egyptian entrepreneurs' ability to adjust to changing market conditions Although seldom perceived as a need by entrepreneurs, deficiencies exist that could be addressed through specialized training programs.

Linkages

Linking medium and large scale firms with small firms (as feeder industries) could provide a catalyst to SME growth in Egypt. At present, only a quarter of all large firms subcontract (half for medium sized firms), and "backward" linkages (i e , including locally made content) by foreign companies assembling in Egypt have developed below expectations [8] Further research and analysis should be conducted to evaluate the potential of developing future "linkage" programs for Egyptian SMEs.

Lack of Space

Small and micro enterprises face space constraints when maintaining and expanding their current operations This problem is exacerbated in urban areas where micro enterprises can be loud, dirty, and disruptive, leading the government to push enterprises out of centralized locations to more remote areas where access to suppliers and markets is more difficult. An example of this type of action taken by the GOE is the forced displacement of small and micro enterprises in Alexandria and Sohag

Finally, all of the above issues must be resolved with solutions that are designed, implemented, and evaluated in a participatory manner Too often SME efforts in Egypt have been designed and implemented with little client participation Although more time consuming, client participation has proven to be the most effective way to develop sustainable programs that will achieve long term beneficiary impact

[8] World Bank Private Sector Development in Egypt The Status and the Challenges Cairo Egypt World Bank 1994 page 26

CONCLUSION

Although mostly descriptive in nature, this chapter has summarized many of the leading SME activities in Egypt In summary

- USAID's SME programs have both urban and rural coverage PBDAC's work reaches over 2 8 million rural clients while TI's SME efforts have primarily served urban areas including Alexandria, Cairo, and Port Said The focus of USAID's SME efforts has been the delivery of credit and the institutional strengthening of implementing organizations

- NGO and other donor SME initiatives in Egypt are highly concentrated in Upper Egypt Many target female entrepreneurs and several support new business formation Most of the SME projects contain a credit component, however, there is usually an emphasis on training and technical assistance

In terms of geographical needs, recent data indicates that Upper Egypt has millions of small and micro entrepreneurs that could benefit from some form of SME assistance Major urban areas and the delta region are other sites of unmet need Cities such as Tanta, Mansura, and Zagazig all offer large markets as well as their respective governorates of Gharbia, Dakahlia, and Sharkia

Although donor programs cover a great deal of the country geographically, most have not reached significant numbers of clients Current SME programs probably serve less than five percent of the country's entire client market This figure, together with recent data on current demand for credit assistance, indicates a tremendous need for additional SME services in Egypt Further research and analysis must be conducted to determine the level of demand and need for training and technical assistance at the enterprise level

One of the main findings of chapter I is that access to credit is still one of the major constraints to small and micro entrepreneurs in Egypt Chapter I's preliminary assessment has also indicated a range of outstanding issues for the small and micro enterprise field in Egypt

- Continued institutional strengthening of organizations (ENGOs, PVOs, and Community Development Associations) delivering SME services

- Targeted and practical training and technical assistance to entrepreneurs

- Establishment of advocacy groups for small and micro entrepreneurs

- Provision of and access to new technologies for small and micro entrepreneurs

- Encouragement of better working conditions and child labor practices

- Promotion of the contribution SME makes to the economy (to address growing GOE restrictions on issues such as space, taxation, and regulations)

- Formalization of a linkage between SMEs and medium and large firms

This chapter serves as a starting point to understand the range of SME activities in Egypt and provides a foundation to discuss the technical content introduced in the following chapters

CHAPTER II

USAID'S SME FUNDING VEHICLES:
The Foundation Model and
The Formal Financial Institution Model

INTRODUCTION

This chapter examines the two SME models funded by USAID's Office of Trade and Investment the foundation and formal financial institution (or bank) models It is not an evaluation of the two models but rather a comparison of approaches

The comparison will be based on the major themes of this paper outreach and sustainability Recent evaluations of successful small and micro enterprise programs have documented the linkage between program sustainability and outreach [9] The conclusion was made that SME credit organizations must reach a substantial number of clients if they are to achieve organizational and financial sustainability To discusses this and other issues, this chapter will be presented in the following sections

OUTREACH
Scope and Scale
Levels of Poverty
Gender Issues

SUSTAINABILITY
Financial
Organizational

A final section will outline key strengths and weaknesses of each model, and a conclusion provides recommendations for future SME programming

A caveat must be given regarding the selection of NBD's SECP program in Cairo While SECP has only two years of lending history, NBD has had experience implementing other SME pilot initiatives in Menia, Sharkia, and Damietta since 1989 This experience, in addition to SECP's urban focus and minimalist credit approach, allowed credible comparisons to be made between the two models

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[9] See 1994 IMCC Study entitled "Maximizing the Outreach of Micro Enterprise Finance An Analysis of Successful MicroFinance Programs"

Background

In the late 1980s, USAID's Office of Trade and Investment launched several new efforts to target small and micro enterprises in Egypt One model was developed that would establish private, non-profit NGOs, run by a Board of Directors from the local business community The second model works through Egypt's formal financial system to disburse credit to small and micro enterprises

The NGO model was instituted in 1990 with the funding of the Alexandria Business Association (ABA) to begin a small and micro credit program The following year another foundation was opened in Cairo called the Egyptian Small Enterprise Project (ESED) In June 1994, a foundation was established in Port Said which followed the same approach These efforts have all been funded through TI's Small and Micro Enterprise (SME) Project

The foundations act as intermediaries to provide small, working capital loans to entrepreneurs They have been endowed by USAID with a US dollar collateral fund and borrow Egyptian pounds from local banks against this fund which, in turn, is used for loan disbursements

The formal financial institution model began operations through a grant to the National Bank for Development (NBD)[10] A pilot effort began in 1989 to inaugurate small and micro enterprise lending through NBD branches in Sharkia and Damietta[11] Subsequently, a grant was made to NBD to support SME services in thirteen branches throughout Cairo

To the casual observer the foundation and the NBD programs might appear quite different A closer comparison reveals that each employ very similar methodologies Box 2-1 outlines a few major characteristics of each program

Box 2-1
Comparable SME Methodologies

*Small loan size (around LE 2,300)
*Loans for use as working capital
*Clients are existing businesses
*Client group includes informal enterprises
*Loan terms average 6 to 7 months
*Few collateral conditions
*Hands-on client assistance
*Flexibility in loan repayment

[10] NBD operates as a private, commercial bank although there is partial government ownership

[11] NBD also received a grant from the Ford Foundation in 1989 to provide credit to small and micro enterprises in Menia

These program characteristics reveal that the "bank" model has followed a typically NGO-style approach to project implementation One of NBD's main traits is serving clients in the field through a high level of client-credit officer interaction Its SME lending units have been established independently from the bank, new staff have been hired and trained, and operations have been conducted separately from the bank's commercial activities SME branch managers and many assistant managers are official bank staff but for the most part, SME staff have been new to the bank and trained with a hands-on approach to client interaction

All of the programs have been operating successfully and are growing at an adequate level Albeit the ESED and SECP efforts are both based in Cairo, the market is far from saturated and there remains enormous room for growth

The sections below discuss several issues that, when taken together, provide a useful illustration of the operation of the two models and their potential for meeting the changing needs of small and micro enterprises in Egypt Table 2-1 presents a comparison of a several program characteristics

OUTREACH

The issue of outreach is central to assessing any small and micro enterprise credit project Outreach has a variety of levels, including the number of clients served (scope and scale), the depth of outreach (level of poverty), and the capacity to reach women -- often among the most disadvantaged in society and the most difficult to reach through credit services

➔ *Scope and Scale*

The number of clients reached by the bank and foundation models is still very small For the 1993-1994 period, their total number of borrowers was around 31,000 In cities with populations of five and fifteen million, respectively, Alexandria and Cairo have a huge unmet demand for credit In percentage terms, ESED, SECP, and ABA are probably reaching less than one percent of the small and micro enterprise client markets of these cities

Number of Borrowers 1993-1994

ABA	6,649
ESED	4,824
NBD/SECP	19,419

USAID TI/FI SME PROGRAMS

TABLE 2-1 JULY 1993 - 1994

PROGRM	Total Number of Borrowers	Average Growth in Borrowers (%)	Total Amount Disbursed (million LE)	Average Loan Size (LE)	Delinquency Rate (%)	Loan Term (Average Repayment Period) (mths)	Cost Per Loan Disbursed (LE)	USAID Funding for Operational Costs (million LE)	USAID Funding for Capitalization (million)	Time to reach break even (mths) **
ABA	6649	138 28 (annual)	63 514	2598	1 74	7	138	1 2	$5 1	30
ESED	4824	167 48 (annual)	19 19	2940	13 *	7	281	3 5	$3 2	48 +
NBD/ SECP	19419	15 44 (monthly)	77 675	2268	0 31	6	208	9 5	$8 9	19

* ESED has never implemented a loan write-off policy, making its delinquency rate fairly high
** Break even numbers reflect total program life spans (including the cost of funds)

Although both models have the capacity to reach more clients the NBD program has been able to serve more clients in only eighteen months of operation compared to the more established foundation programs This is partially due to the size of the USAID grant and the subsequent numbers of extension officers the Bank was able to train and hire [12] The bank model's capacity to reach large numbers in a relatively short period of time provides an indication as to the scope and scale of NBD programs in Upper Egypt and other future target areas

After more than four years, the foundation programs currently have the ability to expand their client outreach The initial two or three years of operation, nevertheless, was a critical period for the foundations to test their approach, establish a client group, and implement an efficient credit loan system The next five years will be a time of organizational strengthening and client expansion

➔ *Levels of Poverty*

The *types* of clients reached is an vital ingredient of outreach The question must be asked Is the program reaching the poor?

It is difficult to assert unequivocally that a program reaches the poor In the case of SME credit programs, one measure has been to use the size of loans disbursed as an indicator It is generally believed, through the observation of existing programs, that programs offering very small loans serve very poor clients and that larger loan sizes correlates with clients who are less poor [13] The criteria given by USAID/Washington has been to maintain loans below $300 to ensure the truly poor sector of the population is reached

The models funded by TI/FI do not follow this approach and have not focused exclusively on poverty alleviation Their efforts have supported pre-existing businesses with working capital loans, averaging around $700 Compared to other small and micro credit programs around the world, this average loan size is quite high

Another way to evaluate loan sizes is to compare them to per capita income This was done in the IMCC study to enable a truer country-level perspective, i e , comparing loan sizes to the wealth of a country

In the case of Egypt, both models' average loan size of $700 is larger than the annual per capita income ($610) This compares poorly to other SME credit programs whose loan sizes represent much smaller percentages of GNP per capita For example, Actuar's average loan size ($338) is 26 percent of per capita GNP in Colombia ($1,260), FINCA's average loan size of $317 represents only 17 percent of GNP per capita in Costa Rica ($1,850) BRI's program comes

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[12] NBD has 132 extension officers while ABA has 93 and ESED has 68

[13] Christen, Robert Peck, et al "Maximizing the Outreach of Micro Enterprise Finance An Analysis of Successful MicroFinance Programs" Washington, D C USAID, 1994 page 9

closest to the Egypt models, whose average loan size of $494 constitutes 81 percent of GNP per capita in Indonesia ($610)

Notable exceptions to these small percentages include Grameen Bank in Bangladesh ACEP in Senegal, and BKD in Niger As will be elaborated in the following chapter, these programs have established markets for much larger loan sizes that are equal to or larger than their countries' respective GNP per capita

➔ Gender Issues

Gender issues continue to be a topic of discussion for all credit programs around the world The two models offer little conclusive evidence about which approach may have a greater capacity to reach female entrepreneurs Neither model maintains a significant number of female extensive officers[14] and female clients encompass around 10-12 percent of the loan portfolios

TABLE 2-2

Gender Characteristics
1994, Cumulative

PRG	Number of Loans Disbursed to Female Entrepreneurs	Value of Loans Disbursed to Female Entrepreneurs (LE)	Average Size of Female Loans (LE)	Average Size of Male Loans (LE)
ABA	3279	6 million	1841	2598
ESED	726	2 million	2885	2940
NBD/ SECP	4002	7 8 million	1970	2268

Note These figures reflect total cumulative figures since 1991

[14] Female Extension Officers, by organization NBD/SECP 3, ABA 7, ESED none

Table 2-2 presents gender information for both programs An interesting comparison is the average loan size between men and women Although there are various reasons why a female client may receive smaller loan sizes, averages should be comparable across genders The data presented in Table 2-2 shows that ABA, ESED, and SECP provide loans to females that are of similar size to men, ABA's loans to females are the smallest, averaging 30 percent less than loans to men

In general, the performance of the models is poor and considerable room for expansion exists Findings from recent surveys of female entrepreneurs in Egypt indicate an unmet demand for credit services For example, a 1992 survey of male and female entrepreneurs found 89 percent of females noting working capital as their most important business need [15] Most females entrepreneurs, however, run business from their homes and have limited access to even informal systems of credit

These characteristics of Egyptian women entrepreneurs signify that while demand exists among female business owners, SME credit programs will have to implement new policies that can address the needs of entrepreneurs working from their homes and running shops on a part time and seasonal basis Significantly increasing female representation in these models will require changes in each programs' management to implement more gender sensitive policies and training for their staff

SUSTAINABILITY

The topic of sustainability has received enormous attention in the last few years Volumes of research continues to be published on the subject, with few concrete answers or absolute recipes of success Nevertheless, it would be an oversight to discuss a development model without adequate attention to its sustainability This section therefore reviews two key issues of sustainability as they relate to the SME models financial and organizational sustainability

➔ *Financial Sustainability*

An array of factors can be used to determine the financial sustainability of an organization This section will discuss financial sustainability in terms of demand for products and services, continuity of funds, outside subsidies, and productivity The data presented in Table 2-1 highlights several of these variables

Demand for Products and Services - If a program is to achieve financial sustainability it must provide a quality service that clients demand and can afford Since client satisfaction (in terms of quality of services) is difficult to measure, many evaluators turn of "levels of demand" for a project's services

[15] Weidemann, Jean "Egyptian Women and Microenterprise The Invisible Entrepreneurs" Washington D C USAID, 1992 p age 24

One way to attain the "levels of demand" for a SME project is to observe borrower growth rates Both the Bank and foundation models have maintained high borrower growth rates On an annual basis, the foundations are growing at around 140 percent and SECP at a monthly rate of over 15 percent

This consistent growth in new borrowers indicates that both models have been able to meet client needs and are delivering a service that is in high demand at an affordable price

Continuity of Funds - If a program is to survive beyond donor funding it has to develop or generate a source of funds for its operations Currently, both models have been provided capitalization funds that will ensure continued program operation beyond USAID funding ABA and SECP have both broken even and are now covering their operational expenses from loan recovery ESED is predicted to reach break-even in 1995

To develop financially self sufficient programs that can expand, programs must be able to generate monies beyond initial grant funds Both models are faced with obstacles in this respect For the foreseeable future, both will depend on internal income generation and original donor capitalization to maintain program operations See Box 2-2 for a discussion of the problems involved in leveraging funds from the formal banking system

External Subsidies - To accurately assess the financial sustainability of a program model, it must be free from external subsidies In the case of the two USAID models, both were provided considerable external technical assistance packages to strengthen the implementing institutions

While it is impossible to calculate the extent to which these services still support all three organizations, they all remain dependent on external technical assistance to meet USAID accounting and financial requirements, train new staff, and meet minimal reporting standards

As these technical assistance contracts come to an end in the next few years, the foundations and NBD will need to develop their own human resources that can run the systems put in place through external assistance

Box 2-2
Leveraging Funds

To become independent and financially self sufficient organizations, both models must be capable of leveraging funds from Egypt's formal financial system Both models have weaknesses in this respect:

The Bank Model -- Although this model was designed to encourage NBD to eventually support the SME units through its own resources, this has not occurred at the levels originally projected. The SECP/Cairo operations were to include a LE 10 million contribution from the bank which has not yet occurred. One positive trend can be seen from the Damietta and Sharkia programs, where USAID funding has terminated These programs continue to operate based on their original USAID capitalization in addition to the LE 250,000 that NBD has provided each branch - on a commercial basis. The NBD SME program still faces internal resistance to gain access to the bank's financial resources. Until donor funds dry up, this type of resistance may continue in the short- and medium-term.

The Foundations - Both Foundations were extremely well capitalized by USAID. Neither has come completely drawn from its $8 million capital fund In fact, ABA has used only $5 million in its very successful five year operation Although is difficult to determine their viability to leverage "additional" funds from the banking community, recent assessments indicate this is unlikely.[16]

Productivity - When considering the financial sustainability of an organization, the productivity of loan officers is often considered a good proxy Loan officers are the key to finding new clients, the timeliness of loans disbursed, follow-up and loan repayment As such, the productivity of these line workers can reflect the financial capacity of an organization to sustain its operations ABA, ESED, and SECP all have strong credit officer to client ratios

Average Number of Borrowers
Per Extension Officer

ABA - 100
ESED - 117
SECP - 99

[16] The 1992 GEMINI evaluation entitled, "Analysis of Funding Mechanisms for Small and Micro Enterprise Development Project in Egypt" by Kenneth Angell and John Porges stated that, "In general, the commercial banks [in Egypt] are still reluctant at this time to leverage the collateral fund "

Research indicates that a rule of thumb for borrowers per extension officer should be around 120 As indicated in the diagram above, the TI programs generally fit within this range

The cost per loan disbursed can also demonstrate loan officer efficiency and an organization's capacity to effectively administer loans In this case, the ABA program is the least costly with an average of LE 138 per loan disbursed ESED and SECP have costs greater than LE 200 per loan None of these figures reflect hidden factors such as depreciation, inflation, and subsidies through technical assistance If these factors could be accurately incorporated into administrative and organizational costs, these figures would probably increase substantially

Efficiency in loan disbursement is also a factor in an orangization's's's productivity Initial loans should not take longer than two weeks and repeat loans no longer than two days In both cases, these models have been able to maintain quick turnaround figures that meet client needs The loan approval process for first loans takes from 10-14 days and repeat loans no more than 48-36 hours

➜ *Organizational Sustainability*

A variety of literature exists on building healthy, sustainable development organizations [17] Issues presented in these studies include the need for vision, leadership, sound administration, and the capacity to build linkages as critical to organizational sustainability Many of these factors rest in the hands of an organization's management, and are not reviewed in this short section dealing specifically with SME "models"

Several elements that do relate to the organizational models in Egypt include the importance of providing savings and credit services, the relevance of community participation, and organizational structure

Savings and Credit - Recent small and micro enterprise literature demonstrates that successful SME models must provide financial *and* non-financial services to its clients As most SME programs are centered on credit delivery, the organizational challenge centers on how to diversify initial program methodologies to incorporate savings, as well as flexible financial instruments

[17] See Elaine Edgcomb and James Cawley's 1993 SEEP publication called, "An Institutional Guide for Enterprise Development Organizations", or Maria Otero's ACCION report entitled, "Breaking Through The Expansion of Micro Enterprise Programs as a Challenge for Non-Profit Institutions"

Both the foundation and bank models have limitations in terms of savings Although the bank requires a ten percent mandatory savings deposit from its clients, this has not generated into further savings mobilization[18] On the contrary, most NBD clients close their accounts upon completion of their loan

The foundations, due to their NGO status, cannot accept savings from their clients A few steps are being taken at a marginal level to redress this issue For example, ABA now requires clients with loans above LE 10,000 to open a savings or checking account Regardless, the foundations need to develop a long-term strategy that can provide a more diversified range of client services

Both models must deal with how to incorporate non-financial services into their current methodologies Each will have to find a different solution For its part, the bank will have to overcome institutional resistance to encourage savings from its small and micro clients The foundation model may look to its existing relationships with the banking community to design avenues for greater financial access for its clients

Community Participation - If an organization is to be sustainable, the community it serves must participate in and support its mandate Participatory development is a key to SME credit programs and can ensure the continuity of program operations beyond external funding

In the case of the two models, community participation is somewhat limited The foundation model's use of a Board of Directors allows for the inclusion of the local business community in the implementation of the SME project The bank, on the other hand, has almost no community involvement in its program Though difficult for a bank to include grassroots participation in its decision-making, greater efforts could be made to solicit input during the design stage

Both the models could have a more participatory approach in their expansion efforts to Upper Egypt and across the country Although time has been a variable, little input has been solicited from these local business communities The new SME efforts in Upper Egypt would all benefit from gathering more first hand information from potential clients about credit, training, and technical assistance needs

Organizational Structure - Evaluations of successful SME organizations in the developing world have provided evidence on the critical elements of a successful organizational structure The most important variable is often considered to be an organization's headquarters and its relationship to its

[18] The 1994 Ford Foundation evaluation of the NBD program in Menia noted that "To date the program has made limited progress in mobilizing savings figures on savings deposited at the end of each year suggest that clients do not consistently meet [the 10 percent requirement] nor have they saved additional amounts " page 22

branches The approach should be decentralized with identical but independent branches emanating from the center

While both models, theoretically, follow a headquarters and branch approach neither has been able to achieve full autonomy at the branch level Partly due to its leadership, but in part a result of the approach to make decisions at the center, the foundations all suffer from a centralized system of operations NBD has been able to develop a more decentralized approach that maintains policy decisions at the headquarters while most operational decisions are made at the branch

Lessons learned from other SME programs indicate that decentralized operations can be vital to an organization's capacity to expand and reach large-scale coverage It will be important in the future for the Egyptian programs to address the issue of centralization which will certainly limit the foundations' capacities to expand and move quickly into new geographical and technical areas

STRENGTHS AND WEAKNESSES

The above comparison has concentrated on issues of outreach and sustainability that relate to each model's methodology Several important issues fall outside this narrow comparison that could be described in terms of strengths and weaknesses The following section discusses these variables, while Table 2-3 summarizes several major strengths and weaknesses

The Foundation Model

One of the principal strengths of the foundation model is its organizational *mandate* to act as an intermediary for small and micro enterprise development This institutional commitment is the key to their continued growth and operation as financial service providers to Egyptian entrepreneurs

The foundation model also carries the potential to provide client-level training and technical assistance[19] In some ways, this may be the foundation's primary comparative advantage to the bank model[20] Although the foundations have provided only limited training and technical assistance services, the model has the capacity to greatly expand its activities in this area For example, ABA has taken great strides in organizing client training and providing technical assistance to clients through expatriate experts

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[19] These were envisioned in the original project design of these programs

[20] NBD has no organizational mandate to provide hands-on training or technical assistance to its borrowers

One of the problems the nascent foundations have faced is the legal hurdle of becoming registered NGOs in Egypt NGOs must register with the Ministry of Social Affairs (MOSA) before commencing programmatic activities Although each foundation's experience has been different, the legal and bureaucratic battles dealing with MOSA have slowed their execution and have required a vast amount of time and resources MOSA 's "monitoring" role can also become a hinderance to efficient project implementation

One of the foundations' strengths, its locally founded Board of Directors, has also caused significant difficulties As with any effort to involve the community, it has been wrought with personality conflicts and internal power struggles Still, the commitment to keep the community involved in the design and implementation of the foundations is a laudable element of the foundation model [21]

The Bank Model

The bank's main strength appears to be its potential to reach more clients, more quickly through its existing branches Although the time and money to establish their SME units appears to be more expensive than the foundation approach[22], the availability of existing physical branches throughout a city or governorate lends to its capacity to reach large numbers of clients

Using any pre-existing organization (private or public) to deliver SME services will have inherent limitations This has also been the case for the bank model The bank has had to address significant internal resistance to SME lending and this may be a continuing problem for the near future The bank's institutional desire to continue SME operations once outside funding has terminated is questionable [23]

[21] ABA clients receive a certificate of membership to instill a sense of ownership in the program

[22] One of the reasons the bank model has been so expensive is that much of its existing institutional infrastructure has not been used for the project On the contrary, USAID has insisted on setting up entirely new systems (MIS training, staff) that have contributed to high overhead costs

[23] It was reported in the Ford Foundation evaluation of NBD that, "Realistically, it is difficult to expect that a commercial bank like NBD will invest its own funds to expand such a program [in addition] another powerful factor that inhibits leverage through banks is the relatively huge levels of grant funds flowing into the financial sector in Egypt -- both for institutional and program support " page 42

TABLE 2-3
Strengths and Weaknesses

PROGRAMS	STRENGTHS	WEAKNESSES
ABA	Community Participation Potential for Technical Assistance and Training High Client Demand Collateral Fund	Centralized Project Administration Reporting Procedures
ESED	Community Participation High Client Demand Collateral Fund	Centralized Project Administration Reporting and Accounting Procedures
NBD/SECP	Savings Component High Client Demand Large Geographical Coverage Client Outreach (mobile banking units)	High Overhead Lack of Automation Reporting Procedures Lack of Institutional Commitment

An untapped strength of the bank approach is its ability to capture savings Savings components of SME credit programs have been recognized as critical to ensure organizational sustainability At present the savings component does not function well at the ban and captures little savings beyond that mandated in the program In fact, savings has been discouraged among borrowers and most clients close their accounts at the completion of their loan

Shared Issues

Both models have the potential to give their clients greater exposure to the formal financial system The foundations, as intermediaries, require their clients to make most loan transactions at bank offices ABA has taken this a step further and requires clients with loans of LE 10,000 or more to open a checking or savings account The bank model shelters its clients from the formal financial system as its credit officers act as complete intermediaries for the loan transaction and repayment process

All of the programs have taken on a centralized approach to their operations This is not a characteristic of the models but rather of the management and leadership of each organization This factor will become a major liability for each program in the future as each attempts to expand its client market If widespread coverage is to be achieved in huge markets such as Cairo and Alexandria, all three programs will have to further decentralize their operations and decision making processes

Another important issue to address, which is not a characteristic of the models, is reporting and monitoring At present, the bank keeps its accounts manually which results in slow and unreliable data The foundations do have computerized systems in place although ESED remains dependent on external technical assistance to maintain these operations

Both program models do not track socioeconomic data accurately ABA has the best system in place but the foundations do not gather this data in a uniform manner For its part, the bank seems to attribute little significance to the importance of this type of data gathering

Both models also appear to have limited capacity, in the near future, to leverage additional funds At the moment, leveraging funds is not necessary The foundations are well capitalized from the collateral fund, and NBD continues to receive assistance from USAID and a variety of donors Until these external subsidies end it is difficult to determine the models' capacities to leverage funds It is clear, however, that while this type of capital is available there is little incentive to find other funding sources

CONCLUSION

This comparison has provided an opportunity to assess the bank and foundation models - their outreach and potential for sustainability The analysis reveals two similar and successful strategies to providing credit to small and micro entrepreneurs The more apparent differences in the two models are a result of organizational management rather than methodology

This chapter's findings indicate that USAID/Cairo's SME approach is based on very sound and well-tested SME practices For USAID/Cairo, these conclusions can provide useful input to its strategic planning process and address previous criticisms regarding the viability of its SME methodology

USAID's tactics have been practical in light of the amount of funds available for SME programming The amount of money the TI/FI Office must allocate to the SME sector demands a diversified approach that could not be accommodated through one funding vehicle Given these factors, funding several similar programs simultaneously is a logical approach In addition, given the continued high demand for working capital loans in Egypt's major urban areas there seems to be no inherent conflicts with this strategy

This chapter may also stem criticism regarding the foundation model As noted in previous evaluations, this model was questioned as to its sustainability, particularly in comparison to the NBD program[24] In fact, the conclusions drawn from this assessment reveal a very sustainable model that embraces key elements such as high borrower growth rates, interest rates which allow for cost recovery, strong productivity levels (of extension officers), community participation, and sound loan practices and repayment rates

As will be discussed further in chapter four, NBD's experience is quite similar to other successful SME programs run by formal financial institutions NBD has been able to adopt a lending methodology that has met client needs and is distinguished by a very high repayment rate (99 percent) and a high borrower growth rate (15 percent/monthly)

The NBD/SECP efforts have also shown their capacity to reach entrepreneurs in large numbers Within 19 months this project has reached almost 20,000 clients through its 132 credit officers While NBD maintains twice as many credit officers than ABA or ESED, its capacity to hire, train, and field this many staff in a relatively short period of time is an achievement [25] This cursory comparison reveals significant costs on the part of NBD, which receives twice as much for their operational costs than ESED[26] and retains a significantly higher effective interest rate (As discussed further in Chapter III, NBD charges an effective interest rate of 41 percent compared to the foundations' effective interest rate of 32 percent)

For USAID, both models offer different opportunities Whereas the bank may have greater outreach, its services are probably more expensive and has a weaker institutional commitment to SME The foundations haven taken more time to start operations and gain community level support, though they offer a greater opportunity to diversity program outreach through training and technical assistance services In the long-run both of these approaches should work well together to jointly serve the small and micro entrepreneurs of Egypt

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[24] This issue was raised in Katherine Stearn's 1992 mid-term evaluation entitled, "Small and Micro Enterprise Development Project, Egypt" page 47

[25] NBD did go through almost two years of start up operations -- including negotiations with USAID on the Cooperative Agreement, among other issues

[26] As presented in table 2-1, operational costs for NBD were almost three times the amount provided ESED Since ABA had already reached break even during this period they were no longer receiving operational funds from USAID

CHAPTER III

USAID/CAIRO'S SME PROGRAMS AND OTHER SUCCESSFUL PROGRAMS

INTRODUCTION

One of the questions raised in the introductory remarks of this report dealt with how USAID/Cairo's SME programs compare to other similar and successful efforts around the world To address these issues, this chapter introduces comparative facts on SME programs around the world

This chapter will present summary data on SME programs in Africa, Asia, and Latin America The three Egyptian programs (ABA, ESED, and NBD/SECP) will also be discussed The chapter is divided into three sections consisting of, program characteristics, loan characteristics, and outstanding issues

All of the international programs reviewed below are considered to be successful examples of small and micro enterprise credit programs The eleven primary cases given in Tables 3-1 and 3-2 have achieved operational self sufficiency - in that they are now capable of covering all administrative costs through program revenue [27] Five of the programs are considered to have reached the next level of sustainability, e g , financial self sufficiency - where revenues also cover the costs of raising funds on a commercial basis without subsidy [28]

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[27] The only exception is the BRK program in Niger which is considered to be at the point of operational break even in the near future

[28] These five programs include BancoSol (Bolivia), BRI (Indonesia), BKD (Indonesia), Actuar (Colombia), and LPD (Indonesia)

SME PROGRAMS WORLDWIDE, 1993

TABLE 3-1

PROGRAMS	Age (yrs)	Type of Institution	Savings	Collateral Conditions	Number of Borrowers	Annual Average % Growth in Borrowers
ABA/Egypt	4	NGO	No	None	9651	133
ESED/Egypt	3	NGO	No	None	1344	78 1
NBD/Egypt	0 5	Private Commercial Bank	Yes	None	6958	29 8 (monthly)
Actuar/ Colombia	6	NGO/ Finance company	No	Limited	32000	30
ACEP/ Senegal	8	NGO/ Credit Union	No	Bank-style	2000	
ADOPEM/ Dom.Rep	12	NGO	No	Solidarity Group	4000	
BancoSol/ Bolivia	7	Private Commercial bank	No	Solidarity Group	46000	71
BRI/ Indonesia	10	Division of Government Commercial Bank	Yes	Limited/ Bank-style for larger loans	1897000	4
BKD/ Indonesia	40+	Village-owned financial institution	Yes	Limited	907000	-10
BRK/Niger	3	NGO	No	Limited	7000	
FINCA/ Costa Rica	10	NGO	Yes	Solidarity Group	5000	20
K-REP/Kenya	4	NGO	Yes	Solidarity Group	5000	120
Grameen/ Bangladesh	18	Government/ member owned, specially licensed bank	Yes	Solidarity Group	1587000	15
LPD/ Indonesia	10	Village/ Government-owned	Yes	Limited	145000	14

Source Maximizing the Outreach of Microenterprise Finance

PROGRAM CHARACTERISTICS

Small and micro enterprise development programs have been studied in depth over the last decade This work has developed a set of key characteristics found in "successful" credit programs, including[29]

- Groups loans, e g , solidarity group lending
- Social pressure in loan repayments
- Unconventional collateral to motivate loan repayments
- Short-term working capital loans
- Relatively high (or market rate) interest rates
- Graduated lending[30]
- Hands-on approach to working with entrepreneurs

Table 3-1 presents a range of program attributes for eleven SME initiatives around the world Most of these programs are built on the attributes listed above and have established operationally efficient programs, providing financial and non-financial services to small and micro entrepreneurs

The three Egyptian programs are also included in Table 3-1 and compare favorably to these programs They include many of the key attributes described above and are based on well-grounded methodologies to small and micro enterprise lending In fact, they embody five out of the seven traits noted above Although none of the Egyptian models use group lending, this approach is considered by many local experts as "unworkable" in the Egyptian context [31]

Program Size

The numbers of clients served by a SME program is a good indicator of its outreach Outreach in large numbers is important for any SME effort to eventually reach financial sustainability The programs presented in Table 3-1 encompass a range of program sizes from small (ACEP/Senegal) to very large (BRI/Indonesia)

Outreach in large numbers takes time and is usually attained by only the older organizations For example, the Grameen Bank in Bangladesh took over a decade to reach nationwide scale and BRI's Unit Desa System took over ten years as an enterprise-oriented system to reach its two million

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[29] See Christen, Robert Peck, et al "Maximizing the Outreach of Micro Enterprise Finance An Analysis of Successful MicroFinance Programs" Prepared by IMCC for CDIE Washington, D C USAID, 1994

[30] For example, where the borrower's capacity and willingness to repay are determined through a series of short-term, ever increasing loans that are renewed on the basis of the borrower's repayment record

[31] In fact, group lending is being done by UNICEF in several areas of the country However, it is being implemented on a very small scale and their efforts are too recent to evaluate

borrowers Other country conditions such as densely populated client markets and economic growth can also play a key role in reaching larger numbers of clients

The Egyptian programs all have relatively small numbers of total number of borrowers However, this does not compare unfavorably with other programs of the same duration For example, the K-REP program in Kenya reached five thousand borrowers in four years and the BRK program in Niger assisted seven thousand borrowers in three years On average, the Egyptian programs had reached 6,000 clients by 1993, consisting of (1) ABA - 9,651 clients, (2) ESED - 1,344 clients, and (3) NBD/SECP - 6,958 clients

The consistent growth in borrowers is important for expansion and growth in outreach Program growth is usually strongest in the initial years and begins to taper off after ten or more years of operation Although the averages presented in Table 3-1 range from 14 to 120 percent, the newer programs all maintain higher averages closer to 70 to 80 percent annual growth rates The ABA, ESED, and NBD all have strong borrower growth rates in comparison [32]

1993 Borrower Growth Rates

ABA 133 % annual
ESED 78 % annual
NBD 30 % monthly

In terms of potential markets reached, the Egyptian programs rank a bit low For example, BancoSol reaches about ten percent of its total market in Bolivia and Actuar reaches around 5 to 8 percent of its markets Most of the other programs do not reach more than 3 percent of their total markets Although exact figures of the Alexandria and Cairo markets are not available, probably none of the Egyptian programs serve more than 1 to 2 percent of their client market

Types of Institutions

A variety of funding vehicles have been used in the credit programs presented in Table 3-1 Whereas many of the programs use NGOs to disburse credit and provide technical assistance (eight out of fourteen) other successful programs have worked through village banks and formal financial systems (six out of fourteen) The complexities of these different types of institutional arrangements are

[32] NBD's very strong monthly growth rate of 30 percent is perhaps misleading in that it accounts for only six months of lending in 1993

discussed at length in chapter IV Many of the lessons learned presented in this chapter liken to the Egyptian experience

One of the challenges to SME development is to successfully work through local formal financial systems While NGO programs are often given first consideration by donors to implement SME programs, lessons from around the world are indicating the need to build linkages with financial systems Box 3-1 provides an overview of the African formal financial system and how attempts have been made to involve banks in SME lending

Box 3-1
The Formal Financial System in Africa

One of the major difficulties in getting banks involved in SME lending is their lack of interest in establishing new markets In Africa, financial markets are often weak and there is a large demand for formal banking services As a result, the banks depend on the most safe and secure loans Recently, some financial institutions are becoming interested in expanding their markets and experimenting with new methods.

One such approach has been attempted by the PAPME project in Bamako Although only a first step, PAPME has established a working relationship with one of the local banks to work with small and micro entrepreneurs Through this partnership, the NGO maintains one of its staff in the bank's offices to examine the loan request process, focusing on problems associated with SMEs. This type of collaboration has helped overcome some of the banking communities' weaknesses in terms of not understanding local community needs or local markets and not being able to adapt their administrative systems and financial services to reflect these needs [33] Currently, the bank lends its own money (not a donor line of credit) to cover its 50 percent contribution to each SME loan

Unfortunately, the experiences of other formal financial credit programs targeting small and micro enterprises have been disappointing For example, although written into original project designs, many of the African SME initiatives noted below have been unable to forge an effective relationship [34] Even in the successful case of PAPME, it took the project over a year to establish operating procedures and policies before a partnership could be developed

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[33] Grant, William "A Review of Donor Funded Projects in Support of Micro and Small Scale Enterprises in West Africa" Washington, D C USAID, 1993 page 31

[34] This includes ACEP's phase one, EDF/Mali, EDF/Senegal, and CARE/Maradi

In general, banks have been reluctant to place their own resources into small and micro enterprise programs The explanation given is that banks generally consider large numbers of small, short term, non collateralized loans too risky and expensive to generate profit In addition, banks lack the interest and sensitivity to relate effectively to micro enterprise owners [35]

The record of Egyptian banks in this context is not very different In fact, very few formal banks in Egypt have been involved in lending to micro entrepreneurs This has been attributed in part to the amount of donor funds entering its banking system for institutional strengthening and program support

The NBD program in Egypt is an excellent example of a private, commercial bank that, through donor assistance, has developed a strong SME program As of 1994 it has reach almost 20,000 borrowers throughout Cairo and also runs SME units in Damietta, Sharkia, Qena, Luxor, and Menia [36] The lessons from these programs has been that the Bank's traditional style of commercial lending would not work with small and micro entrepreneurs in Egypt The Bank has had to develop a very NGO-style approach to lending that has been flexible, timely, and sensitive to client needs These lessons closely follow those found in chapter IV which reviews the international experiences of SME programs implemented through formal financial systems and NGOs

Savings Mobilization

The majority of SME programs around the world have not successfully linked the provision of credit and savings Although seven out of the fourteen programs in Table 3-1 offer some type of savings service, the Indonesian banks are the only systems that offer substantial voluntary savings services to the general public

All the other programs represented in this Table either have mandatory savings as part of the loan process or do not provide any savings services at all Grameen, K-REP, FINCA, and BKD all have mandatory savings and do not offer savings services beyond their borrowing clientele These programs are not classified as providing a savings service because the savings they capture are not liquid and are usually controlled by the group (loan recipients) In fact, these savings programs were developed not so much as a service to clients but to act as a loan guarantee in case of default

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[35] Sebstad, Jennifer "Lending and Learning Formal Bank and Micro Enterprise in Egypt" Prepared by CEC Washington, D C Ford Foundation, 1993 page 2

[36] While NBD's SECP efforts in Cairo have been funded by USAID, it has also received funding from various other donors to operate SME units in Upper Egypt This includes support from the Ford Foundation (Menia), a grant from UNICEF (Qena), funding from CIDA (Luxor), and pilot funding from USAID (Sharkia and Damietta)

The two foundation programs in Egypt do not offer any savings program The NBD program works much like Grameen Bank, K-REP, FINCA and BKD through the inclusion of mandatory savings for loan acquisition As with many forced savings initiatives, the NBD effort has not been able to mobilize additional savings outside its mandatory program requirements

The lessons learned on savings are mixed, however, many experts contend that forced savings is not the solution to SME program diversification [37] Two of the more innovative SME organizations offering savings services are described below

> LPD (Bali) - is active in 650 of the islands' villages. It offers savings services to all village residents, reaching 500,000 savers LPD has an average annual growth in savers of 34 percent. One creative feature of the LPD program is that its "units" are owned by the communities and 20 percent of its net profit at the end of the year is distributed to community projects, giving community residents an incentive to save
>
> BRI (Unit Desa System) - reaches two million borrowers and twelve million savers (approximately 6.5 percent of the entire country's population). BRI has an average annual growth in savers of 28 percent. With 3,899 branch offices throughout the country, BRI has established a physical presence in Indonesia second to none and is possibly the largest branch network of any bank in the world.

LOAN CHARACTERISTICS

Table 3-2 provides summary data on the loan characteristics of the same programs cited in Table 3-1 Key characteristics listed include effective real interest rates, average loan sizes, loan terms, and the return on average assets Country conditions such as inflation rates and GNP per capita are also provided

Interest Rates

The interest rate charged by a SME credit program is considered an important determinant to achieve financial sustainability [38] Of course, many other factors are important, such as an efficiently run organization, high productivity, high client demand, low overhead costs, among others Still, if a program is to achieve financial independence it must charge interest at levels that can recover its costs once inflation is considered (See Box 3-2 for a general definition of interest rates)

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[37] Maria Otero *Savings Mobilization in Mircoenterprise Programmes* Small Enterprise Development No 1, Vol 2 1991 page 39

[38] The IMCC study notes that "there was only one variable that explained the differences in level of financial self-sufficiency [of the "successful" programs being evaluated] the effective real interest on loans made by the micro enterprise financial institution" page 30

SME PROGRAMS WORLDWIDE, 1993

Loan Characteristics

TABLE 3-2

PROGRAMS	Effective Real Interest Rate (%)	Ave Loan Size ($)	Loan Term/ mnths (Repmnt Period)	Brrwer Per Extensn Officer	Return on Average Assets (%)	Ann Inflatn Rate (%)	GNP Per Capita ($)
ABA	20	768	'3-12	100	2 7	12	610
ESED	20	869	'3-12	116	-3	12	610
NBD	29	671	'2-6	99	**	12	610
Actuar	52	338	'4-12	90	4 9	19	1260
ACEP	14	1645	'10-18	88	0 1	8	720
ADOPEM	67	307	'3-9	74	-0 8	5	940
BancoSol	46	277	'7-14	139	1	9	650
BRI	25	494	'8-9	118	1 8	8	610
BKD	48	32	'3-8	57	3 2	8	610
BRK	18	295	'5-8	200	-11 5	17	300
FINCA	23	317	'4-12	270	-6 3	6	1850
K-REP	-9	211	'3-15	88	-18 5	35	340
Grameen	12	113	'3-12	152	-3 3	10	110
LPD	27	120	'4-10	30	7 4	8	610

ABA - Egypt
ESED - Egypt
NBD - Egypt
Actuar - Colombia
ACEP - Senegal
ADOPEM - Dominican Republic
BancoSol - Bolivia
BRI - Indonesia
BRK - Niger
BKD - Indonesia
FINCA Costa Rica
K-REP - Kenya
Grameen-Bngdesh
LPD - Indonesia

Source: *Maximizing the Outreach of Microenterprise Finance*, Christen, et al.

Table 3-2 provides data on the wide range of interest rates charged by the various SME programs The figures are provided in "real effective" terms which means they have been adjusted for inflation Program interest rates range from a low of -9 percent for K-REP to a high of 67 percent for ADOPEM

Box 3-2
Interest Rates

A discussion of interest rates often become confusing due to terminology For example, three different types of interest rates are often noted, e g., nominal, effective, or real effective/nominal Most program managers quote a nominal interest rate when talking to clients, which represents the stated rate one pays Effective rates of interest allow one to put all loans on a common ground and compare their relative costs (Effective interest rates vary according to the nominal interest rate calculation method) In general, an effective rate expresses -- in the form of an interest rate -- the effect of commissions or other costs on a borrowers' credit costs [39] Real rates of interest take into consideration the effects of inflation

Although concern has been expressed about these programs' high effective interest rates, once they are adjusted for the country's 12 percent annual rate of inflation (in 1993 terms) they are similar to those presented in Table 3-2

1993 Annual Interest Rates of Egyptian SME Programs[40]
(in percentages)

	Effective	*Real, Effective*
ABA	32	20
ESED	32	20
NBD	41	29

[39] Christen, Robert Peck "Financial Management of Micro Credit Programs" Prepared by IMCC for CIDE Washington, D C ACCION, 1990 page 66

[40] Effective interest rate calculations for ABA, ESED, and NBD/SECP are provided in Annex B

In fact, the Egyptian real effective interest rates fall within the high and low ranges of these representative programs

High Rates:

- 52 percent -- Actuar/Colombia;
- 48 percent -- BKD/Indonesia,
- 67 percent -- ADOPEM/Dominican Republic

Low Rates:

- 12 percent -- Grameen/Bangladesh
- 18 percent -- BRK/Niger
- 23 percent -- FINCA/Costa Rica

The return on assets, or the productivity of an organization's investments, is often considered an important indicator to measure the overall financial performance of a bank or NGO The interest rates charged by an organization can have a significant impact on its return on average assets For example, the program with the lowest interest rate (-9 %) in Table 3-2, K-REP, is also the program with the lowest return on average assets (-18 5%) At the other end, Actuar has the second highest second highest effective interest rate (52%) and the second highest return on average assets (4 9%)

The return on assets for the Egyptian programs are a bit difficult to compare If anything, the two foundations present a conflicting picture [41] ABA and ESED charge around the same effective interest rates (32 percent) however ABA has experienced an estimated 2 7 percent average return on assets while ESED's figures are - 3 percent It is interesting to note that both of these programs are somewhat protected from inflation as their capitalization was provided in US dollars In the case of ABA this has probably has allowed it to operate at lower real effective interest rates while still recovering its costs ESED has been unable to recover its costs due to a variety of organizational and management factors -- even though it was charging the same effective interest rates as ABA

The comparison of ABA and ESED indicates that a simple comparison of real effective interest rates cannot lead to conclusive findings on the viability of an organization While interest rates are important to achieving financial sustainability, factors such as organizational efficiency, sound management practices, and strong outreach are also critical to achieving operational break even[42] and eventually -- financial self sufficiency

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[41] NBD's 6 months of lending history in 1993 made its program inappropriate to include in an analysis of return on average assets

[42] Covering operating costs through internal income generation

Although NBD's effective interest rate is slightly higher (41 %) than ABA and ESED, these charges have allowed it to recover costs in a fairly short period of time In fact, the NBD program has achieved operational break in 19 months -- half the time it took ABA NBD/SECP's continued high growth rates and repayment rates are also indicators that clients are willing to pay for these services and consider them valuable

Loan Size/Loan Terms

Experience indicates that loan sizes do not reflect a program's ability to achieve substantial outreach or sustainability Loan size and loan terms do, however, demonstrate the ability of a program to reach different client groups For example, small loan sizes are considered an indicator of a program's ability to reach the poor Table 3-2 demonstrates that all programs are reaching clientele that do not have access to their country's formal financial institutions

Most of the programs listed in Table 3-2 maintain average loan sizes of around $200-400 with repayment periods of 4 to 12 months Loan sizes of ABA, ESED, and NBD are fairly high ($700) in comparison A simple comparison of loan sizes may not reflect the subtleties of different loan programs

When assessing loan size, therefore, a country's economic conditions can be taken into consideration by comparing loan sizes to GNP per capita For example, BKD's loan sizes are very small ($32) and average only 5 percent of the GNP per capita of East Java ($610), the average loan in the LPD system is somewhat larger ($120), yet still represents only 19 percent of GNP per capita in Bali (estimated at $610), and FINCA's average loan size of $317 represents only 17 percent of GNP per capita in Costa Rica ($1,850)

There are exceptions to small loan sizes in this sample of successful SME programs, including ACEP, BRI, and BKD For example, ACEP's average loan size of $1,645 is well above Senegal's GNP per capital of $720, BRI's average loan size of $494 constitutes 80 percent of GNP per capita in Indonesia of $610, and BRK's loan size of $295 comes close to Niger's GNP per capita of $300 Another notable exception is Grameen Bank's program whose average loan size of $113 equals Bangladesh's GNP per capita of $110

ABA, ESED, and NBD's loan sizes remain relatively high when appraised by GNP per capita In fact, most of the programs' average loan sizes are above the GNP per capita in Egypt of $610 While the trend for individual loan programs (as opposed to group lending) is to have higher loan sizes, ABA's average loan size of $768, ESED's $869, and NBD's $671 are still among the highest This trend clearly reflects TI's program criteria to reach only established businesses with a proven track record

One of the findings from the IMCC study was that programs operating in poorer countries tend to serve a more mainstream clientele, whereas programs in better off countries incline to focus more exclusively on the poorer parts of the population[43] The evidence provided includes the example of Grameen Bank, whose average loan size of $113 represents 100 percent of GNP per capita in Bangladesh ($110) This can be compared to FINCA's average loan size of $317 which represents only 17 percent of GNP per capita in Costa Rica ($1,850) Although it could be easily disputed that Grameen's program is not serving a mainstream clientele (as proposed by the IMCC study) it may be claimed that SME programs operating in poorer countries are attempting to provide a bridge between the informal system and formal systems of finance The IMCC evidence on this issue is not conclusive however its preliminary findings provide directions for further research and analysis

TI's programs do serve a "mainstream" range of small and micro entrepreneurs with its average loans of $700 over a six month loan term The high growth rate and repayment rates of these programs indicate a strong demand for this assistance although a more diversified strategy for SME assistance should be considered (These recommendations are presented in chapter V)

Repayment Rates

Repayment rates are limited as indicators of success because they provide no information about the overall portfolio its quality, size, and the profitability of its operations On the other hand, achieving high repayment rates is usually a necessary step in reaching sustainability [44]

Although repayment rate data was not available on all of the programs presented thus far, it is interesting to compare Egyptian programs with other SME programs active in Africa Table 3-3 gives repayment rates on seven SME projects in Africa

The evaluation completed on these African programs noted that evidence from the field indicates that over a 95 percent repayment rate is "excellent", 90-95 percent is "good", and 80-90 percent is "marginal" A program with a repayment rate of under 80 percent is considered to be "non-sustainable" The assessment went on to note that given the high number of SME projects in Africa [and worldwide] with repayment rates in the 95+ percent range implies that this figure should now represent the minimum standard and the target for all projects [45]

The ABA, ESED, and NBD have maintained high repayment rates throughout their program histories comparing favorably to other programs The ability to maintain these averages is due in part to their SME philosophy which includes flexible loan terms, short repayment periods, and repayment

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[43] Christen, Robert Peck, et al "Maximizing the Outreach of Micro Enterprise Finance An Analysis of Successful MicroFinance Programs" Prepared by IMCC for CDIE Washington, D C USAID, 1994 page 21

[44] Grant, William " A Review of Donor Funded Projects in Support of Micro and Small Scale Enterprises in West Africa" Washington D C, USAID, 1993 page 14

[45] Ibid page 14

ıncentıves (ı e , graduated lendıng) Thıs strategy has enabled the provısıon of a servıce that maıntaıns hıgh clıent growth as well as hıgh repayment rates

TABLE 3-3
Repayment Rates

PROGRAMS	Repayment Rates (Percentage)
ABA	98
ESED	94
NBD	99
ACEP/Senegal	97
EDF/Mali	60
Credit Rural/Guinea	97
CARE/Maradi	95
EDF/Senegal	95
PAPME/Mali	92
Vita/Chad	79

OUTSTANDING ISSUES

There are a number of outstandıng ıssues faced by even the most successful SME programs Each program - whether ın Bangladesh, Nıger, or Egypt - must address these matters as they relate to theır ınstıtutıonal sıtuatıons The themes dıscussed below are a few of the major topıcs to be dıscussed ın future and on-goıng SME program ınıtıatıves

Reporting Standards

SME organızatıons must have the capacıty to generate accurate financıal ınformatıon from theır own monıtorıng and ınformatıon systems Thıs ınformatıon wıll provıde the basıc ınput for management decısıon makıng on a daıly basıs and ıs crucıal for achıevıng operatıonal efficıency

Developing sound reporting and performance standards is one of the major challenges facing SME organizations Most of the programs discussed in this chapter, including the Egyptian programs, do not have the ability to provide financial information according to recognized standards The ability to provide this type of information will, in many ways, determine if the institutions will be able to gain access to additional sources of funds for expansion Without this information, banks will not consider an institution credit-worthy and regulators will not consider it sound Good financial reporting is thus a fundamental prerequisite to achieving financial leverage and hence extensive outreach [46]

To date, donors often require SME organizations to report on information that is important to them This type of information, however, is not necessarily useful to managers Therefore, donors themselves have a role to play in supporting the development of better reporting standards of the organizations they fund For example, donors could require recipient organizations to track delinquency in such a way that provides information on the portions of the portfolio at risk (not just late payments), aging arrears, timely write-offs, and annual provisioning

Leveraging Funds

Most of the programs described here are in the process of expanding their access to local and international financial markets Many of the NGOs have begun to build their lending portfolios on bank loans (guaranteed initially by standby letters of credit) but are eventually unsecured as programs demonstrate their capacity to perform and report at recognized levels of financial competence Some of these programs, given their success with local banks, are actively exploring the possibility of accessing local capital markets through issuing bonds or stocks [47]

These types of steps have allowed NGOs to leverage their original project funding, thereby dramatically increasing their credit outreach The fact that these programs are beginning to move in this direction also addresses one of the key criticisms of NGO SME programs, i e , that they lack quality control mechanisms By exposing their program operations to financial scrutiny of market controls, NGO SME programs are proving their capacity not only to become operationally self sufficient but also achieve financial sustainability

[46] Christen, Robert Peck "Maximizing the Outreach of Micro Enterprise Finance An Analysis of Successful MicroFinance Programs" Prepared by IMCC for CDIE Washington, D C USAID, 1994 page 36

[47] Ibid page 38

Savings Mobilization and Institutional Transformation

Although savings mobilization is recognized as central to the development of operationally sustainable SME organizations, for many NGOs the capitalization hurdle[48] for entry into the banking system as full-fledged commercial banks, or even specialized institutions, is too high to consider making deposit mobilization a real option [49]

Nonetheless, many of the programs discussed here have already made this transformation or are in the process For example, Actuar in Colombia recently bought a finance company license and is in the process of transferring its financial operations to this new legal structure, and ACEP in Senegal has received authorization form the Government of Senegal to operate as a licensed credit union

All four Asian programs presented in Table 3-1 can accept locally generated deposits from villages The only program among these that began as a deposit driven institution was LPD in Bali BKD in Eastern Java started as a government credit scheme, which incorporated savings to a lesser extent, but now, almost one hundred years later, it is primarily funded from retained earnings and deposits

Three issues dominate the transition to deposit based institutions

- Transformation of a credit-driven institutional culture to one that is deposit based (together with acquisition of the financial skills needed to manage the intermediation function)
- Regulation and supervision by appropriate authorities
- Building an equity base for the newly transformed entities [50]

SME programs originally capitalized from donor sources often find themselves limited to subsequent capitalization through retained earnings Most of the programs reviewed here, including Egypt's, have not been able to mobilize savings or other funds to expand their loan capitalization much beyond initial donor funding

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[48] Equity requirements for bank licenses in many countries is around $5 million

[49] Christen, Robert Peck, et al "Maximizing the Outreach of Micro Enterprise Finance An Analysis of Successful Micro Finance Programs" Prepared by IMCC for CDIE Washington, D C USAID, 1994 page 38

[50] Ibid page 39

CONCLUSION

Various traits of successful SME programs around the world have been presented in this chapter This comparison provides convincing evidence that the Office of Trade and Investment's SME programs fair well compared to other successful initiatives around the world

Specifically, the facts reviewed in this chapter place the two SME models funded by the TI Office squarely on their way to realizing sustainability Compared with some of the older, more established programs presented in this chapter, all three USAID projects appear to be on the right track to achieving operational sustainability

Financial self sufficiency is still allusive for most of the eleven SME efforts discussed here As NGOs and financial intermediaries, many programs have not reached a level where they can generate outside sources of revenue The Egyptian programs have also been unable to achieve this goal

All of the key ingredients are in place for these USAID programs to accomplish greater outreach and attain financial self sufficiency in the future, including

- ☞ A sound and well tested SME methodology
- ☞ A strong borrower growth rate
- ☞ The use of the local formal financial system
- ☞ Interest rates which allow programs to recover costs
- ☞ Consistently high repayment rates

Although TI's programs have served a higher-end clientele than many of the efforts discussed here, preliminary evidence does exist that programs working in low income countries may have the greatest impact by serving more mainstream clientele

The outstanding issues for all SME programming around the world continue to center on matters of reporting, leveraging funds, and mobilizing savings Egypt's programs must also address these issues if they are to achieve operational self sufficiency and financial independence in the years ahead

CHAPTER IV

SMALL AND MICRO ENTERPRISE INTERNATIONAL LESSONS LEARNED: NGOs and Formal Financial Systems

INTRODUCTION

Small and micro enterprise development programs have used a variety of funding vehicles in the delivery of services Two of the more common approaches have been to use non-governmental organizations (NGOs) and formal financial institutions (FFIs) as the main delivery vehicle

Many donors have turned to NGOs to implement SME programs due to their community-based strategies These funding decisions were often based on the assumption that NGOs could deliver services that were founded on community needs and demands, which in turn would ultimately make them more sustainable

Donors have often been reluctant to fund SME efforts through formal financial systems due to the perception that these programs do not reach the poor These views are compounded by the reluctance of most commercial banks to provide loans to small entrepreneurs due to their smaller loan sizes and higher risk In other words, many banks believe they cannot lend to the poor and remain profitable Nevertheless, banks have ventured into the field of micro enterprise finance with varying success over the years

The lessons learned from these two approaches are important for the Office of Trade and Investment as it has applied both models in its SME portfolio This chapter will therefore examine the international experience, in terms of outreach and sustainability, of using NGOs and FFIs to deliver credit to small and micro enterprises

This first part of this chapter will focus on FFIs as vehicles for credit delivery to small and micro entrepreneurs Although several studies have discussed the success and failure of a particular system or a specific organization, few have brought together an analysis of FFIs and NGOs and analyzed their performance in this sector on a global scale A fundamental task of the first part of this chapter is to determine the causes of the success of certain formal financial institutions involved in credit delivery to SMEs The FFI section highlights selected "best practices" cases among FFIs from Asia, Africa, and Latin America

The second part of this chapter reviews the performance of NGOs by introducing respective cases which typify the dominant strategies of NGO SME portfolios

From the case studies of the FFIs and NGOs, broader universal lessons learned will be drawn from the formal financial system and NGOs While this method may not be flawless, it will give a sense of NGO and the formal financial sector's performance regarding outreach and sustainability

FORMAL FINANCIAL INSTITUTIONS

Background

In most developing countries there are a variety of financial institutions, with commercial banks comprising the largest component of the financial system [51] For example, in Latin America, commercial banks hold the majority of the financial assets and provide most of the short-term financing In countries such as Brazil, Ecuador and Mexico, government-owned commercial banks supply a large portion of credit, ranging from 38 percent in Brazil to 55 percent in Ecuador Since the formal financial sector dominates the financial systems of most developing countries, it is important to study the financial services they provide to small and micro enterprises

In the past, there have been instances where the formal financial institutions (FFIs) have performed poorly in providing financial services to SMEs Their poor performance could be explained by their lack of knowledge about the lending environment and their inability to develop procedures to address clients with special needs and abilities
Among other common problems, these institutions had been too dependent on subsidies, and when donor assistance withdrew, they imploded [52]

Apart from the structural and functional inadequacies of the FFIs, the macroeconomic policies of the countries often constrained their expansion Policies regarding interest rate controls, high bank reserve requirements, and extensive loan targeting lowered the revenues of formal financial intermediaries and increased their costs, thereby implicitly discouraging them from seeking new clients, and handling small transactions [53] The notion of mobilizing private deposits for advancing credit was a foreign concept too since there was ample, cheaper donor funds available for providing credit The poor were deprived of the opportunity of a place to put their savings, and financial institutions lost a potential source of money for credit [54] Further, systems were designed such that accessibility to the poor was extremely difficult

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[51] Drake Deborah, and Otero Maria *Alchemists for the Poor NGOs as Financial Institutions* Washington, D C Accion International, 1992 page 24

[52] Adams, Dale W *Altruistic or Production Finance? A Donors' Dilemma* Economics and Sociology Occasional Paper No 2150 September, 1994 page 3

[53] Ibid

[54] Ibid

FFI examples of these types of policies come from around the world, including the Agricultural Development Bank in Bolivia, Jamaican Development Bank, Cooperative Bank of Uganda, directed credit programs of credit unions in Latin America, the BIMAS program in Indonesia, and many agricultural cooperatives in India [55]

Due to these FFI policies and procedures, these systems were highly criticized by the major donor organizations for having under utilized the capacity to meet the needs of small and micro entrepreneurs Consequently major donors such the World Bank, AID and IABD withdrew funding from these organizations in the 1980s and channeled it to NGOs [56]

Nevertheless, the BancoSol experience in Bolivia has demonstrated quite clearly how important formal financial institutions can be for credit delivery to micro entrepreneurs While NGOs can effectively deliver credit to these entrepreneurs, they face difficulty in expanding their activities due to a variety of reasons [57]

First, NGOs are often unable to provide wide-scale coverage to meet existing local level demands for credit Second, NGOs can be legally restricted from offering full financial services to clients, particularly with regard to savings Third, NGOs have a poor record of achieving cost recovery from their credit programs [58] Fourth, NGOs are frequently restricted from seeking alternative sources of funding such as, client savings, commercial debt, and shareholder investment - sources important for financial self sufficiency and expansion PRODEM's experience of being one of the only NGOs to expand its client base to attain nation-wide coverage and gain a formal financial license is an indication of the obstacles involved

FFI for their part also suffer from inherent weaknesses which limit the services they offer to SMEs [59] Below are a list of several issues that limit FFI's involvement in SME credit programs

- FFIs, especially the banks, maintain rigid and administratively complex lending procedures that can limit small and micro entrepreneurs' access to these institutions

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[55] Ibid

[56] Ibid

[57] Glosser, Amy J *The Creation of BancoSol in Bolivia* in Maria Otero and Elisabeth Rhyne edited The New World of Micro enterprise Finance - Building Healthy Financial Institutions for the Poor Kumarian Press USA 1994 page 231 The reasons cited here and the arguments put forth later regarding the importance of banks are taken from the above source

[58] Drake Deborah, and Otero, Maria *Alchemists for the Poor NGOs as Financial Institutions* Washington, D C Accion International, 1992 pp 42-43

[59] Nathan Associates *The State of the Art in Micro- and Small Enterprise Development* ARIES Working Paper No 6 Washington, D C Nathan Associates, 1990 page 14

- FFIs usually adhere to the importance of formal collateral which is difficult for entrepreneurs to meet.

- In general, FFIs have high transaction costs per loan and are not convinced that high volume lending of small loans is profitable

- FFIs often maintain the perception that SME lending is a high risk sector to undertake business without outside subsidies

- The costs of operating in remote or rural areas make can make SME lending less appealing.

- Many of the FFIs successfully working in the field cannot supply the type of data that is needed to convince other formal financial organizations of the profitability of SME programming [60]

Nevertheless, it is evident from the case studies discussed later in this chapter that formal financial institutions, particularly commercial banks in recent times, have demonstrated considerable innovation, resilience and strength in offering financial services to the poor As has been observed by many in the field, the most successful credit program in the world for SMEs - Bank Rakyat Indonesia (BRI) is one run by a commercial bank

BRI and other FFI SME programs have proven that banks can develop flexible structures that can meet the needs of small and micro entrepreneurs These efforts have also shown that the size and institutional infrastructure can be an advantage for reaching large numbers of clients in diverse locations FFI's potentially large access to capital is another advantage of these programs These characteristics are further elaborated in the case studies below

FFI Case Studies

Badan Kredit Kecamatan (BKK)[61]

The BKK was created to give small, short-term loans to rural families for off-farm productive purposes The BKK system of Central Java is part of the larger government-owned BPD system

[60] This is a reflection of poor financial monitoring and reporting on the part of existing programs

[61] All information regarding this program have been taken from the following sources Rhyne, Elisabeth. *Micro enterprise Credit in Indonesia Overview and Implications for Donor Policy* The GEMINI Project, October 1990, and Timberg, Thomas A *Comparative Experience with Micro enterprise Projects* Robert R Nathan Association Inc 1988

It is a public commercial bank that is based on the concept of pure minimalist credit In general, this program is considered financially sustainable, generating strong profits and growing rapidly in savings and loans (12 percent as of December 1989)

BKK's system provides short-term loans, primarily three months to a year in duration, with a rapid turn-around time First time loans are disbursed within a week and repeat loans generally take one or two days The interest regimen is fixed and based on flat percentages of the loan

The interest rates tend to be high, given the size of the loans The *effective annual interest rate for loans is 84 percent* The loan application process is very simple and even the illiterate villager can access the credit system The BKK posts are generally located close to the village markets so that villagers do not have to travel long distances for their loans Motivational techniques of various types are used to encourage the borrower to pay back Thus far, borrower selection techniques and repayment motivations have ensured a high repayment rate

As of December 1989, BKK had provided 509,584 loans, with an average loan size of $25 The small size of the average loan indicates that it is reaching very poor customers The BKK system has a voluntary savings program as well, which is growing rapidly (26 percent as of December 1989)

The BKK, which is part of the BPD system is very profitable, largely because it is highly capitalized A major portion of the funds that are used for lending is equity from original donor or government capitalization and from retained earnings Since the Bank pays no interest on the equity, their cost of capital is low The problem of arrears has been experienced and impinges on the overall profitability of the program

BancoSol of Bolivia[62]

BancoSol is the first private commercial bank lending to micro entrepreneurs In 1986, a NGO called PRODEM came into being as a joint venture between members of the Bolivian business community and ACCION International The program intended to provide micro businesses with access to credit and training, thereby broadening the scope of employment opportunities, encouraging investment in micro business, and increasing the level of income generated by the sector

PRODEM was a big success and expanded rapidly within the first few years of its existence However, the directors of the NGO sought an alternative model and chose to create a for-profit commercial bank This private bank was to adopt a market-oriented investment strategy and obtain commercial debt as a commercial bank

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[62] Glosser, Amy J *The Creation of Banco Sol in Bolivia* in Maria Otero and Elisabeth Rhyne edited The New World of Micro enterprise Finance - Building Healthy Financial Institutions for the Poor Kumarian Press USA, 1994

BancoSol came into operation at the beginning of 1992 and provided two services solidarity group loans and compulsory savings By the end of 1992, they began to offer both savings and credit in US dollars, and voluntary savings, including time deposits and demand deposits By December 1994, it had lent to approximately 70,000 clients with the average loan size of about $277 with the minimum loan $80 and the maximum $5000 Seventy percent of the banks loan recipients are women indicating that the program is reaching the very poor in the community [63] The interest rate offered on savings was 20 4% in June 1992 (which was lower than market rates) Currently, the bank holds more than $1 million from compulsory savings and the average size of a savings account is about $100

In the credit program, the interest rate for loans is 4% a month, with an effective rate of 55 to 57 percent a year Its entire portfolio was valued at approximately $25 8 million in December 1994 Approximately 12 percent of all loan payments are made in advance, 67 percent are made on time, and 21 percent are late 89 percent of the late payments are made within one day of the due date and 99 percent within three days of the due date While on average 4 42 percent of gross loan portfolio is in arrears at other commercial banks, the figure for BancoSol is only 0 04 percent

Federation Des Unions Cooperatives D'Epargne Et De Credit du Togo (FUCEC)[64]

FUCEC was formed in 1983 to support, promote and unify the Togolese cooperative movement Through the World Council of Credit Unions (WOCCU) USAID funded this program Technical assistance was provided by WOCCU and Credit Mutuelle de France, among other donors

FUCEC was organized to promote the creation and expansion of village-level savings and credit cooperatives (COOPECs) It was established to serve as the central credit facility for Togolese cooperatives Cooperative membership is voluntary although savings is required from members It's growth is seen through the following figures

[63] Sixty-five percent of the credit officers at Banco Sol are women

[64] Community Economics Corporation *Small and Micro Enterprise Credit Recommendations and Case Studies* presented at the "Best Practices" Workshop, Nairobi, Kenya 1993 pp 194-214

Box 4-1
A Decade of FUCEC Growth

	1983	1993
Number of units (COOPECs)	74	145
Members	6,595	33,658
Member Savings in Dollars	824,000	11,200,00

FUCEC does not make individual loans, but it lends to COOPECs which on-lend to individual cooperative members To be eligible for a loan, a COOPEC must have been a member of FUCEC for at least six months, hold 25% of their deposits on account with FUCEC, and have a history of regular savings with FUCEC

COOPECs are allowed to borrow up to twice the level of their savings with FUCEC While applying for a loan, COOPEC have to provide a list of members who are asking for credit, the amount of their savings, and the amount they wish to borrow The application has to be accompanied by a copy of their latest financial statement It is then reviewed by the closest FUCEC regional delegate Approved applications are forwarded to FUCEC headquarters, where the level of arrears, deposits and defaults of the COOPEC are verified

FUCEC does not accept money from donors for on-lending to its members Donor money is used to help cover the costs of training and technical assistance, but all monies lent by FUCEC and its member cooperatives are internally generated This works as an incentive in repayment since members feel more obliged to repay their cooperative than a donor organization

Box 4-2
Credit Unions

Credit unions are cooperative financial institutions that began operating in the developing countries in the 1950s These savings and credit cooperatives are base-level financial institutions that provide savings and credit services to individual members They are organized according to basic cooperative principles there are no external shareholders, and the members are the owners of the institution, with each member having the right to one vote in the organization. The policy making leadership is drawn from the members themselves and these positions are often unpaid in new or small credit unions Credit unions are legally constituted financial institutions - chartered and supervised, for the most part, under national cooperative legislation [65]

COOPECs borrow from FUCECs at the rate of 1% a month (the commercial rate is 19%), and on-lend this money to their members at a rate between 14% and 20% FUCEC lends to its COOPEC members for a period of 24 to 36 months COOPECs approve loans for activities such as agriculture, animal husbandry, educational expenses, construction, small enterprise development, etc The amount that individual members can borrow depends on their level of savings The repayment schedule is flexible and is contracted on an individual basis depending on the business cycle of the borrower

In 1993, 21% of loans were in arrears and 16% in default A significant portion of these defaults occurred due to a 50% decline in coffee and cocoa prices in 1990

On the other end of the spectrum of financial intermediaries are the NGOs Some of the more successful NGOs SME programs will be discussed in the following sections

[65] This definition has been taken from John H Magill's "Credit Unions A Formal-Sector Alternative for Financing Micro Enterprise Development," in The New World of MicroEnterprise Finance Building Healthy Financial Institutions for the Poor," edited by Maria Otero and Elisabeth Rhyne page 140

NON-GOVERNMENTAL ORGANIZATIONS

Background

The evolution of NGOs as providers of SME services can be traced through three main time periods from the mid-1970s to mid-1990s[66] NGOs have passed through three stages since the mid-70s progressing toward developing closer ties with their countries' financial systems

- Stage 1 - 1975-1982
- Stage 2 - 1983-1987
- Stage 3 - 1988 to present

During the mid-70s a number of NGOs entered the field of micro enterprise development Micro enterprise development was added on to existing grassroots projects as a new vehicle aimed at achieving social and community development The salient features of this period were that international donors financed all components of the micro enterprise development projects The concept of self-sufficiency remained very general and programs worked on the assumption of the availability of donor funds for future programming Costs were high and NGOs had little incentive to increase efficiency and lower costs

One of the debates during the early years of small and micro enterprise development concerned the appropriate blend of credit and training Distinct approaches, e g, minimalist and integrated, emerged in Latin America During this period new lending methodologies such as group lending were explored and considered effective

This period did not focus on issues such as financial self sufficiency and as a result their financial management and cost recovery was inadequate NGOs were still relatively unconcerned about interest rates, cost recovery, loan reserve funds, and other financial components of credit programs, their focus rather remained on social impact

Even so, the NGO SME initiatives during the 1970s achieved results that impressed donors and other funding sources Their impact through innovative lending methodologies (such as group lending) proved to be viable and offer an alternative to host country government programs

[66] This break down of the evolution of NGOs and the highlights of each phase was taken from Deborah Drake and Maria Otero's, "Alchemists for the Poor NGOs as Financial Institutions " ACCION International October, 1992 pp 41-46

In the 1980s, NGOs focused on outreach - the number of borrowers reached through each project Organizations were created specifically for providing credit to the poor The NGOs moved away from the community-based approach to targeting thousands of borrowers This shift proved to be crucial for the NGOs in developing new linkages to financial systems The micro enterprise development programs became less and less part of traditional integrated development activities, and became more sophisticated in their financial and managerial components

Among the dominant issues of this period was the question of self-sufficiency NGOs started focussing on cost recovery through earned income, which became a measure of program success The success of some NGO SME programs demonstrated that achieving self-sufficiency was possible

The ability to have a social impact while still recovering costs was a key factor in changing NGO attitudes toward sources of program funding The success initiated a rethinking among NGOs about their relationship with donors and initiated a search for new sources of funds for their programs And while some NGOs diversified their client base, the majority continued to lend to existing micro enterprises

In stage 2 there was a shift to a greater focus on credit delivery A few select initiatives began exploring the viability of acting as financial intermediaries and not just implementors of a donor funded initiative

In the third phase of their evolution NGOs followed an "expansion-led" approach With this approach, NGOs began specializing in financial activities and focused on the expansion of lending operations These NGOs became specialized lending institutions and sought financial self sufficiency through internal generation of funds Thus, it has been only in recent history that NGOs began to develop formal linkages financial institutions An example of such an NGO is PRODEM

As noted above, one of the major debates that has raged during the 1980s in the NGO community is the viability of the integrated model (providing training, technical assistance and credit) to the minimalist credit approach Box 4-3 provides an overview of these two approaches The case studies below provide examples from each methodology

Box 4-3
Integrated and Minimalist Approaches to SME Programming

The minimalist approach emphasizes the delivery of credit only, usually based on a loan fund set aside for this purpose Costs are low, and the project may be appropriate to any level of beneficiary. However, training, extension services and social promotion programs are not part of the package offered

The integrated model on the other hand emphasizes the promotion of small and micro entrepreneurs through technical assistance and training Here, the emphasis is on community development and the provision of job skills for low-income people. Technical assistance is offered and training is emphasized Costs are considerable because of staff time needed

Along the spectrum are models which provide credit, but also place moderate emphasis on technical assistance and training It is important to note that there is no one model that is inherently more successful than another All models provide support to a sector of the population with the ultimate objective of income generation and economic empowerment Depending on the specific needs on the target beneficiaries, each of these models has proved successful in achieving a sustained increase in income Furthermore, for NGOs the selection of a model is also based on the perception of their own capacities and priorities

NGO Case Studies

An Example of the Minimalist Approach: The Association for the Development of Micro enterprises (ADEMI)

ADEMI was established by the local business community as a private non-profit organization in 1983, with technical assistance from Accion International (ACCION) Originally founded by initiatives and funding grants from the local government, the IDB, USAID, GTZ and other institutions, ADEMI now operates in 23 offices throughout Santo Domingo and other provincial capitals in the Dominican Republic

Initially, micro enterprise borrowers in ADEMI receive small short-term individual loans with well-established repayment schedules Upon successful repayment, they are provided with successively larger, longer-term loans to meet their business' expanding financial needs

ADEMI's lending policy is based on positive real interest rates determined by the market, and set by the formal banking system This rate is calculated so as to cover the full cost of lending operations as well as provide a surplus for reinvestment in the loan portfolio

Since 1983, ADEMI's loan portfolio has grown at a compounded annual rate of 40% in US dollar terms This success is attributed to the following elements a Board of Directors that is made up of local business people and not of sponsors, administrative and operational personnel with adequate skills, an institutional structure and culture directed towards credit and finance, coupled with a vision and mission oriented toward economic growth, a high level of local commitment to the institution and the program, and a low level of dependence on subsidies and/or grants, along with a high capacity to mobilize savings and access commercial financial markets

The Integrated Model: The Get Ahead Foundation Micro Enterprise Credit Program in South Africa

Since 1987, the Get Ahead Foundation (GAF) has built a sizeable and pioneering micro enterprise program in the black townships of South Africa It includes two loan programs the Stokvel Loan Program (SLP), which offers one-year loans to borrower groups of five who jointly guarantee loan repayment, and the Business Loan Program (BLP) which was conceived to develop and test a methodology for lending to higher-level small enterprises considered to have greater potential for growth and employment generation

Loans are approved according to applicants' references, a simple project assessment, and no collateral requirements In addition to the credit component, GAF also offers business training to beneficiaries from both programs Training focuses on strengthening basic business skills with courses on costing and pricing, business management, record-keeping, marketing and time management During the first five years of the project, about one quarter of all borrowers had participated in the training

A project evaluation carried out by the Growth and Equity Through Micro enterprise Investments and Institution (GEMINI) reveals that GAF loans have had a positive effect in enterprise growth and employment generation The Stokvel Program, in particular, has had a wide-scale, effective outreach within the communities it serves, which in 1992 amounted to 22 urban and peri-urban areas within South Africa

The study notes, however, that the success of both programs is to a great extent evaluated on the assumption that the timely repayment of a loan means it must have had a positive effect on the client's business However, little systematic information exists in support of this assumption The study further revealed that although businesses have grown considerably during the loan period - as reflected in increases in sales, gross profits, income and employment - they have not transformed or graduated into more formal operations

Limited improvements in specific business management practices included the use of bank accounts, but, a major transformation to more formal management was not apparent This absence of a transformation is manifested in the limited increase in gross profit margins and in the structure of employment Few beneficiaries diversified their businesses, moved their premises, started new businesses, or shifted from trade or services into manufacturing Furthermore, beneficiaries continued to face constrained access to formal sources of credit

These findings suggest that other interventions may be required for the transformation of businesses into more formal operations These may include improving access to outside premises, which constitutes a priority issue among a majority of people in South Africa's informal sector, improving business management practices through training, and promoting vertical linkages with related sectors To address these issues and develop future strategies, GAF's training and marketing department can build on these findings The study concludes by stressing the fact that there is a compelling rationale for GAF to continue its micro enterprise lending activities, which have proven very successful in South Africa

The Transformation from an Integrated Model to a Minimalist Approach: The Case of Senegal

The Small Business Loan Program (known as L'Agence de Credit pour l'Entreprise Privee, or ACEP) funded by USAID in Senegal, was transformed - from an integrated approach in the beginning - into a pure credit program for small enterprises Initially, the ACEP was intended to work with and through non-governmental organizations already existing in Senegal, in the hope of attracting commercial banks to replace ACEP as the provider of credit while the NGOs would act as the transmitters of credit

This tactic was changed when a local organization was established by USAID Senegal for the purpose of granting credit to small enterprises This strategy did not work well and an alternative approach was gradually developed based on the lessons learned from early experiences The ACEP credit system was thus designed to function primarily as a credit union As such, it provided little, if any, technical assistance, and relied on careful scrutiny of loan applicants, tight controls and procedures, stringent credit guarantees, preset repayment schedules and serious enforcement of all regulations ACEP became a permanent and independent, self-supporting organization as of the beginning of 1994

In 1994, well over 5,000 loans had been extended to over 3,500 small businesses A series of evaluations have celebrated the success of the ACEP program in terms of repayment rates, and organizational, financial and economic aspects of the project A recent study concludes that a self-sustaining credit system can be established and institutionalized in the African context

The study points out that the success of ACEP can be attributed to rigid credit controls and demand for collateral, and recommends that these measures should be maintained despite borrower complaints However, the study also notes that the ratio of collateral to loans is far too high to be justified It recommends that longer-term loans be granted, especially to those who have successfully repaid one or more short-term loans This should enable entrepreneurs to start production-oriented enterprises which are more likely to generate employment or to better capitalize on market opportunities It should also enable borrowers to avoid losing their property, especially their homes, on foreclosures

On some occasions, indebtedness to ACEP resulted in tremendous pressure on the borrower's family, embarrassment, and further indebtedness to the informal sector for loans taken to cover ACEP payments This led to the double payment of interest in some periods, even by successful borrowers

The ACEP is an example of a program that can be implemented by relatively untrained field workers, one that is easily understood and can potentially become self-sustaining on interest payments Though less successful in its initial phases, transforming the program to one based on pure credit has turned it into a success The disadvantage that remains, however, is that it is unlikely to reach the poorest of the poor While more complex projects may overcome this problem, they will almost certainly involve higher costs, require more training of implementing staff, and may take much longer to become self-sustaining

LESSONS LEARNED

Keeping in mind the relative strengths and weaknesses of the structural and functional aspects of these FFIs and NGOs, and from the experience of their various credit programs, some key lessons have been learned These lessons will be addressed in terms of outreach and sustainability

Outreach

- *Client-oriented outreach programs which reduce borrowers transactions costs have been key to ensuring success* As seen in Indonesia, loan officers of the BRI and BKK systems have set up units close to the market where people from the community naturally gather

- *Reaching significant numbers of clients is critical to achieving financial self sufficiency of NGOs and banks.*

- *Programs should be gender sensitive* and recruit women loan officers to attract women clients especially in societies where women face cultural restrictions to gaining access to informal or formal financial systems.

Sustainability

- *Development impact is impossible without a viable institution* Whether an NGO or a bank, the principles of organizational sustainability are the same and must include institutional vision, leadership, staff commitment, and organizational capacity and financial resources.

- *Service provision must be client driven and adaptable to changing needs.* Banks and NGOs must be able to develop and introduce new procedures for appraising loans with more emphasis on project viability, and less emphasis on collateral.

- *Techniques to decrease the institutional and administrative costs of NGOs and banks have worked well.* These have included the decentralization of decision-making, streamlining of information systems, utilization of borrower groups to assume part of the processing and administrative responsibility, development of incentive systems, and provision of effective training for staff

- *Simple, low-cost methods for providing credit to SMEs have been used interchangeably by NGOs and bank programs.* For example, many groups use simple, one page application procedures; loans are for short-term working capital; loan repayment incentives include graduated lending, and the interest rates charged reflect the costs of lending.

- N*GOs and FFI programs have recognized the necessity of charging market interest rates in order to achieve financial self- sufficiency* These organizations have also begun to accept the notion that high interest rates and reaching the poor are not mutually exclusive

- *NGOs and FFIs programs have learned the value of mobilizing savings to attaining sustainable programs* Efforts in the future will focus on how to provide non-financial services to small and micro entrepreneurs Programs such as BKK and BRI have demonstrated that people have a great propensity to save when provided with safe, accessible mechanisms In addition, financial institutions can offer a variety of services such as loans for investment, housing, term deposits and dollar accounts when they have money from savings accounts to on-lend.

- *Pure minimalist credit is not always the most effective method to achieve impact at the enterprise level* NGO and bank programs both explore different styles of providing integrated services (training, technical assistance, and credit) to clients

CONCLUSION

This chapter has focused on two key funding vehicles that deliver services to small and micro entrepreneurs, NGOs and formal financial systems The background to each institutional approach and case studies were provided and a lessons learned section was developed

What emerges from this comparative review is the similarity of the approaches used by both funding vehicles Although both started in different places and with different ideas about working in the SME community, NGOs and FFIs are now converging to one commonly tried and tested set of principles NGOs, for the most part, are taking on characteristics that twenty years ago may have been perceived as "bank like", such as charging market interest rates, treating loan recipients like clients and not beneficiaries, and focusing on cost recovery

For the most part, FFIs are still unconvinced about the profitability of working in this sector However, those that do provide SME services have been among the most successful and sustainable programs in the world Indonesia offers the best example of a country whose formal banking system has recognized the importance (and profitability) of serving small and micro entrepreneurs

The successful FFI and NGO programs are all based on a common set of principles set forth in the lessons learned section As this section notes, many of the lessons learned are not always applied in the field There is still much work to be done in terms of applying the lessons of experience to future and on-going SME efforts

CHAPTER V

CONCLUSIONS

CONCLUSIONS ON OUTREACH AND SUSTAINABILITY

This report began with a series of questions regarding outreach and sustainability as they relate to USAID's SME portfolio These issues have been systematically discussed in the above text In review

> ***Chapter I*** addressed questions regarding USAID and other donor SME portfolios and identified technical and geographical areas of need
>
> ***Chapter II*** compared TI's two SME models, the foundation and bank models, to address questions of sustainability and outreach
>
> ***Chapter III*** answered questions of outreach and sustainability through a comparison of SME programs from around the world
>
> ***Chapter IV*** provided lessons learned on the use of NGOs and the formal financial system to delivery credit and technical assistance to small and micro entrepreneurs

The answers to these issues, as presented in the above noted chapters, will provide input for the Office of Trade and Investment's small and micro enterprise portfolio Below is a summary of the key findings as they relate to outreach and sustainability

Outreach

All of the chapters deal with issues of outreach, covering several different levels, such as numbers of clients served, depth of services to the poor, and diversity of clientele Each of these "levels" is important as they are all associated with a program's capacity to achieve sustainability A short summary of the findings on outreach is presented below

Numbers of Clients Served

This report concludes that the Office of Trade and Investment's SME programs do have significant outreach When compared to similar, successful programs its efforts have achieved analogous results in terms of numbers of clients served For example, two and six year old programs in Africa and Asia are reaching around 10,000 to 20,000 clients Over the last five years, TI's SME projects have served around 15,000 clients on average

Cumulative Borrowers, 1994

ABA -- 14,590 (in five years)
ESED -- 9,444 (in four years)
NBD/SECP -- 19,419 (in 18 months)

In terms of potential market reached, the Egyptian programs are a bit low For example, BancoSol reaches about ten percent of its total market in Bolivia and Actuar reaches around 5-8 percent of its market in Colombia Most of the other programs presented in chapter III do not reach more than 3 percent of their total markets Although exact figures of the Alexandria and Cairo markets are not available, TI's portfolio probably serves less than 1-2 percent of the potential client market for credit

Outstanding issues for TI include a need to address the two other levels of outreach, i e , depth of services to the poor and diversity of clientele

Depth of Services

Loan sizes are often used to demonstrate a program's depth of outreach Small loan sizes are considered an indicator of a program's ability to reach the poor The criteria given by AID/Washington has been to maintain loans below $300 to ensure the truly poor are being reached As indicated in Chapters II and III, TI's SME projects tend to have a much larger average loan size than the most successful international initiatives

Average loan sizes from international programs discussed in this report are around $200-400 with repayment periods between 4-12 months Loan sizes of ABA, ESED, and NBD are fairly high ($700) in comparison Once GNP per capita is taken into consideration, Egypt's loan sizes are still high For example, FINCA's average loan size of $317 represents only 17 percent of GNP per capita in Costa Rica, and the average loan size of the LDP system in Bali ($120) is also tiny, representing only 19 percent of the GNP per capita

There are exceptions to small loan sizes in this sample of successful international SME programs, including ACEP, BRI, and BKD For example, ACEP's average loan size of $1,645 is well above the Senegal's GNP per capital of $720, BRI's average loan size of $494 constitutes 80 percent of GNP per capita in Indonesia, and BRK's loan size of $295 comes close to Niger's GNP per capita of $300 Another notable exception is Grameen Bank's program whose average loan size of $113 equals Bangladesh's GNP per capita of $110

ABA, ESED, and NBD's loan sizes remain relatively high when appraised by GNP per capita In fact, most of the programs' average loan sizes are above the GNP per capita in Egypt of $610 [67] While preliminary evidence exists that larger (more mainstream) SME efforts may be most

[67]Average loan sizes are $768 for ABA, $869 for ESED and $671 for NBD/SECP

effective in poor countries with weak financial systems, TI's current SME portfolio does exclude many potential clients

Diversity of clientele

TI's SME programs provide limited services to women and other hard to reach or disadvantaged groups All of the programs maintain a 10-12 percent average for female clientele Although numbers of female borrowers were not available for the eleven projects discussed in this report, a 10-12 percentage for women is low when compared to programs like Grameen Bank in Bangladesh which maintains a 94 percent average for female borrowers

Loans Disbursed to Female Entrepreneurs, 1994 (Cumulative Program Life)

ABA	3,279
ESED	726
NBD/SECP	4,002

TI's current SME programs have the capacity to reach more women but not without changes in organizational policies If this third level of outreach is to be achieved, TI's existing SME programs need to develop appropriate organizational incentives for reaching more female entrepreneurs and other disadvantaged groups They must be encouraged to devote the time and resources necessary to develop new gender sensitive strategies and train existing staff to more aggressively pursue female clientele

Sustainability

Factors of sustainability were examined throughout the report Chapter II looked at financial and organizational sustainability, Chapter III compared successful, sustainable programs around the world in terms of program characteristics and loan conditions, and Chapter IV reviewed lessons learned in the use of NGOs and formal financial systems to deliver sustainable SME services

Traits that reflect sustainable programs include a viable funding vehicle, sound program methodology, market based interest rates, high borrower growth rates, strong repayment rates, and high productivity In addition to these conclusions, one of the outstanding issues for all the TI SME programs is their continued dependence on external technical assistance While it is impossible to calculate the extent of this reliance, all the organizations remain dependent (to different degrees) on external technical assistance to meet USAID accounting and financial requirements, train new staff, and meet minimal reporting standards

Funding Vehicles

As presented in Chapter III and IV, a variety of funding vehicles have been used in successful and sustainable SME programs around the world Many efforts in the last decade have used NGOs to implement the delivery of SME services although many others have used village banking systems and the formal financial system

The lessons learned from these programs indicate that the type of funding vehicle is not as important as the appropriate methodology While NGOs have learned over the last decade that they must devote more time and attention to cost recovery and issues of financial sustainability, formal banks have had to develop new, more hands-on strategies to serve small and micro entrepreneurs

TI's programs offer a unique experience in this respect Its SME efforts have used both NGOs and the formal banking system As discussed in Chapter II, these programs have used a similar approach to SME lending and have worked well This experience coincides with the lessons learned from around the world that sustainability is linked more to program methodology than the funding vehicle employed

Program Characteristics

TI's programs all maintain many of the key ingredients that are illustrated in successful, sustainable programs from around the world, including

- Unconventional collateral conditions
- Short-term working capital loans
- Relatively high (or market rate) interest rates
- Graduated lending
- Hands-on approach to working with entrepreneurs

The use of these strategies has served all three programs well Although each organization has a different implementation experience, many of these variations reflect managerial decisions rather than lending methodologies

Interest Rates

The interest rates charged by a SME credit program is an important ingredient to achieving financial sustainability To attain financial independence an organization must charge interest at levels -- that once inflation is considered -- will allow it to recover its costs

A wide range of real, effective interest rates are charged by the programs discussed in this report, ranging from a high of 67 percent for ADOPEM (Dominican Republic) to a low of -9 percent for K-REP (Kenya) Although USAID/Cairo may consider their effective interest rates to be high, once they are adjusted for the country's 12 percent rate of inflation (in 1993 terms) they are similar to those of other programs

1993 Interest Rates of Egyptian SME Programs

	Effective	Real, Effective
ABA	32%	20 %
ESED	32%	20 %
NBD/SECP	41 %	29%

In fact, the Egyptian real effective interest rates fall in the middle of both high and low ranges For example

High Rates

* 52 percent -- Actuar/Colombia
* 48 percent -- BKD/Indonesia
* 67 percent -- ADOPEM/Dominican Republic

Low Rates

* 12 percent -- Grameen Bank/Bangladesh
* 18 percent -- BRK/Niger
* 23 percent -- FINCA/Costa Rica

The important issue for all the projects is that they are charging an interest rate whereby they can recover costs, i e , break even As in the case of NBD, they were able to do this after 19 months of operation while charging a 29 percent real effective interest rate ABA's lower real effective interest rate of 20 percent is a factor in its longer, 30 month time period to reach break even ESED's problems with break even and other issues of sustainability are more a reflection of its previous management than program or loan characteristics

Borrower Growth Rates

Sound borrower growth rates demonstrate strong client demand and satisfaction TI's SME portfolio has a very high borrower growth rate and fairs well compared to other programs around the world

Average annual borrower growth rates for the programs presented in this study range from 14 to 120 percent Newer programs, known for their stronger initial growth rates, all maintain higher averages closer to 70 to 80 percent annual growth rates

ABA, ESED, and NBD all have strong borrower growth rates that compare favorably with the SME programs presented in this study

1994 Borrower Growth Rates

ABA - 138 % annual
ESED- 167 % annual
NBD - 15 % monthly

These high borrower growth rates are an indication that TI's SME portfolio is providing a needed service and a quality product to the people of Alexandria and Cairo

Repayment Rates

Achieving high repayment rates is usually a necessity for eventually reaching sustainability According to some assessments, the following levels of repayment rates have been classified a 95 percent repayment rate is "excellent", 90-95 percent is "good", and 80-90 percent is "marginal" Below 80 percent is considered to be "non-sustainable" Many evaluators consider 95 percent and above as the minimum standard and target for all projects

Again, TI's SME programs have been able to maintain consistently high repayment rates and compare favorably with other SME efforts around the world

1994 Repayment Rates

ABA.... 98 %
ESED......94 %
NBD/SECP......99 %

The ability to maintain these averages reflects their philosophy which includes short loan terms, frequent repayment periods, and repayment incentives (i e , graduated lending) This philosophy -

- together with a hands-on approach to client assistance -- has been able to provide a service that remains in high demand

High Productivity

The productivity of loan officers is often considered a good proxy to an organization's operational efficiency Loan officers are the key to finding new clients, ensuring the timeliness of loans disbursed, follow-up and loan repayment

TI's SME programs all maintain sound borrower/client ratios These compare favorably to even the most successful programs around the world The following chart provides a sample of several major programs compared to TI's three urban SME initiatives

PROGRAM	**Borrowers Per Extension Officer**
ABA	100
ESED	117
NBD/SECP	99
ADOPEM (Dominican Republic)	74
BancoSol (Bolivia)	139
BRI (Indonesia)	118
Grameen Bank (Bangladesh)	152

Most of the programs that maintain higher averages than the Egyptian projects employ solidarity group lending (These include ADOPEM, BancoSol, and Grameen) Therefore, these initiatives tend to have a much higher ratio of clients per extension officer The industry standard for individual loan programs is between 100-120 borrower per extension officer

CONCLUSION

This study has provided a profile of small and micro enterprise programs in Egypt It has emphasized issues of outreach and sustainability as key elements of SME programming and suggested that while these characteristics may seem incompatible, this may not be the case

For example, many of the existing needs in Egypt's SME sector, indicated in chapter I, could be addressed through greater efforts of outreach by donors and ENGOs Matters of sustainability also emerge as central to the continuation of donor supported programming Together, these issues can provide insight into the potential for long-term impact of SME efforts

The number of NGOs and donors working in Egypt has left the country without a uniform approach to small and micro enterprise development Efforts to coordinate this diverse portfolio has been limited Although every donor agency or organization has its areas of expertise, improved coordination of organizational priorities would better serve Egyptian entrepreneurs

This study's conclusions indicate that the Office of Trade and Investment's small and micro enterprise portfolio has performed well In areas of efficiency and productivity it stands up against the best programs in the world Charging market interest rates and implementing well proven strategies, TI's programs have served a small, but significant community of entrepreneurs in urban areas

TI's SME programs do have serious weaknesses regarding outreach and sustainability Concerning sustainability, one of the key weaknesses is their continued dependency on external technical assistance which may render them non-sustainable in the long-run In addition, their inability to mobilize savings or generate new sources of funds for their operations will have important implications for the long run viability of these projects Another weakness stems from these programs' inability to attain meaningful outreach -- in terms of numbers or diversity of clients served

The conclusions reached in this report will hopefully be useful not only to USAID but other donors and NGOs as they identify new projects and programs for small and micro entrepreneurs in Egypt The range of needs is broad and can be met through different levels of activities, including

- Greater attention to business formation activities
- Support for existing training and technical assistance efforts
- Strengthening Egyptian NGOs currently serving the SME community
- Developing a strategy to encourage the participation of Egypt's formal financial system in small and micro enterprise lending

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ANNEXES

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ANNEX A

SUMMARY OF SME PROGRAMS IN EGYPT

THE ASSOCIATION FOR THE DEVELOPMENT AND ENHANCEMENT OF WOMEN

Starting Date: 1987
Ending Date: Present
Implementing Agency: ADEW
Funding Agency: Ford Foundation
Amount of Funds: $33,000 for Technical Assistance, $17,000 for credit

Objective:

To promote the central philosophy of empowering women in low-income communities by improving their access to credit and providing legal assistance This is done through offering assistance in developing and implementing action-oriented programs that generate employment for women-supported households, improve the leadership skills of community women, create awareness of the needs and problems of women-supported households and elicit the support of government officials and private and institutional donors, establish links between women's PVOs local women, donor agencies, private individuals, and banks, and assist local organizations in setting up similar programs

General Description:

The Association for the Development and Enhancement of Women (ADEW) is an Egyptian PVO established in 1987 to respond to women's needs in Egypt The credit component of the program includes a revolving fund in selected communities based on the international concept of peer lending This loan system was adapted to the traditional savings system of the "gameya" It allows women to become members of a self-selected credit group and provides them with a support network that generates both a sense of group solidarity and creates a medium for exchanging problems related to their income-generating activities It also serves as a guarantee mechanism

The technical assistance component aims at introducing options for the diversification of product lines to meet market demand and increase profit, assisting women in identifying new wholesale and retail market opportunities, and training women on basic budgeting principles The legal component of the project facilitates the procedure of acquiring legal documents such as identity cards, birth, marriage, and divorce certificates, and assists in the registration of commercial enterprises, and raises awareness among women about their legal rights in such matters as divorce, child custody, and property ownership

Manshiet Nasser

One of the projects run by ADEW is the credit and technical assistance program for women-supported households in Manshiet Nasser Comprehensive training programs are targeted at the beneficiaries, and extension workers provide training in marketing, budgeting, project promotion, and administration A revolving loan fund of L E 40,000 was set up by the Ford Foundation, but it currently operates with no external assistance Examples of activities currently being supported by the loan include vending, sewing, shoemaking and food-processing

Loan Disbursement Procedures:

- 18% interest rate
- Loans of between L E 150 and L E 400 are disbursed to assist clients starting or expanding various small income-generating activities
- Savings component
- Technical assistance is provided

Geographical Outreach

Greater Cairo area

Target Groups

Low-income urban women who are the main and/or sole supporters of their families These include divorcees, widows, co-wives, or women whose husbands are disabled or underemployed

Short-term loans are used to open and/or expand small business enterprises Groups who repay on time are eligible for subsequent small loans

Types of business include manufacturing, trade, and services

Accomplishments to date:

- 70% repayment
- Total number of clients until 1994 is 750 women
- Cost recovery after five years of operation

COPTIC EVANGELICAL ORGANIZATION FOR SOCIAL SERVICES (CEOSS)

Starting Date: CSE program started in 1992, LD started in 1983
Implementing Agency: CEOSS
Funding Agency: National Council for Negro Women and others

Background:

CEOSS in an Egyptian NGO authorized by the Ministry of Social Affairs to implement and receive donor funding support for credit programs The Economic Development Unit (EDU) of CEOSS implements two credit programs Loans for Development Program, and Credit for Self-Employment and Small Enterprise (CSE Project Loans)

Loans Disbursement Procedures:

- Interest rates are fixed annual rates, calculated as an annual percentage of the total value of the loan and not the declining balance Interest rates are 2% less than the bank interest rate on comparable loans

- Grace period for production enterprises or productive service businesses depends on each case For commercial or trade activities, no grace period is allowed before the first installment of loan principal is due Monthly interest payments are required during the grace period

- The loan size for the Loans for Development program is L E 1,500, while for the Credit for Self-Employment and Small Enterprise (CSE Project Loans) range between L E. 1,500 and L E 15,000 The maximum loan term is 15 months, duration varies according to the nature of the project Working capital loans are due in the same period that the purchased materials are consumed Duration of loans for equipment purchases vary between 9-15 months

- Technical assistance is provided to clients

- Type of business production, service or commercial

Geographical Coverage

Minia, Assuit and metropolitan Egypt

Target Beneficiaries

- Residents of Minia, Assuit, and metropolitan Egypt who are starting new business or expanding existing ones

Evaluation Criteria for Loan Terms

- Quality of the business plan, cash flow analyses and business feasibility, applicant's character and business and/or employment history based on interviews undertaken, in addition to demonstrated initiative and entrepreneurship including business management capabilities

- For loans larger than L E 10,000 the prospective borrower maintains a bank account with L E 1,000 as a minimum balance for the duration of the loan

- For loans larger than L E 10,000 the borrower maintains financial records to be inspected by CEOSS

- Borrowers must sign promissory checks for the full value of the loan Promissory checks are held by CEOSS as a loan guarantee until the loan is repaid in full

- Borrowers starting new businesses, except for unemployed who have no capital to invest, are required to make an equity contribution in addition to the above noted bank account

COMMUNITY INITIATED DEVELOPMENT

Starting Date: November 1990
Ending Date: December 1993
Implementing Agency: CARE, Egypt in collaboration with the Ministry of Social Affairs
Funding Agency: USAID and CARE, USA
Amount of Funds: USD 4 4 million

Objective

The final goal is the improvement in the socioeconomic conditions of 250,000 poor people in four governorates of Upper and Middle Egypt by 1993

Objective of this program is to support 12,000 micro and small enterprises funded through 120 ENGOs The projected impact of the program is to assist the economically disadvantaged members in the target communities

Loan Disbursement Procedures:

- Interest Rates 15-21% on a fixed balance
- Grace periods are given up to 6 months depending on the cash flow of the activity financed
- Average loan size is LE 500, maximum for an individual is LE 1,500 and for a group LE 3,000
- Maximum repayment period is 24 months
- There is no savings component nor does this program provide technical assistance

Regions Covered:

Aswan, Sohag, Qena, and Fayoum Governorates.

Target Groups:

- Individuals whose household income is below the GOE defined poverty line
- Formal and some informal enterprises

- Existing and start-up activities
- Women

Evaluation Criteria for Loan Recipients:

- No gender restrictions, women are preferred
- Must be at least 18 years of age
- Demonstrated technical and managerial ability
- Good reputation
- Must be the manager of the activity financed
- No specific loan security requirements, however, various ENGOs have instituted IOU cheque and/or guarantees

General Description:

Financial services are provided to low income households for primarily income generation activities through revolving loan funds managed by community-based Egyptian NGOs

Accomplishments to date:
As of December 1994

- 27,037 loans were disbursed, with 10,128 of these to women
- LE 13,668,128 in cash disbursed
- Average value of loan fund LE 36,786 (Average initial capital grant LE 25,000)
- Cumulative repayment rate 98 83%

Evaluation Findings:

A mid-term evaluation of the CID program was conducted in 1992 and determined that "CID is a thoroughly sound, energetic, and well-managed community development program of impressive achievements The priority indicators of project status and progress in achieving project purposes are strongly positive CID shall exceed its target of 250,000 total beneficiaries, most of whom are indeed economically disadvantaged " (Community Initiated

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The evaluation also provided a number of recommendations intended to further strengthen the impact of the program during its remaining life These included, for example, 1) conducting a limited number of beneficiary impact assessments, 2) consolidating the minimalist revolving loan fund training curriculum, and 3) expanding management training for selected NGOs

Growth Small and Micro Enterprises (GSME)

Duration 5 years
Implementing Agency CARE
Amount 12 5 million

Background the project provides loans to existing SME owners through banks

Loans total loan amount is L E 12 5 million Average loan size is L E 2,000 to L E 2,500 Interest rate is at the market rate

Target Beneficiaries existing SME owners, target number of beneficiaries is 5,000 loans and 7,500 trainees

Geographical Coverage Aswan, Qena, Sohag, El Fayoum, the project will initially start in two governorates, then extend to the other two

Small Economic Activities Development (SEAD)

Duration 1990 - 1993
Funding·

Background provided loans to individuals through 130 CDA's, 30 in each governorate

Loans total loans in Aswan L E 620,000, Qena L E 600,000, Sohag L E 620,000, and El Fayoum L E 600,000 Interest rates are at market rates, started at 18% and ended at 16%

Target Beneficiaries: SMEs operating in live stock (45%), commercial (30%), services (15%), industrial (5%) and agribusiness (5%)

Geographical Coverage Aswan, Qena, Sohag and El Fayoum

SMALL SCALE INDUSTRIES - DANIDA

Starting Date: March 1995
Implementing Agency: National Bank for Development (NBD)
Funding Agency DANIDA
Amount of Funds L E 18 million

Background

In 1990, Denmark identified support to small and micro industries as an important means for poverty alleviation in Upper Egypt This sector was chosen for its contribution to solving the growing problem of unemployment and related social and economic problems Innovative components of the Danish strategy include a number of technical and marketing activities in support of entrepreneurship, such as apprenticeship arrangements, nursery workshops and technical and management training In addition, the appropriate institutional environment to reduce current constraints posed by government inspection and taxation systems will be promoted

Assistance will be provided in the establishment of independent associations of entrepreneurs in the governorates, to address the current lack of representative institutions with the ability to negotiate with government on key issues like industrial land use planning, taxation and arbitrary inspection This will build upon experience acquired by businessmen associations in Cairo and Alexandria Business formation, and specifically women, will be a focus of the project As such, technical assistance and training will be a major component of project activities

Objectives

To generate small-scale industrial growth, to maximize support to women entrepreneurs and to encourage employment of female laborers, to collect experiences from small-scale industrial centers in Egypt such as, Cairo, Alexandria, and Damietta and to transfer them to Upper Egypt, explore opportunities through apprenticeship arrangements, and to examine the possibility of involving NGOs for a complex of support activities in limited geographical areas (villages) as well as for specific program components

Loan Disbursement Procedures:

Loans are classified into two types

- long-term loans for a period of three years with a grace period of six months to medium-sized industries, at a value between L E 25,000 to L E 100,000, and

- short-term loans for 6-9 months at an average of L E 1.000 to 2.500. with no grace period

- Market interest rates are used

Geographical Coverage

Initially Aswan, and other Upper Egypt governorates (preferably Qena)

Target Groups

- New entrepreneurs and existing small industries and service enterprises

Immediate beneficiaries will not be the poorest, but rather those with skills and knowledge which allow them to successfully operate small businesses and industries To the extent that small industrial workshops can be established and can grow, jobs will automatically be created Most if not all of these jobs will benefit the poor

ENTERPRISE DEVELOPMENT PROGRAM (EDP)

Implementing Agency: PBDAC and other public sector banks, ENGOs
Funding Agency: Social Fund for Development
Amount of Funds: LE 20 million

Background

The SFD was established with the aim of mitigating the problems associated with the implementation of Egypt's economic reform and structural adjustment programs One of the core programs carried out by the SFD in this respect is the Enterprise Development Program (EDP) which provides credit and technical assistance for the establishment or expansion of small enterprises The SFD does not deal with beneficiaries directly, but operates through intermediaries agencies such as banks (the four public sector banks and the PBDAC), which act as sponsoring agencies, and NGOs, which represent the executing agencies

Objective

The objective of the EDP program is to expand existing small enterprises to generate income and increase employment opportunities, and to create new small enterprises

These objectives are to be achieved through developing, funding and delivering integrated packages of technical assistance, credit and training

Loan Disbursement Procedures

- Interest Rates - 12%
- Maximum loan size for individuals is LE 35,000 - 50,000, and for groups of four, LE 200,000
- There is a savings component in the program
- The program also provided technical assistance

Regions Covered

Assuit, Aswan, Beni Suef, Cairo, Damanhour, Ismailia, Mansoura, Minia, Qena, Sohag, Tanta

Target Groups/Beneficiaries

- Public enterprise workers displaced as a result of the economic reform program
- Gulf crisis returnees

- New graduates
- Existing small entrepreneurs
- Unemployed
- Women
- Pre-formation, existing and expanding businesses engaged in manufacturing

Evaluation Criteria

Feasibility study, implementation capacity, cost-sharing among executing agencies, implementing agency and the sponsoring agency, proven record of experience and personal motivation, job opportunities created by the project, beneficiaries should be from the geographical location of the executing agency, and should not be less that 21 years of age

The stated appraisal/selection criteria are expansion of employment and income generating opportunities in the small enterprise sector, utilization of appropriate technology, provision for marketing and quality control, financial viability, project sustainability, and management capacity of sponsoring agencies

Accomplishments to Date

As of November 1994,

- 25,159 loans were disbursed to micro enterprises, at a value of L E 29,770,581

- 27,943 loans to small enterprises, at a value of L E 433,194,686

Problems as perceived by the SFD

- The SFD is concerned about the slow disbursement of funds by banks It can take a beneficiary up to two months from the date of submission of project proposal to receive credit In addition, banks are usually reluctant to offer loans to small enterprises, and tend to ask for collateral requirements, which frequently discourages loan applicants According to the semi-annual report of the SFD, the program is seeking new implementation arrangements involving business groups and private sector companies, in order to improve the prospects of fast-track loan approval and to reduce the risks associated with small businesses
- Little or no technical assistance provided to the clients
- There is insufficient follow-up for repayment.
- The use of "off the shelf" projects seldom reflect either client or market needs
- A general lack of information on market demand, pricing, and market saturation is present
- Only LE 4 million (as of March 94) of the designated LE 20 million have been disbursed

NATIONAL BANK FOR DEVELOPMENT (NBD)

Implementing Agency: National Bank for Development
Funding Agency: Ford Foundation, DANIDA, UNICEF, CIDA

Background:

The National Bank for Development has recently launched several SME initiatives through donor assistance In 1990, USAID funded NBD in a pilot SME effort in Sharkeya and Damietta In 1993, USAID expanded this effort through the Small Enterprise Credit Program (SECP) to serve the Greater Cairo are through its 13 existing branches The Ford Foundation has assisted NBD to establish a SME program in Minia city CIDA and UNICEF has also established successful partnerships with NBD to manage credit programs in Luxor and Qena

Objective:

To increase productivity, income and employment in Egypt by facilitating the expansion of small and micro enterprises In addition, to enable small scale entrepreneurs in the informal sector obtain credit through the commercial banking sector The programs seek to ameliorate the negative impacts of structural adjustments on lower income people and those displaced by disturbances caused by the Gulf war

Loan Disbursement Procedures:

- Loan size ranges from LE 250 to LE 10,000
- Average loan size is LE 2,250
- Market rates of interest is applied
- There is a compulsive savings component to the program 10% of the required loan amount has to be deposited as savings with the bank in cash in advance of granting credit
- Loan repayment periods average four to five months
- 60% of clients obtain continued credit

Geographical Coverage:

Minia, Qena governorate, Sharkia, Damietta, Greater Cairo

Target Beneficiaries:

- Urban SMEs
- Programs target pre-formation, existing and expanding businesses
- Trade, manufacturing and service SMEs
- Informal SMEs

Evaluation Criteria:

- No workshop permits, licenses or registrations are required
- Clients are screened with cash flow analysis

Accomplishments:

As of November 31st, 1994

- 68,815 loans had been disbursed at a value of LE 105,504,354
- Number of outstanding borrowers is 18,748
- Total late installments amount to LE 555,650
- Repayment rate is 99%

PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT (PBDAC)

Implementing Agency: PBDAC
Funding Agency: Ford Foundation, UNICEF, Social Fund for Development, USAID

Background:

PBDAC was founded in 1931 as a joint stock company with LE one million capital in an effort to support landed farmers through small scale credit assistance PBDAC has received assistance from a range of donors and has recently liberalized its lending policies beyond agricultural credit to income generating activities through non-collateralized loans

Through USAID funding, PBDAC runs one of the largest credit assistance programs for women in the country (For a further description, see Chapter I)

Objective:

PBDAC's objectives are to serve individuals throughout rural Egypt in the provision of low-cost, easy access credit assistance

Loan Disbursement Procedures:

For the Ford Foundation-PBDAC program

- Market rates of interest are applied, maximum loan size is LE 2,000, there is no savings or technical assistance component

For the UNICEF program

- Rates of interest are 4%

There are two sets of interest rates for the Social Fund for Development programs

Type 1

- Interest rates are set at 12%, loan size varies from LE 200 to LE 25,000, and technical assistance is provided

Type 2

- Interest rates are set at 9%, loan sizes range from LE 500 to LE 15,000, and no technical assistance is provided

See Chapter I for a further description of USAID's funding of PBDAC activities

Geographical Coverage:

17 of the country's 26 governorates (see chapter I)

Target Beneficiaries:

- Households
- Women
- New graduates
- Anyone suffering from privatization
- Pre-formation and existing/expanding businesses
- Trade, manufacturing and services
- Livestock and animal husbandry

Evaluations

There are not many evaluations of PBDAC's programs, however, one of the best is the Ford Foundation evaluation of the program it funded in Minia This is available through the Ford Foundation and is entitled, "Lending and Learning Formal Bank and Micro Enterprise in Egypt" prepared by Jennifer Sebstad, 1993

THE RURAL WOMEN PROJECT (RWP)

Starting Date 1981/82 in four governorates, expansion to another governorate in 1985
Implementing Agency: UNICEF and MOSA
Funding Agency: UNICEF

Background:

RWP started in collaboration with the Ministry of Social Affairs (MOSA) and UNICEF The program involves two components one of which is extending loans to poor rural women for income generating activities Project planning, implementation and follow-up are joint responsibility of MOSA and UNICEF Based on a ministerial decree, an NGO called "Society for Rehabilitation" is responsible for the financial management of the RWP

The Society receives local funds from the Bank of Investment, which go towards payment of salaries, equipment and running expenses, and foreign funds from UNICEF finance payments of loans, establishing revolving funds, training, and equipment A steering committee composed of directors from different departments of the governorate ensures the coordination of UNICEF activities at the governorate level

Objective

To integrate rural women in development and enhance their socioeconomic status and reach women and children living in poor and unserviced communities Other goals include to improve the way of life and practices of rural women, to develop their abilities and provide them with the necessary support to become productive family members involved in income generating activities and to create day-care facilities for their children

Loans Disbursement Procedures

Maximum loan per beneficiary is L E 700, with the exception of collective cattle raising, where loans can reach L E 1,000 to cover cost of purchasing livestock In these cases a group collateral is practiced, where each woman serves as a guarantor for another woman in the same group

- The average size of the loan is L E 205 and the interest rate is 10%
- Loans may be either in cash or in kind
- There is a grace period of up to six months, depending on the type of project
- The repayment period is up to 18 months

Geographical Coverage

97 villages in Assiut, 106 villages in Sohag, 75 villages in Qena, 68 villages Aswan and 98 villages in El Beheira Priority in village selection was given to those with high infant mortality rates, those lacking basic services and infrastructure, and those with the potential to accommodate other UNICEF programs such as those related to health, water and sanitation

Target Beneficiaries

Rural women engaged in projects such as trade in vegetables, fertilizers, clothes, and grocery, food processing such as sweets and cooked food, dairy products, fish farms, raising pigeons, and weaving kelim and carpets Other projects, using materials from the immediate environment, include straw mats, baskets, pottery and furniture from palms Other projects are owned collectively, such as rabbit raising and bee hives

Evaluation Criteria:

Beneficiaries are required to make a payment of 25% of the loan in addition to an interest rate of 10%

Achievements

As of November '92

- The number of beneficiaries amounted to 50,300 in the five governorates
- 73 8% of beneficiaries' projects are ongoing and successful
- 97% make timely repayment, 2 3% of repayments were delayed, 40% of which due to the fact that production time was not synchronized with the time for paying the installment

Evaluation Findings:

According to a study conducted by UNICEF, limited dissatisfaction was expressed regarding loan size. Beneficiaries recommended establishing distribution centers or marketing cooperatives in the capitals of the governorates and/or providing organized marketing services 56% of beneficiaries were opposed to group projects and favored individual projects As regarding targeting, the project had failed to target the poorest of the poor Due to the stipulation that beneficiaries were required to contribute 25% of the loan, many poor rural women could not apply for a loan because they could not afford it Additionally, high value/profit projects went only to relatively more financially solvent women/families, thereby reinforcing social differentiation   Another recommendation was to prolong the grace period and make it coincide with the project's productive cycle   The collateral requirement of the RWP has also presented a constraint   Although land possession, "heyaza" or a guarantee by a civil servant are accepted, poor rural women are often unable to secure a guarantor

95% of beneficiaries reported an increase in income   Recommendations made by the study include applying more participatory methods in initiating and implementing the projects by involving rural women in the decision-making processes, starting from the selection of the projects up to the mechanics for loan repayment   Prior study of the loan adequacy should be undertaken before applying the RWP in new villages   An adjustment of the size of the loan relative to current price indices should be one of the operating principles of the project

STREET FOOD VENDORS ORGANIZATION PROJECT (SFVO)

Starting Date: 1986
Funding Agency: Catholic Relief Services

Background

The SFVO was established in December 1986 and began operating in January 1988 to provide low-interest loans and training seminars A revolving credit fund was set up in June 1988 with capital from CRS, and 40 loans were made in the first two months oftentimes to buy supplies As an additional service the organization is considering offering social loans at a higher interest rate In March 1993, the SFVO set up a warehouse to sell items used by its members such as, ingredients for street foods, beverages such as tea and cocoa, and hand and dishwashing soap The store operates on a profit margin of 6%, a level that covers the costs of running the warehouse The Ford Foundation supported SFVO directly, providing a grant to cover the costs of staff, office facilities, advocacy meetings, and health training, including training for the staff In addition, Ford Foundation contracted with the Institute for Cultural Affairs (ICA) to provide 12 training workshops to the SFVO Board and staff over a two year period In addition, the Canada Fund has agreed to fund ten new aluminum carts that vendors may purchase over a three year period

Objective

To change the official status of the unrecognized and unsupported group of street food vendors and promote the interests of street food vendors, to improve their health practices and to increase their economic opportunities

Loans Disbursement Procedures.

- Interest rates are set at 2% a month

- Costs for bank and administration charges and a possible penalty fee are taken out of the amount loaned If the vendor repays on time, the penalty fee is returned

- Loans are granted for cash or for supplies from the warehouse, and for four, eight, or twelve months

- The loan size is between LE 800 to LE 1,000

- CRS contributed to the credit fund and toward technical assistance

Geographical Coverage

Minia Governorate   Plans are underway for Cairo and Sohag

Target Beneficiaries

Street food vendors selling sweets, sandwiches, foul, tameya, kushary, and salted fish

Evaluation Criteria for Loan Recipients

SFVO staff visit loan applicants both at their place of sale and at home, since much of the food is processed there   Cleanliness of operation as well as character reference is important in assessing whether to grant the loan   An average of thirty requests are filed each month and only about two refused   Staff approved applications go to the Board for final agreement

Achievements

- As of December 31, 1992, 725 loans had been made, 499 to men and 228 to women
- Membership by the end of 1993 reached 700, nearly one-third of whom were women

<u>Women Household Loan Program</u>

Background A program for raising chicken and producing eggs

Geographical Coverage Minia

<u>Minia El Basal Employment and Placement</u>

The Minia El Basal Employment and Placement Project provides practical training to unemployed, unskilled youth in Ard El Moz community through apprenticeships in local workshops   These apprentices receive on-the-job training in trade skills   In exchange for hiring and training the apprentices, workshop owners receive low-interest loans and management training to expand their businesses

Geographical Coverage Minia El Basal

<u>Credit Program in Sohag</u>

Background the credit program is implemented by the Sohag Business Association   Other CRS activities in Sohag involve assistance in the establishment of the industrial zone in Sohag

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by giving loans to SMEs located in that zone Also, juvenile loans are extended for training juveniles to work in SMEs

Loans total value of loans is L E 400 000 Loans are on average between L E 1,000 and L E 10,000 Interest rates are at 12% Grace period is one month, and the maximum loan term is 36 months

Geographical Coverage Sohag

Achievements During the first year(?), 300 loans were disbursed

Credit Program in Assiut

Background credit is extended for live stock projects

Loans loans average L E 400 - 1200 Over two years, 600 loans were extended to loan recipients in ten villages

Target Groups Gulf Returnees

Geographical Coverage Assiut

Credit Program in El Fayoum

Background one loan was extended to four PVOs for the production of garments

Geographical Coverage Fayoum

WOMEN'S CREDIT FUND

Starting Date March, 1993
Implementing Agency: NGOs and NBD (for Qena only)
Funding Agency: UNICEF

Background

The credit program is one component of an integrated upgrading program that consists of the following components health program, water and sanitation hygiene education, adult education, and capacity building UNICEF uses the group guarantee method for its program UNICEF works mostly through NGOs, except in Qena, where the credit program is implemented through the National Bank for Development (NBD)

Objectives

To develop a credit mechanism based on the Grameen Bank model, but amended to suit the Egyptian context, to provide credit to the most disadvantaged women in the targeted governorates, and to identify local institutions and provide them with institutional assistance to strengthen their capacities as local implementing agencies and act as partners to UNICEF in credit delivery

Loans Disbursement Procedures:

Total loan budget in 1994 was US $ 50,000 at an interest rate of 14-16%

The loan size varies between L E 100-2,500

Repayment period is ten months

Interest rates (the percentage for risk, insurance and transportation) reaches 29 75%, collected on a weekly basis In addition, the bank deducts 10% from the loan for the Savings Fund, which is to be returned to the borrowers after repayment of the loan

Geographical Coverage·

Assiut Manfalout, Ghanayem, Abnoub, Sohag Dar El Salam, Saqalta, Tema, Qena (with the NBD) outskirts of Qena City, Farshout, El Wakf, El Bayadeya, Qous, Aswan outskirts of Aswan City, Alexandria outskirts of Alexandria City, Karmouz, Cairo El Nahda, Ein Shams, Ein Helwan

Target Beneficiaries

Disadvantaged women in the targeted governorates female heads of households (widows, divorcees, deserted wives, women married to unemployed men), women who are eligible for the Sadat Pension Scheme, women who are enrolled in the Social Security Scheme of the MOSA, preferably women belonging to minority or disabled groups - (who would be represented among the target beneficiaries according to their proportion in society 10% in the case of Christians, and 5% in the case of handicapped)

Commercial and productive activities such as sewing, selling vegetables, salty fish, groceries and cigarettes, raising animals such as chicken, cows and sheep, buying and reselling goods on an informal basis ("delalah"), as well as service activities (such as plumbing, driving, hairdressing)

Evaluation Criteria

The existence of a project, the loanee's good reputation in the family and neighborhood, average individual income not exceeding L E 50, and an average family income not exceeding L.E 125

Achievements:

As of January 94

- The number of beneficiaries in each district (Markaz) is between 300-500, which amounts to a total number of around 5,500 beneficiaries

- Total loans disbursed between March '93 and November '93 was 273, of which 244 were extended to women, at a total value of 176,800

- Repayment rate is 100%

- In the next five years, the program is aiming at expanding vertically in the same regions to reach 5% of the total number of households in each area

- To date, the program has fulfilled 1% of its objectives

Evaluation Findings:

A study conducted by the International Consultants for Development found that loans have been given on an individual rather than on a group basis In a field survey conducted with 125 borrowers in Qena, 95 2% stated that they prefer to operate their individual projects on their own and not in a group In nine cases, loans were applied for initiating a project, and not for existing projects Difficulties were encountered in identifying the "poorest of the poor", since collecting detailed information on the incomes of all family members is difficult Discrepancies were found between stated monthly incomes and monthly expenses

Disadvantages of the program as perceived by borrowers include the high interest rate, the weekly repayments of interest, the lack of a grace period, the short duration of the repayment period (ten months), the small size of the loan, the lack of assistance in the process of selling and buying goods, which is mostly done on credit, and the inability to save out of the project On the other hand, perceived advantages include the quickness and transparency of the Bank's system, and the creation of job opportunities as well as the increase in the level of incomes

WOMEN'S INITIATIVE FUND

Starting Date: 1990
Implementing Agency: Foundation for International Training (FIT)
Funding Agency: CIDA, Egyptian Counterpart MOSA, Qena Governorate
Amount of Funds: $5 million for 5 years

Background:

The implementation of the Women's Initiative Fund program started in 1990 based on an agreement between the Ministry of Social Affairs and CIDA The Women's Initiative Fund (WIF) in Qena is a $5 million five-year CIDA project which is being managed by FIT The initial stages of the project focused on strengthening institutions responsible for women's programs Agencies such as the Women's Affairs Directorate within the Ministry of Social Affairs and banks delivering the credit play a key role in ensuring the sustainability of initiatives started by the project after its termination Hence, gaining the commitment of these organizations and building their capacity was pivotal to the success of the project

General Description:

Two credit schemes established through the National Bank for Development and the Principal Bank for Agricultural Credit have provided loans to finance the start-up and expansion of more than 1,000 micro and small enterprises run by rural women These women, who would not otherwise qualify for credit, have used the funds to run profitable businesses The allocated budget for NBD is 1994/95 is L E 450,000, while for PBDAC it is CD $ 300,000
A third component of the project, known as *New Economic Activities*, is managed entirely by local FIT staff in collaboration with the Women's Affairs Directorate This component has sought to enlarge the scope of economic activities that can provide a significant income for women

Objective·

To improve the economic and social status of women in Upper Egypt by providing them with credit, training, and technical assistance

Loans Disbursement Procedures:

- Loans vary between L E 250 - 2,500 with an 18% interest rate on the credit budget for NBD loans

- For PBDAC loans the credit size varies between L E 200 and L E 5,000, at a 14% interest rate

- Regarding the new economic activities, the credit size varies between L E 50,000 and L E 200,000 at an interest rate of 12%

Target Beneficiaries

Low-income women (i e less than L E 30/month) operating in the fields of vending (clothes, processed food, vegetables and fruits, palm leaves products, alabaster products), small industries (sewing, dying, alabaster production, ink production), and animal breeding (goats, sheep, chicken, cows, and rabbits)

Geographical Coverage

Qena Governorate Qena City, outskirts of Qena City, Esna, Armant, Al Bayadeya, Luxor, Keft, El Wakf, Karnak Abou Tisht

Achievements as of 1993/94

- 67 small factories are operating in the mass production of soap, products of recycled plastic and glass, underwear, shoes, chairs, aluminum pans and dairy products

- Over 70 new enterprises have been established since the first loan was disbursed under NEA component in 1993 These enterprises, most of which are owned and operated by women, include glass and plastic recycling plants, packaging, electrical appliances, ready-made garments, grain crushing, copy book production, retailing, and even a land reclamation project

- In 1992/93, the number of beneficiaries (all of whom are women) reached around 1,000 for NBD loans

- PBDAC loans were extended to 1,000 beneficiaries in 1994

- Created non-traditional job opportunities for women, which improved the economic status of families

- Provided customized training for women

- Introduced new technologies for the governorate.

- Encouraged better utilization of resources, and facilitated economic independence in the governorate

- Enabled women to move from home production to mass production

- Default on loans is 0% and profitability is increasing

Further plans for the project include the establishment of a Small and Medium Enterprise Development Centre (SMEDC) in Qena SMEDC will provide technical assistance in the form of feasibility studies, market surveys, financial analyses and other services required to support enterprise development in Upper Egypt It will also coordinate and deliver customized managerial and technical training for business clients and assist small businesses to prepare business plans and negotiate credit through commercial banks In its early stages SMEDC will be supported through FIT/WIF, but will allow it to contract and execute projects through a variety of funding agencies The establishment of SMEDC is important in that it will contribute greatly to developing self-reliance in the region For the period 1994-94, WIF plans to enter the governorates of Sohag, the Red Sea and Sharkeya

2. The Canada Fund for Local Initiatives

Background the Canada Fund for Local Initiatives operates only with Community Development Associations (CDAs) Funds have to be disbursed throughout the year of the agreement with the Canadian Embassy For 1994, the Canada Fund focused on supporting small enterprises and environmental issues Therefore, it operates in the field of credits according to the flow of projects, and not on a planned number of projects per year CDAs working with the Canada Fund are Women of Islam Association, Cairo, Evangelical Charity Association, outskirts of Minia City, Evangelical Giving Association, Nazlet Faragallah, Minia, Association for the Welfare of the Community, Kom El Akhdar, Minia, Coptic Catholic Diocese, Kom El Hagar, El Shanayna, Minia, Abou Daoud CDA, Aga, Dakahleya, and the Mandisha CDA, Bahareya Oasis

Loans credit size for beneficiaries range from L E 300 to L E 3,000, based on the proposed activity Interest rates vary between 10% and 15%, according to credit activity

Target Beneficiaries men and women engaged in vending (e g plastic toys, home appliances, fabrics, food), groceries, metal and wood workshops, cottage industries, food production, animal breeding, animal husbandry, land reclamation, sewing machines, electrical equipment for small workshops, traditional handicrafts, water wells and olive pressers

Geographical Coverage Minia Minia City Al Massas, Al Ihkas, Shalabi, Abou Hilal, Kom El Akhdar, Nazlet Faragallah
Assuit Kom El Hagar, El Shanayna
Bahareya Oasis Mandisha

YOUTH ENTREPRENEURS SOCIETY

Background

YES was registered in 1988 as the first business-oriented NGO YES activities started through donations to help graduates establish a ready-made garment project In 1989, LE one million was offered by the Ministry of International Cooperation from their special account to assist the first Business Oriented Non Governmental Organization (BONGO) in Egypt, thereby increasing the number of beneficiaries by encouraging university graduates establish their own SSEs In 1993, YES signed a contract with the Social Fund for Development to obtain a loan up to LE three million, payable in five years This loan allowed YES to expand its activities and help more graduates establish their own SSEs

Currently, YES is managing the following four programs

1 Small Scale Enterprise Program

Under this program, many manufacturing and service SSEs had been established, and graduates are managing them successfully SSEs were set up in the fields of textiles and weaving, ready-made garments, metal products, spare parts for automobiles, chocolates and confectioneries, electrical equipment, household products, photocopying and printing, supermarkets, dairy products, etc

2 Industrial Park in the 6th of October City

This industrial park was established with the objective of accommodating many SSEs in one place to provide an opportunity for centralized training, quality control, marketing, exporting and providing any necessary services SSEs may need

3 New Job Opportunities in the Private Sector

YES has approached businessmen to assist in creating job opportunities for graduates suffering from unemployment

4 Incubators

In 1989, an incubator for ready-made garments was established New graduates with no previous experience were trained on producing, managing and marketing the products With the increase in productivity the incubator was sold to the graduates

Objective

To foster entrepreneurship in Egypt and increasing the awareness and orientation regarding SSEs This is done through encouraging graduates to establish their SSEs, thus contributing to the unemployment problem, establishing incubators, so that new graduates can be oriented, guided, and therefore receive training on SSE management, constructing industrial, commercial and cultural parks to encourage more SSEs to be successfully implemented in diversified activities

Loan Disbursement Procedures

- Interest is charged at 12%
- Grace periods depend on the feasibility of each project
- Technical assistance is provided

Regions Covered:

Cairo

Target Groups

- University graduates
- New businesses
- Manufacturing and service SSEs

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ANNEX B

EFFECTIVE INTEREST RATE CALCULATIONS

Calculated based on figures for 1993

FOUNDATIONS

Average Loan Size (P) LE 2,600
Loan Term (n) 12 months
Nominal interest rate (nir) 18 % annual (1 5 % monthly)
Flat Interest Rate

Calculations

Total interest paid (tip) P (n x nir) = 468 LE
Installment amount $\frac{P + tip}{n}$ = 255 66 LE

Solve for effective interest rate

$$\frac{i(1+i)^n}{(1+i)^n - 1} = \frac{\text{Installment Amount}}{P}$$

i = 2 64 % monthly

i = 31 68 % annual

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THE NATIONAL BANK FOR DEVELOPMENT (SECP)

Average Loan Size (P) LE 2,600
Loan Term (n) 12 months
Nominal interest rate (nir) 16 % annual (1 33 % monthly)
Insurance fee (if) 4 75 %
Transportation fee (tf) 3%
Flat Interest Rate

<u>Calculations</u>

Total interest paid (tip) P (n x nir) = 415 LE
Total fees paid (tfp) P (if + tf) = 201 5 LE
Installment amount $\frac{P + tip + tfp}{n}$ = 268 LE

Solve for effective interest rate

$$\frac{i(1+i)^n}{(1+i)^n - 1} = \frac{\text{Installment Amount}}{P}$$

i = 3 43 % monthly

i = 41 % annual