

INVESTING IN THE FUTURE

SEDAP's Market
Opportunities

July 1996

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We hope that our findings and recommendations are taken as useful, practical measures for SEDAP and the other SME Foundations.

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EXECUTIVE SUMMARY

The primary aim of this report has been to take a systematic look at market opportunities for the Small and Micro Enterprise (SME) Project, namely in the city of Port Said. The SEDAP Foundation of Port Said was chosen as the case study due to its small market size and heavy concentration of traders. Since SEDAP had just completed its first year of lending, the time was ideal to examine its lending history and make recommendations for the coming years.

Central to this study has been an assessment of the Foundation's financial "break-even", an appropriate time for exploring new market opportunities. The study team's findings indicated that SEDAP would reach break-even by the end of 1996 if it continued with current levels of growth and operational costs.

Given its timing for break-even, the team concluded that there is no immediate reason for SEDAP to diversify. Still, a series of recommendations regarding SEDAP's operations through the break-even period were made. These recommendations emphasize simple promotional efforts (to increase its market penetration to its existing client base) and ways to promote operational efficiencies (to widen the scope of potential clients, increase the impact and uniformity of SEDAP's approach, and consolidate and build on its successes).

An adoption model is also presented in Chapter II explaining different levels of knowledge and understanding of SEDAP. This adoption model suggests that there are distinct groups of entrepreneurs that need different outreach methods to attract them to the Foundation's services. The categories presented in this model are:

Early Adopters - Those that took immediate advantage of SEDAP's loan product and were initially contacted by an Extension Officer.

Rejecters - Those who rejected the Foundation's credit program for a variety of reasons: (1) the loan size was too large or too small; (2) the administrative procedures are too cumbersome in light of the loan amounts; (3) they are already encumbered by debt; (4) they have religious objections to the charging of interest; (5) they utilize other sources of credit; or (6) they do not need credit.

Fence Sitters - Those who have heard about the program (through EOs and clients) but have neither accepted nor rejected the Foundation. Their hesitance is partly based on SEDAP's newness, and many want to wait for the Foundation to gain a stronger reputation in the community.

Partially Informed - Most of these entrepreneurs have heard about the Foundation indirectly, e.g., through clients, banks, community programs. Their understanding is often so limited that they cannot make a decision about the program or draw conclusions about its benefits.

Uninformed - These are entrepreneurs who have not heard about the program. They include owners of formal, street level businesses as well as informal, non-targeted groups such as mobile street vendors.

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This model provides SEDAP with a framework through which to develop its promotional strategies. For example, generalized information on the radio or in newspapers is a good method to reach the "uninformed". However, fence sitters and the partially informed must be targeted through more aggressive means.

Chapter III looks at SEDAP's operations beyond break-even and asks if changes are needed to sustain its growth and outreach goals. This chapter concludes that diversification is needed due to several critical factors, and examines why, when and how to diversify.

Why Diversification

Portfolio Risk - In December 1995, nearly 65 percent of SEDAP's portfolio was in the commercial trades.¹ Maintaining such a high percentage of clients within one sector exposes the Foundation to the risks endemic to that sector. For example, traders in Port Said are currently under increased competition due to liberalized import policies.

Small Market Size - The baseline survey of Port Said identified almost 8,000 active small businesses in Port Said. SEDAP will have reached around 24 percent of this population or about 1,800 clients at the time of break-even (allowing for continued business level growth). By the end of 1997, SEDAP will have reached almost 47 percent of the qualified market (or about 3,000 businesses).² Despite future growth of the city and ensuing new business start-ups, SEDAP will still face the very real challenge of how to maintain portfolio growth in a market that may approach saturation in the next three to four years.

When to Diversify

Microenterprise programs go through predictable stages of growth, from initial introduction, to expansion and ultimately to sustainable operations. SEDAP is in the first stage of its growth, which has been characterized by variable but steady new loan issues and the gradual expansion of a high quality portfolio, using standard measures of on-time repayment and delinquency.

¹ This compares to around 22 percent at ABA and 44 percent at ESED as of the end of 1995.

² The baseline indicated that around 80 percent of the businesses interviewed were interested in obtaining a loan from a credit program.

Projected Market Saturation

<i>YEAR</i>	<i>CLIENTS</i>	<i>% OF MARKET</i>
B-Even	2,100	35%
1997	3,000	47%
1998	4,200	62%
1999	5,400	78%
2000	6,600	83%

NB: These figures are based on 5% annual growth of businesses in Port Said.

Based on the projections made above, by the year 2000 SEDAP will have reached approximately 83 percent of qualified businesses in Port Said. This prospect of market saturation provides a strong rationale for SEDAP to consider diversification in the medium- to long-term. As such, the study team went on to examine a series of options regarding the expansion of the Foundation's market base and the attraction of new client groups.

How to Diversify

Chapter III is an assessment of different strategies SEDAP could take to meet the challenges of market concentration and saturation. These are presented in terms of the original design terminology, that is: product development, market development, and market diversification.

Product Development - Product development was examined in terms of how SEDAP could reach its existing market using new products. A series of product options were identified by the study team, including:

- Loans with longer loan terms
- Grace Periods
- Lower average loan size
- Loans with weekly repayments

Market Development - Market development was explored in order to determine how SEDAP could reach new (previously untapped) markets, using existing products. A series of issues were examined to fully assess the opportunities in market development including:

- What market segments not currently being targeted could be eligible and interested in SEDAP's current loan product?
- What is the degree of fit between SEDAP's existing product and its clients' needs?
- Can new clients be reached and monitored using existing lending methods and delivery practices. Potential target groups identified by the study team included street vendors, taxi owners, home-based entrepreneurs, and fishermen.

While each of these groups are discussed in detail in Chapter III, it is clear that all offer a different set of opportunities for loans to new client groups. The decision of which groups to target must be made by the Foundation after considering the strategic, financial, and developmental implications of each choice.

Market Diversification - market diversification was a final option considered by the study team regarding how SEDAP could reach new markets using new products. Two different types of partnerships were explored in this respect: working with the profit-making private sector, and building relationships with the non-governmental sector.

Developing collaborative relationships was central to the idea of exploring market diversification opportunities for SEDAP. Two scenarios were developed as a result of interviews in these sectors:

Thread-Rewinding Scenario - This scenario would be based on developing partnerships with the private sector in Port Said currently active in the garment industry. An unproductive by-product identified by the study team was that of used threads. This scenario involves supporting small manufacturers in Port Said who could purchase the used threads and re-tool and re-sell them on the local market. SEDAP's role would be to package and promote a marketable service to eligible micro and small business owners. (See Annex 2 for a complete case study.)

Recycling thread waste based on the principles of mutual business advantage (cost savings to the factory and a new resource for SMEs) provides a possible entry point for pursuing future linkages between large factories and the SME sector. However, SEDAP is presently not organized to pursue this avenue and would have to invest the necessary resources in a research and development effort to more clearly outline the potential returns, staffing implications, and long-term impact.

Apprenticeship Model - NGOs with technical expertise in carpet weaving (such as the Light and Hope Association) would provide space and training to interested candidates (apprentices). Apprentices would work through: (1) a fixed fee system (for space and services) paid by the user to the Association; or (2) a profit sharing arrangement between the producer and the Association. SEDAP would assist by providing a loan package to finance the looms (estimated at 250-300 LE) and working capital. (See Annex 2 for a complete case study of this model.)

The benefits to the Light and Hope Association would be to serve more of its target group and expand production with start-up capital provided by SEDAP. The benefits to SEDAP would be to target a marketable area of skilled production, unblock space constraints faced by home producers, and in so doing, develop new clients for its program. Key differences in the core philosophies of the organizations would have to be addressed however, before engaging in a long-term relationship e.g., SEDAP's business-like approach versus Light and Hope's more social-welfare oriented approach.

The conclusion of Chapter III is succinct: SEDAP must prepare to diversify its client and product mix. While the study team was able to explore various options available to the Foundation, it is only its senior management and Board of Directors that can make the strategic choices necessary to undertake the policy and procedural steps to implement these options.

Strategic Implications

Micro enterprise programs are designed to provide credit and non-financial services to large segments of a market that are currently unserved by the formal banking system. The primary goal of these programs is to achieve scale in outreach. Yet, by extending these services, microenterprise programs do more than just make loans to individuals, they also place investments of scarce development capital in the local economy in order to alleviate poverty and generate social and economic gains.

The title of this report, *Investing in the Future*, was deliberately selected to underscore SEDAP's central role as a development Foundation serving the needs of its community. The study team believes that SEDAP will be faced with several strategic choices in the coming years. For example, assessing the choices of which target group to serve (trade versus other sectors); product mix (larger, repeat loans versus smaller, initial loans); and product prices (setting its interest rates, user fees, and other).

During its first stage of operation, SEDAP has made choices that have been guided by prudent portfolio management -- as indicated by client willingness and capacity to pay and SEDAP's ability to provide services and monitor active clients. In the future, the study team believes that these choices will become more difficult as the Foundation examines its own development vision. Questions it must address include:

- ◆ Is SEDAP reaching "unbankable" SMEs operating viable businesses? If not, how can these entrepreneurs be more effectively targeted and brought into the program?
- ◆ Are SEDAP's scarce resources reaching clients for whom small sum working capital loans provide a meaningful resource to achieve their business objectives?
- ◆ Are SEDAP's investments in the SME sector contributing to job creation, improved productivity, or the economic vitality of Port Said?

The Foundation's vision will become sharper once these questions have been explored and addressed. This vision will provide the basis to make choices about the options presented in this paper. The study team believes that these choices should include a different product mix to new client groups in new markets. However, it is only the Foundation that can make the choices of developmental vision regarding who to lend to, how much, and in what manner.



Summary of Study Findings

TIMEFRAME	FINDINGS	ISSUES	OPTIONS	STRATEGY
<p><i>Short-Term</i> - The period prior to break-even (Dec. 1996).</p>	<ul style="list-style-type: none"> * SEDAP's clientele, with 64% in trade, reflects Port Said's economy. * SEDAP has maintained a high-quality portfolio. * SEDAP is expected to reach break-even by December 1996. 	<ul style="list-style-type: none"> * As much as 50% of SEDAP's potential clientele are undecided about taking a loan. * SEDAP's stringent screening process is eliminating potential clients. 	<p><i>Market Penetration:</i> SEDAP should continue its present course and pursue missed opportunities with its existing product within its existing market.</p>	<p><i>Promotional Efforts</i></p> <p><i>Investing in EO Skills</i></p> <p><i>Loan Conditions</i></p>
<p><i>Medium-Term</i> - This is the expansion phase of SEDAP's project life cycle during which it must avoid market saturation.</p>	<ul style="list-style-type: none"> * Concentration of portfolio exposes SEDAP to financial risk. * Continued portfolio growth will depend on increasing the number of active clients 	<ul style="list-style-type: none"> * SEDAP's single product does not meet the needs of many potential clients. * SEDAP's single outreach mechanisms fails to reach new markets. 	<p><i>Product Development:</i> New products designed for specific client groups.</p> <p><i>Market Development:</i> Modify loan conditions to reach new market segments.</p>	<p><i>Product Options:</i> Loans with longer terms; grace periods; smaller loans; weekly repayments.</p> <p><i>Potential Client Groups:</i> "Formalizing" vendors; home-based enterprises; fishermen; taxi drivers.</p>
<p><i>Long-Term</i> - This is the period beyond the turn of the Century.</p>	<ul style="list-style-type: none"> * SEDAP is financially secure but has untapped opportunities to increase outreach and impact throughout Port Said. 	<ul style="list-style-type: none"> * SEDAP will need to build collaborative relationships to explore market diversification opportunities. 	<p><i>Market Diversification:</i> Serve multiple market segments with a differentiated mix of products and services.</p>	<p><i>Private Sector Partnerships</i></p> <p><i>PVO Linkages</i></p>

CHAPTER I

INTRODUCING THE CONCEPTS OF DIVERSIFICATION

INTRODUCTION

Study Goals and Tools

This report was prepared for the Small and Micro Enterprise (SME) Project funded by USAID/Cairo. Its objective is to help the Project examine issues of product and market expansion and diversification.

To simplify these complex issues into manageable concepts, this study separated them into the following categories:

- ◆ *Market Penetration* - reaching existing markets using existing products.
- ◆ *Market Development* - reaching new markets using existing products.
- ◆ *Product Development* - reaching existing markets using new products.
- ◆ *Market Diversification* - reaching new markets using new products.

These concepts served to guide the study and the design of this report and will be referred to throughout the following chapters.

Why Diversification?

The continued growth of a microenterprise organization is key to its financial, institutional, and developmental sustainability. Growth can occur at various levels and is often referred to in terms of horizontal and vertical expansion.

Horizontal expansion usually refers to increasing the numbers of clients within a given geographical area or target group; this report refers to this as market penetration. Vertical expansion means serving new client groups in new geographical areas; this report refers to this as market or product development. In essence, these growth strategies encompass the concept of diversification as discussed in this study.

The lessons from small and micro enterprise projects around the world have proven the importance of diversifying -- or spreading the risk of the portfolio among different sectors and target groups. These programs have shown that diversification supports the financial health of an institution as well as its developmental goals.

The following lessons have evolved from the small and micro enterprise experience:

Financial Security - A healthy and financially secure portfolio should have evenly spread risks. A quality portfolio will have clients from a range of sectors and activities. If this is not achieved, the organization may face financial risks over the long-term as different segments of its portfolio contract or change.

Outreach - One of the goals of small and micro enterprise programs is to provide services to as many clients as possible. Diversification strategies support this goal, furnishing guidance and tools to increase outreach potential.

Developmental Impact - Small and micro enterprise programs often seek to serve the more difficult-to-reach members of the business community. While a laudable goal, serving the poor has also been a difficult for these programs. As such, diversification can facilitate a program's outreach to intended target groups through the development of new and more efficient delivery mechanisms and promotional devices.

These central issues form the basis upon which this study's design and implementation evolved. Further discussion about how, when, and why to diversify are discussed in Chapter III in the context of the SEDAP Foundation.

The Case Study: SEDAP

A case study methodology was taken for this study. One Foundation, the SEDAP Foundation, was selected as a desirable site to launch this work. The SEDAP Foundation was selected among the Project's four sites due to a variety of reasons. First, Port Said is a small city which made it feasible to conduct a thorough market assessment. In addition, Port Said's small size provides a fairly controlled environment to introduce and test new products and practices.

Second, the size of the business community in Port Said is relatively small -- around 7,600 fixed address, small businesses. Given this small size, the SEDAP Foundation was faced with the prospect of market saturation in the near future. Third, the dominance of the commercial sector in Port Said has left SEDAP with a high percentage of traders in its portfolio. This high concentration of one type of business could have negative financial repercussions if any significant changes were to occur within this sector (e.g., the devaluation of the pound, changes in import regulations or duties).

Fourth, the SEDAP Foundation is just completing its first year of operation. This provided a short lending history for the study team to examine as well as a good illustration of the local market dynamics.

Relevance for Other Foundations

The findings of this study are meant to serve as a useful guide for all the USAID-funded Foundations. While each Foundation operates in different cities, they have all followed a similar approach in terms of outreach (i.e., the use of Extension Officers) and product (minimalist credit). Due to their similar methodology and lending approaches, the opportunities and constraints they face are bound by the same principles. Some of the topics in the report that have relevance for each of the Foundations include:

- ◆ Research and market test new products in line with consumer preferences.
- ◆ Assess market response, service requirements and financial implications of new products.
- ◆ Strengthen or revise delivery methods to serve the needs of new target groups such as fishermen or market vendors.
- ◆ Seek cooperation with private sector or NGOs to expand outreach and mobilize more institutional resources to serve the SME community.

Each of these options are explored in the following chapters, providing ample information for other Foundation programs to assess their own approaches. By applying the relevant findings, each Foundation can take advantage of the financial and developmental benefits of a diversification strategy.

METHODOLOGY

The study team asked four basic questions about product diversification:

- ◆ Why is diversification important to SEDAP?
- ◆ When would be the appropriate time to diversify?
- ◆ How should the Foundation diversify?
- ◆ What will be the financial and developmental implications of diversification?

Steps taken to assess these questions include the following:

Step I - An examination of SEDAP's financial position and future financial trends. Break-even was projected and when (or if) market saturation would occur.

Step II - Interview of SEDAP's staff (together with members of the Board of Directors) to better understand how the Foundation conducts its outreach; how successful this has been; and areas of future intervention. Step II also covered an analysis of client demands and future credit and non-credit needs.

Step III - Performed market research in untapped market sectors to determine the number, interest and eligibility of potential loan recipients. This involved screening potential sectors for study and interviewing clients and/or associations knowledgeable of the sectors.

Step IV - Surveyed new neighborhoods and districts for program interest. This included new housing estates, such as the Khaled Ibn Al Walid and Salam Tamleek.

Step V - Evaluated the potential of future collaboration and outreach through private voluntary organizations, community development associations, and the private sector in Port Said. Interviews were conducted with organization leadership and key representative of the private sector.

In the course of these interviews, the team employed a variety of data collection techniques including: (1) Guided questionnaires; (2) interview checklists; and (3) focus groups discussions.

CHAPTER II

SEDAP: PAST PERFORMANCE AND CURRENT CHALLENGES

THE SETTING: PORT SAID

The city of Port Said is located in the northern mouth of the Suez Canal and remains one of Egypt's most important ports. Port Said's population of 460,000 lives on an area of 1,351 km². With the highest per capita income, Port Said stands as one of the wealthiest cities in Egypt.¹

Port Said has always had a distinct character and history. Founded in 1859 with the construction of the Suez Canal, Port Said has traditionally depended on maritime traffic and to a lesser extent fishing. It was occupied by the British and the French during the 1956 Suez Crisis and was evacuated during the War of Attrition from 1969-73. The city was rebuilt in the aftermath of the 1973 War and the declaration of the Free Zone in 1976 gave Port Said new status and importance as a commercial hub. Since 1976, the city's economy has been characterized by a thriving commercial sector, and has attracted flocks of consumers from around Egypt seeking imported consumer items not readily available in local Egyptian markets.

Port Said has been challenged economically throughout the period of economic liberalization and easing of import restrictions. Port Said's dependence on attracting consumers from Cairo and elsewhere to purchase imported goods has made it vulnerable to inflation and to changes in the dollar to pound exchange rate. Local traders are also beginning to face competition from other domestic producers of high quality products.

Responses to these challenges are being developed at the national, municipal, and local levels. Central to this response will be efforts to increase investment in the Free Zone. Currently, thirty new ventures are being planned which could create up to 2,500 new jobs. Future plans for the expansion of the Free Zone include the purchase of 160 thousand square meters for forty new factories.

At the local level, efforts are being made to encourage tourism in Port Said. Among the projects underway is the construction of a new port area for passenger vessels going through the Canal. A new airport, equipped for international flights, has recently opened. Plans are also being explored by investors to build several new hotels and other tourist facilities.

¹ According to the Institute of National Planning's Human Development Report (1994), Port Said ranks first place in national estimates of per capita income (purchasing power parity of around US\$ 4,000).

The economy of Port Said is tied to various industries associated with the Suez Canal such as ship fueling and servicing. In addition to commerce, salt manufacturing, food, textile and petrochemical production constitute Port Said's main economic activities. The SME Baseline Study (1994) listed 7,623 fixed address enterprises located in the city's five Districts, with the largest concentrations in Hay Al Arab and Hay Al Manakh. Of these enterprises, eighty percent were in commerce, fifteen percent in services, and less than five percent were in industry.

The study sample describes a community of SME proprietors that are predominantly male (95 percent) and literate (93 percent). Approximately half of the proprietors own their establishments, and most enterprises (61 percent) employ only one or two workers. Of those interviewed for the Baseline Study, a majority (80 percent) expressed an interest in receiving credit as proposed by the SME Project. The Baseline Study also categorized the small business community by the nature of activity. These findings reveal that 80 percent of businesses identified are concentrated in the commercial sector, 15 percent in services, and only 5 percent in manufacturing.

SEDAP

SEDAP's target group is established micro and small enterprises in fixed locations in all districts of metropolitan Port Said. SEDAP currently offers its market a stepped loan starting with an initial entry averaging around LE 2,000 for six months at a flat fee of 16 percent per annum. Initial loan amounts range between LE 1,000 - 3,000 for 6 month loan terms. Active clients are eligible to apply for follow-up loans upon completion of their first loan cycle provided they have repaid their installments on time.

After 15 months of operation, SEDAP's active client base reflects the commercial nature of the Port Said economy as described in Table 1 below. This Table shows that as of March 1996, SEDAP had 1,159 active clients. The sectoral breakdown of active clients is 64 percent in retail trades (most specialized in the sale of imported apparel), 21 percent in services and 15 percent in manufacturing.

Table 1 SEDAP, March 1996

SEDAP	NUMBERS	PERCENTAGE
Active Clients	1159	100
Trade	735	64
Services	247	21
Manufacturing	169	15
Male	1033	90
Female	118	10

The current sectoral distribution of the portfolio, while concentrated in the trade sector, does show a higher degree of manufacturing clients than would be expected. At the initial stages of the program, SEDAP consciously targeted manufacturing clients with the hopes of attracting their interest in its loan product. Male clients make up 90 percent of the active client base with females at 10 percent.

Table 2
Loan Issues January 1995 - March 1996

	Loan Issues	Ave. Loan Size	Ave. Loan Term	Weighted Average
First	1436	2,081	6	1332 (64%)
Second	763	3,910	9.4	1329 (34%)
Third	48	6,031	11	120 (2%)
	2247		8.11	

As shown in Table 2 above, SEDAP has issued a total of 2,247 loans valued at LE 6,263,000³. While the majority are first loans, the portfolio comprises 36 percent repeat borrowers. The average outstanding of the 1,159 clients is LE 2,074. The weighted average of all loans issued is LE 2,781 for an average loan period of 8.11 months.

Performance to Date

SEDAP has made commendable progress in its first year of operations when measured against objective standards of performance. MIS data as of December 1995 indicates that SEDAP manages a quality portfolio with high rates of on time repayments at 99.27 percent and with a low delinquency rate of 0.44 percent of its outstanding portfolio. The initial market response has been positive and there appears to be a high degree of customer satisfaction as indicated by high repayments and repeat borrowing. The performance to date has moved SEDAP towards break-even at a faster pace than originally projected. At the end of December 1995, SEDAP's contribution margin of revenue over all expenses reached 72.7 percent from lending to start-up.

Financial projections were calculated to estimate when SEDAP would reach break-even based on past performance, and assumptions about future portfolio growth, revenue and cost structures. Table 3 below provides a condensed version of the base case cash flow projection found in Annex 1. The table shows SEDAP's profit (loss) position as of December 1996 and December 1997 based on these assumptions:

³ In March 1996, the dollar to Egyptian pound exchange was LE 3.39 = \$1.

- ◆ Linear portfolio growth from an active outstanding of 2,203,403 LE as of December 1995.
- ◆ The average outstanding per active client at 2,152 LE for an average term of 8 months.
- ◆ Maintenance of historical on time repayment and delinquency rates.
- ◆ Maintenance of fees at 16% flat.
- ◆ The interest charged on the bank overdraft is maintained at 11% p.a..
- ◆ SEDAP's salary structure is maintained at the December 1995 level, but other direct costs are adjusted upward to reflect the higher volume of clients (including depreciation).
- ◆ Loan loss provisions increased from a cumulative total of LE 6,832 to 53,112 in 1996/97.

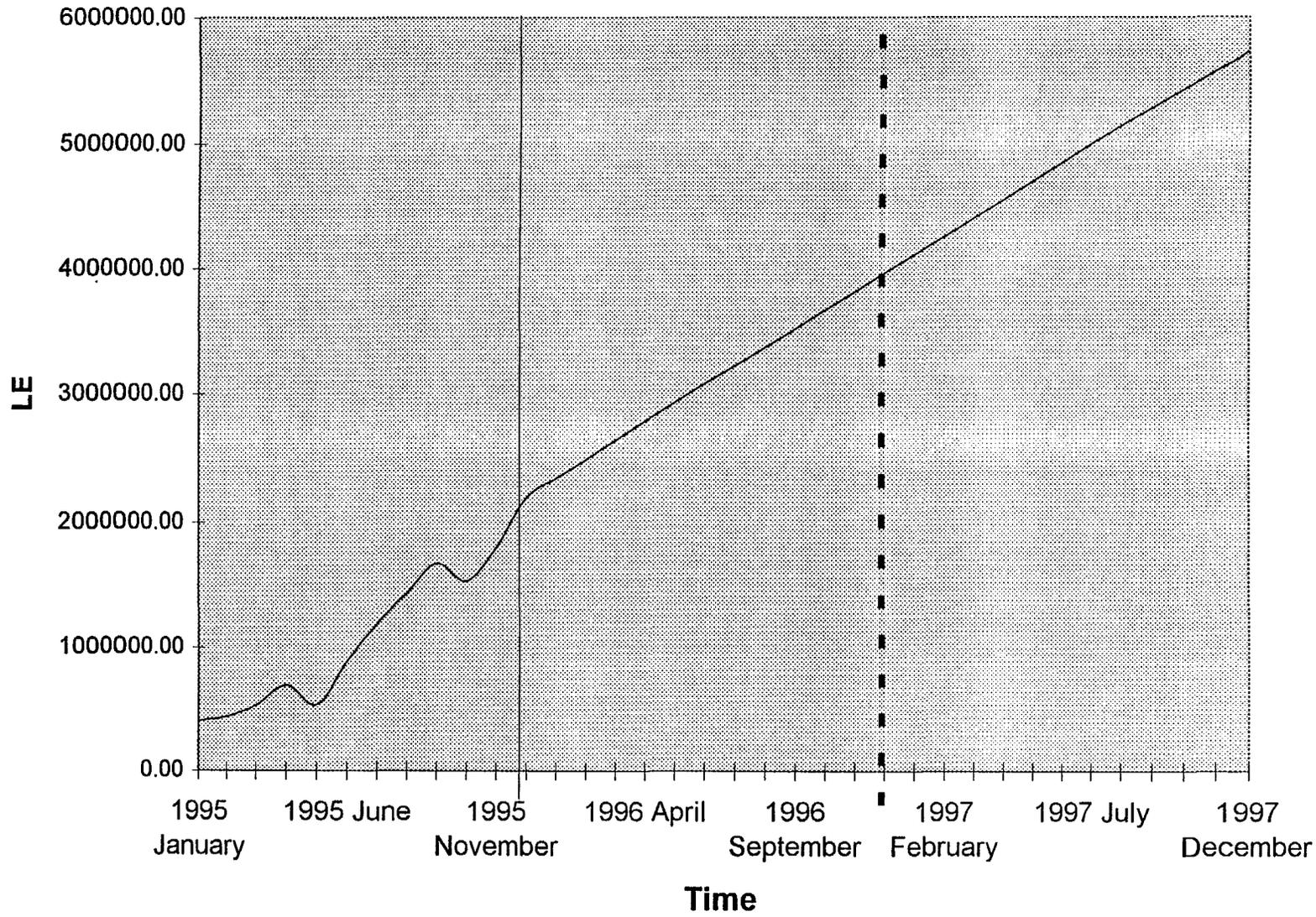
Table 3

SEDAP	December 1995	December 1996	December 1997
Outstanding Balance	2,203,403	3,964,029	5,734,362
Income (net arrears)	39,758	79,113	115,295
Cost of Funds	17,959	35,661	51,895
Gross Margin	21,799	43,452	63,400
Expenses:			
Salaries	22,951	22,000	22,000
Other Direct	6,898	16,000	16,000
Sub Total	29,849	38,000	38,000
Loan Loss Reserve	6,832	4,426	4,426
Profit (loss)	(14,882)	1,026	20,974

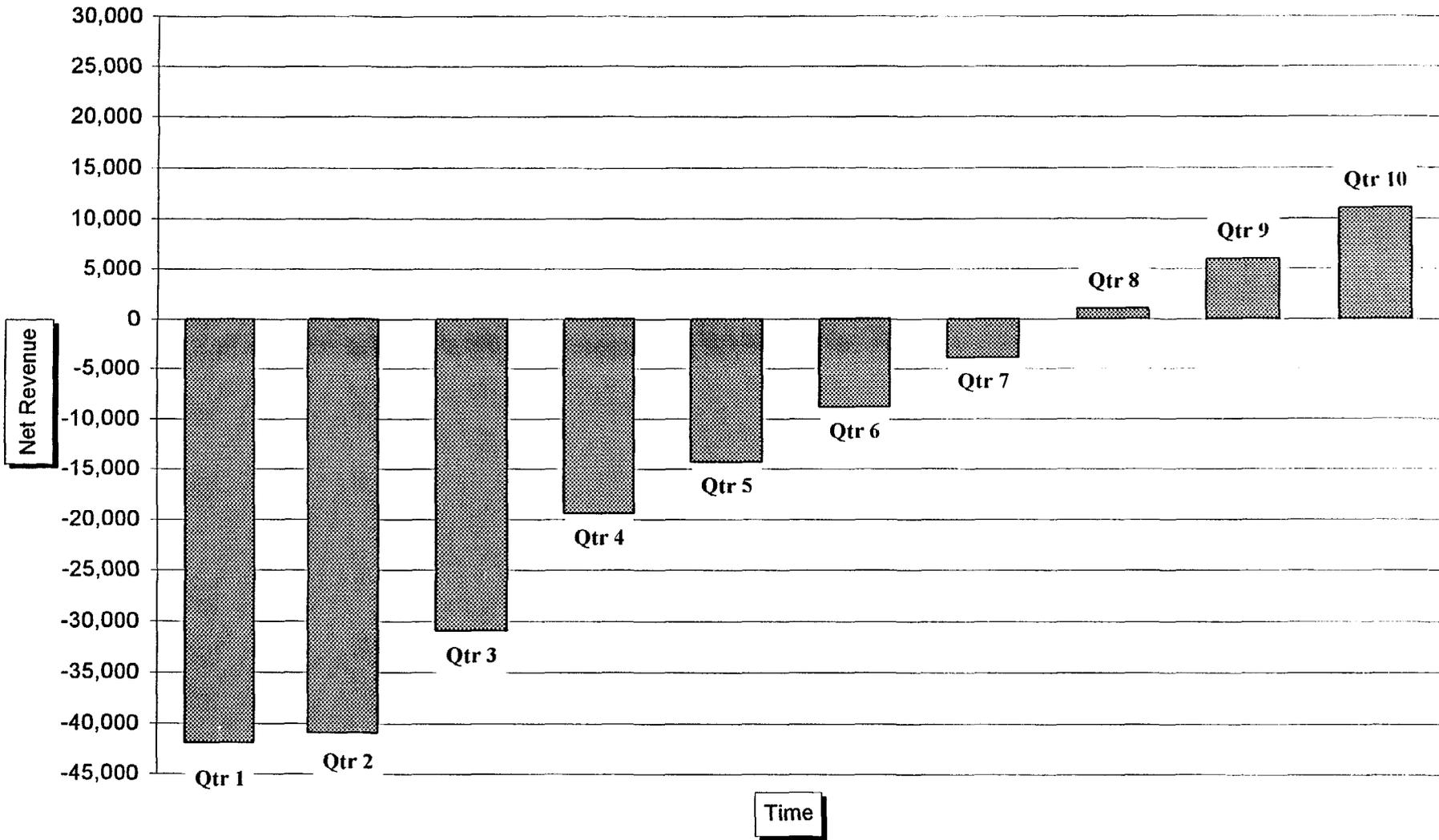
This same information is also depicted in Graphs I and II on the following pages. The first graph projects portfolio growth over the two year period January 1996 - December 1997 based on SEDAP's first year of lending operations. The break-even graph shows net revenues for the first 10 quarters of SEDAP's operations (through June 1997).

Graph 1: Growth in Outstanding Portfolio: This Graph (on the following page) shows actual and projected portfolio growth from the start of lending operations through December 1997. The period January through December 1995 shows actual portfolio growth. The solid line indicates the actual outstanding portfolio of 2,203,403 LE as of December 1995. The Graph shows that SEDAP's portfolio has grown at a reasonably steady pace: this growth has been based on variable but continuous new loan issues and the issuance of repeat loans at a rate of approximately 84 percent of first loan issues.

Portfolio Outstanding



SEDAP Break Even Projections



As of December 1995, SEDAP had 1,019 active clients with an average outstanding of LE 2.152 per client. The dotted line marks when SEDAP is expected to break-even. Assuming linear growth and average outstanding of LE 2,152 per client, SEDAP will require an outstanding portfolio of LE 3,964,029 and a total active client group of 1,842, or an increase of 80 percent from December 1995. Assuming 8 months as the average loan term, SEDAP will have to process 268 loans per month² to achieve profit levels stipulated in Table 3. In March 1996, SEDAP issued 260 loans (100 new loans and 160 repeat loans).

Graph 2: Break-Even Projections: This Graph (on page 10) presents net revenues based on linear portfolio growth and estimated increases in SEDAP's costs due to loan volume increases. Income is based on a constant fee of 16 percent flat and no change in the cost of funds at 11 percent. Three changes were assumed over historical income and cost data: other direct expenses increased from LE 6,900 in December to LE 16,000 to reflect increased EO salaries (from 13 to 20 EOs) and to include depreciation; and loan loss provisions were increased from a cumulative total of LE 6,832 in 1995 to a monthly average of LE 4,426 to reflect the association of risk of an expanding portfolio.

FINDINGS: THEIR RELEVANCE FOR DIVERSIFICATION

SEDAP's current status and projected performance frame the key questions for this section of the study:

- ◆ Can SEDAP achieve its portfolio growth goals by expanding the number of active clients among its current target group of fixed addressed businesses?
- ◆ What are the risk factors SEDAP may encounter as it moves towards break even?
- ◆ What are the response options that can assist SEDAP achieve its short term financial goals and position itself for future growth and portfolio quality?

This section of the report takes a closer look at both external market factors and internal management factors that influence the choices related to the above questions.

² 1,842 active clients ÷ 8 months = 230 loans per month X 16.55% dropout rate = 268 loan issues per month.

Initial Market Response to SEDAP's Product: An Adoption Model

Unlike Alexandria and Cairo, SEDAP operates in a comparatively small SME market context estimated at 7,600 fixed address businesses. This small market size requires SEDAP to estimate the market's response to its product so it can make necessary adjustments in target group and/or product mix in order to meet its own financial goals. The study team attempted to gauge the initial market response to SEDAP's loan product and process by interviewing clients in the different sectors of lending as to their needs and uses of small working capital loans.

Table 1 above, shows that sixty-four percent of all loan issues have gone to clients in the commercial trades. A large proportion of SEDAP's existing trade sector clients are in businesses with a rapid turnover, a high portion of cash sales and large inventories (often above 150,000 LE). The perceived benefit of small sum loans by commercial traders is thus often low. Interviews with existing trade sector clients indicated their interest to be in larger initial loans (starting at 5,000 LE), and rapidly escalating to maximum amounts of 20,000 - 25,000 LE. EO interviews confirmed this pattern of loan demand by indicating that up to 40 percent of their clients are interested in reaching the maximum loan size; 14 out of 32 clients interviewed for this study also requested larger loan sizes.

There are smaller size retailers among the mix of trade sector clients including a handful of kiosk operators. With monthly sales averaging 2,000 - 3,000 LE/month, these entrepreneurs are often interested in loans smaller than the lowest (typical) entry level loan of 1,000 LE for six months. Loan demands from these smaller retailers would probably cap around 3,000 LE with longer repayment periods. Mobile vendors of all types and product lines fall outside SEDAP's current lending policy as they do not operate from fixed address locations.

Loan size and terms for manufacturers vary from trade to trade. Many manufacturers experience delays from order to payment. Delays are especially long for higher priced items such as household furniture because most Egyptian consumers are on fixed government incomes and buy higher priced goods on installment plans. Small sum loans offer cash to fill working capital gaps between order and payment. However, their benefit is limited without a grace period and/or low monthly installments.

EO's and client interviews suggest that manufacturers are interested in securing larger amounts of working capital for longer terms and/or with a grace period ranging from 1-3 months. Service enterprises appear to benefit from the initial entry level loans but their businesses can handle larger loan sizes. SEDAP's service-oriented businesses (21 percent of its portfolio) -- such as mechanics, refrigerator repair, panel beaters -- have quick turnover and capture additional margins on the sale of spare parts or related accessories. They are interested in quickly moving up the loan ladder and securing sustainable access to loan amounts at around LE 15,000.

Interviews with Extension Officers indicate that for every 20 businesses contacted by SEDAP about five apply for a loan.⁴ The team attempted to understand the significance of this finding relative to the initial market response as well as the future demand for SEDAP's current loan product. The choice between growth strategies -- either to penetrate further SEDAP's target market or to diversify into new markets -- would depend on how this finding is interpreted.

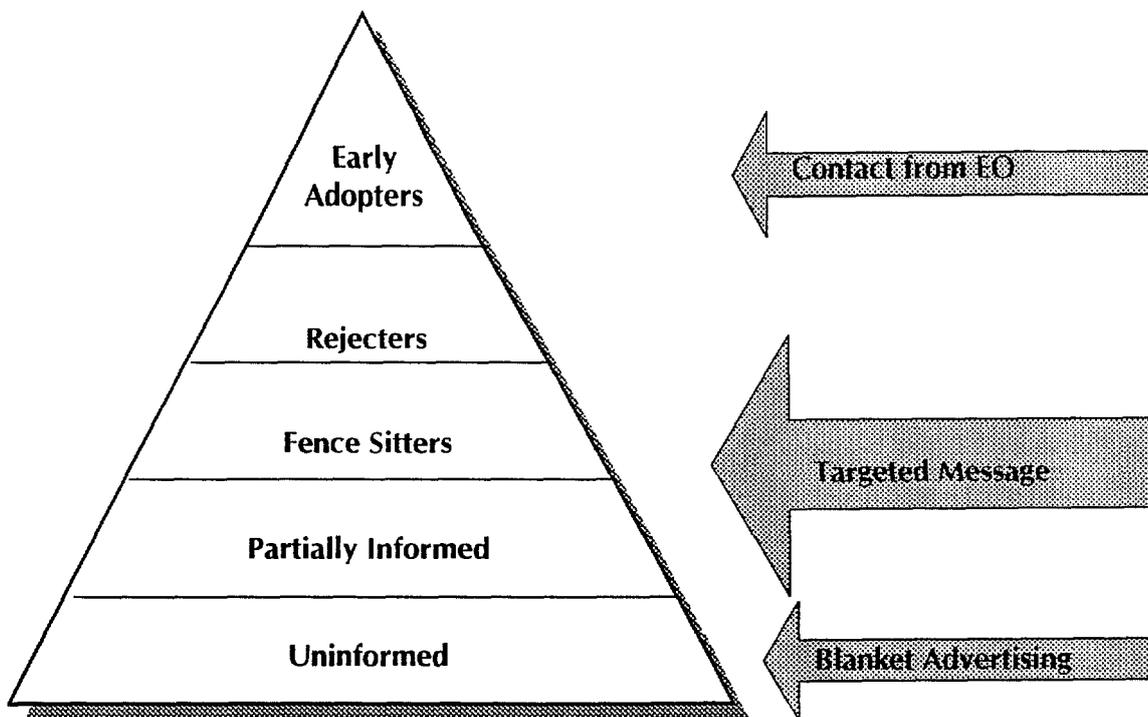
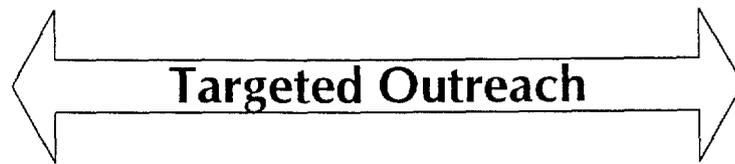
A model of adoption -- depicted graphically by the following pyramid diagram -- was used by the team to arrive at a better understanding of the market's response. The model classifies the market into five different response categories which examine the two interrelated variables of customer knowledge of and response to SEDAP's loan program and outreach strategy. Below is an outline of the model's categories.

Early adopters: The top of the pyramid represents early adopters from the SME community. Early adopters learned about the program directly from the EO's, usually through a neighbor, relative, or friend. Due to this relationship, many of the early adopters were very receptive to the EOs' sales pitch. They are represented in all three sectors. The distinguishing characteristic of these clients is that they saw the immediate benefits of the program and applied for loans. Early adopters have sufficient information to make a decision soon after hearing about the program. Many of the clients who fall in this category are highly motivated entrepreneurs who want to rapidly escalate up the loan ladder to secure the maximum loan size available under the program.

Rejecters: These are people who learned about the program from the EO and decided not to apply for the loan. They were knowledgeable, and understand the loan product and process, but decided against applying for a number of reasons. According to non-client interviews, these reasons include:

- ◆ Entry level loan sizes were too small -- interest in initial loans began at LE 5,000.
- ◆ Monthly installment (starting around LE 180) is too large.
- ◆ Documentation requirements relative to small size of the loan reduces interest.
- ◆ Religious objections.
- ◆ SEDAP's product is over-priced relative to loans offered by local banks.
- ◆ Benefits of SEDAP's loan product are considered insufficient relative to the existing terms of suppliers.
- ◆ Existing debt made it difficult to consider further obligations.
- ◆ Alternative (easier access) sources of small sum loans were considered more appealing, for example through a gamaya'.

⁴ This is far below the survey estimate of an 80 percent interest in a loan program.



Note: Sequence does not indicate the size of group

Early Adopters: *Learn about the program directly from the extension officer. They are usually neighbors, relatives, or friends.*

Rejecters: *Have rejected the program for a variety of factors.*

Fence Sitters: *Have not accepted or rejected the program and may do either with more time.*

Partially informed: *Have a low understanding of SEDAP and have not yet exercised a decision to accept or reject the product.*

Uninformed: *Have not yet heard about SEDAP.*

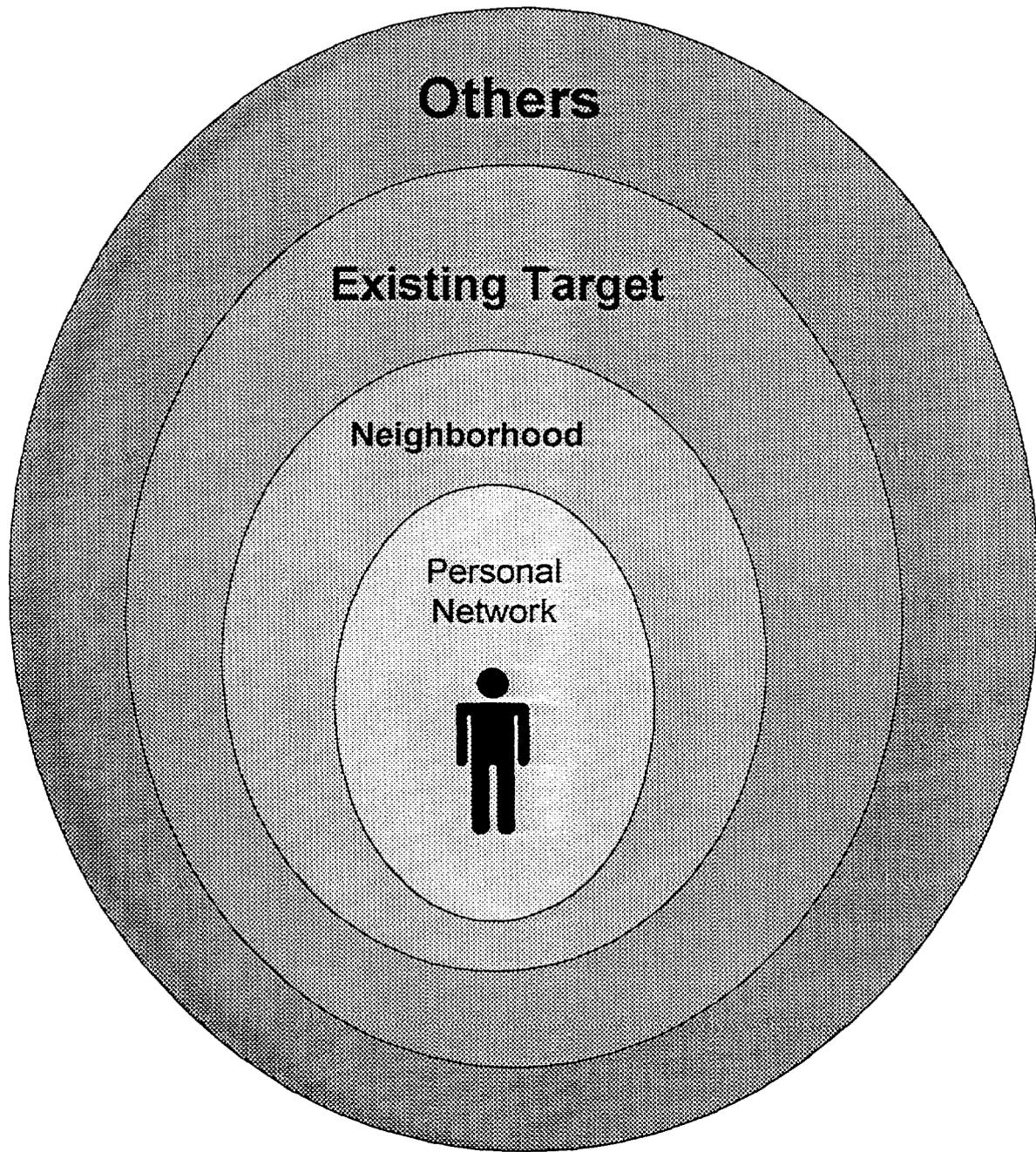
Fence Sitters: These are business owners who have been contacted by EO's or other clients. They have some knowledge about the program but are undecided about whether or not to apply for a SEDAP loan. They are classified as "fence sitters" as they have neither accepted nor rejected the program and may do either with more time. Their wait and see attitude is partly due to the newness of the SEDAP program and the uncertainties associated with a non-bank lending institution. They are also waiting to learn about the interaction between SEDAP and its existing clients.

Partially Informed: Interviews with EO's and some clients indicate that knowledge about SEDAP is not synonymous with an understanding of the specifics of the loan process and benefits of the product. When EO's make contact at the place of business they may not always meet with the business owner. The message reaching the prospect comes to them indirectly and is diluted or only partially understood. Prospects who fall into this category also may have heard about SEDAP from other clients or business contacts. Prospects in this category have a low understanding of SEDAP and have not yet exercised a decision to accept or reject the product.

Uninformed: These are SME owners who have no specific information about the program because the EO network hasn't yet reached out to them. Prospects understanding in this category is inadequate for them to exercise either a positive or negative decision about SEDAP's product.

This adoption model was used during interviews with operations staff to gauge their understanding of the market response relative to the five different classifications defined above.

There was common agreement (among the Executive Director, EQI Resident Advisor, EOs, and Branch Manager) that the 5 different categories offered a good definition of the initial market response. However, there were diverging opinions on how much of the target market fit into any one of the five categories.



EO Outreach Network

One view holds that

"It is getting increasingly difficult to find new clients who have not heard about the program and to get them to apply for a loan."

Interviews with Extension Officers

75 % - Entrepreneurs know about the program. Of these:

60% have been personally visited by an EO (10% rejecting the program and 50% are "fence sitters")

15% have heard about the program indirectly (poorly informed)

25% Entrepreneurs who have not heard about the program.

Port Said is a small city and knowledge about the program is widespread in the small business community. The adoption rate is high relative to market interest. People holding this view think that there is limited opportunity to further penetrate the target market with the existing product -- to them it is getting harder to attract market interest in the existing product. Holders of this view advocate for SEDAP to offer the market different products (e.g., initial loans at 5,000 LE) and to take steps to diversify into new market segments (ranging from professionals to larger businesses within the existing sectors).

Another view holds that while "everybody may know" about the program, a large portion don't understand how the loan process works or how it can benefit them. Holders of this view think that there remains a large unserved demand within the current target market of fixed address businesses. They think that SEDAP could do a better job of promoting and marketing the program to those with some knowledge of the program but with an incomplete understanding of the benefits of the product. Once knowledge gaps are bridged, this view holds that the target market will respond without the need to alter the product or diversify the market. It also stipulates that more eligible clients will adopt the product once SEDAP's reputation is firmly established within the Port Said business community.

The pyramid offers a useful diagnostic tool with which to segment the initial market. This provides a guide to target marketing efforts and to select the appropriate market mix options for each group (the gray arrows on the previous pyramid diagram).

SEDAP's EO Delivery System

The extent of market response to SEDAP's product is largely influenced by the effectiveness of the Extension Officer to communicate with the market. The contact between SEDAP and the market is almost exclusively through direct contact with EOs. The EO Network Outreach graph (above) visually presents SEDAP's client outreach strategy. The center circle represents the EO's own personal network within the neighborhoods where they are assigned. EOs are recruited from the neighborhoods where they live and they seek out prospects based on knowledge, character, reputation and trust.

The initial market response has been largely concentrated within the EO's own personal networks. In interviews with 32 clients, the majority have heard about the program from an EO; whereas only two of these clients learned of the program through referrals from other clients.⁵

As the circle radiates out from the center, the tasks of recruiting new clients goes beyond the EO's personal network to eligible clients within the "existing target" group and to potentially other target groups in the outer circle. The further from the center, the greater the challenge and skill of the EO to recruit new clients for the program.

Interviews with both older and newer EO's indicate that there is a high degree of variability on sales strategies and on information provided to prospective clients. Sales techniques tend to be *more product oriented than consumer oriented* -- EO's market the promise of future loans on better terms and the development goals of SEDAP. While these are important selling techniques they may be inadequate to convince fence sitters and rejecters who want more now, find the installment size high, consider the paperwork onerous relative to the size of the loan or perceive SEDAP's loan price high when compared to some banks.

Fewer EO's appear to market SEDAP's loan product from the perspective of the consumer -- that is to show the client the **benefits and uses** of SEDAP's loan product and process relative to the cash flow dynamics of the business. According to SEDAP management, the best EOs are "involved in the market" and are effective beyond their own personal networks.

In addition to sales techniques, there appears to be a lack of uniformity in how the terms and conditions of the loan product are explained to the prospective client. EO interviews indicate that the price of the loan is presented in simple and correct terms (80 LE per 1,000 LE) as well as complex and incorrect terms (8 percent to 13 percent on extended payment terms). The majority of clients interviewed had no idea about the Foundation's policy on late repayments and associated penalties. To some degree this finding is contradictory to the Foundation performance -- maintaining a very high repayment rate since its inception in early 1995.

Another factor occurring within SEDAP's primary delivery system is significant EO dropout rates. While seven out of the original twenty-three still remain with the Foundation, newly trained recruits have averaged a 30% dropout rate after the initial three month training period.⁶ As a result of this high dropout rate, EQI's technical assistance team has conducted an assessment of EO dropout within all the Foundations. This study found that EO dropout has been high in all of the Foundations as a result of low morale, low pay, and poor working conditions.

⁵ However, 17 of the 32 interviewed did state that they had referred other entrepreneurs to SEDAP.

⁶ Most of the major SME programs around the world use the training period as a method of screening potential employees (Grameen screens up to one third of its recruits during training). However, once recruits have passed through the training period, dropout rates usually decrease dramatically. Programs such as BRI/Indonesia and Grameen Bank/Bangladesh average a 1% and 2% employee drop out rate, respectively (Rhyne and Rotblatt, 1994).

Loan Documentation, Administration and Communication

In addition to the client and the EO delivery system, internal management factors also must be considered for their effects on promoting and constraining the market response to SEDAP's program in its early stage of operation. In the first fifteen months of operation, SEDAP has emphasized building a track record of client discipline, high repayments, and negligible delinquency. It has maintained cautious lending policies, multiple levels of screening and decision-making and strict client repayment performance.⁷

Interviews with clients, EO's and SEDAP management centered on two management practices that have affected market response to date. including: (1) documentation requirements; and (2) the EO incentive system.

Documentation Requirements

Clients must meet documentation requirements to secure a loan. The type and level of documentation required varies between sectors and between clients. SEDAP has been more flexible with manufacturers and will approve a first loan even if they do not have a business license. However, clients engaged in commerce must have a business license or a commercial register. The Foundation has been somewhat flexible with home-based enterprises engaged in manufacturing but does not extend the same flexibility to home based clients in trade enterprises.

Flexibility is not bad, but clients need to have a consistent framework from which to understand the Foundation's documentation policies. EOs told the field team of many examples of pushing clients through the approval process because they "knew the system". Applications that may be drawn into question over documentation could get through the approval process on the EO's "good word and reputation". While this works well for the short-term, as the Foundation grows it will be unable to make decisions on a case-by-case basis. Documentation requirements must be clear and client approval systems should be transparent.

EOs also told the field team about their method of screening potential clients. EOs often screen out promising applicants because they think their applications will be rejected for lack of adequate documentation. Focus group interviews with "older" EOs revealed that they had recently screened out 33 prospective applicants for the following reasons:

- They do not meet documentation requirements (58%).
- Limited repayment capacity of the client (33%).
- Concerns about client character and reputation (9%).

⁷ As of April 1996, SEDAP charges a LE 5/day delinquency fee.

Home-based women in general seemed to have significant problems in meeting the Foundation's documentation requirements. One of the most common problems for home-based women is getting the power of attorney from their husbands in order to process their loans.⁸

Power of Attorney - SEDAP requires home-based women (and businesses in partnerships) to sign a "power of attorney" form. For home-based women, this requires their husband's signature stipulating his approval to conduct a business from his home and his responsibility to repay the loan if she defaults on her payments.

Home-based women also face documentation problems if they have only a short term lease for their apartment (as the Foundation will often use the apartment or lease as a form of documentation for home-based clients).

The result of SEDAP's documentation requirements has been limited inclusion of "informal" businesses and other potentially good clients into the program. According to the field team's interviews, Extension Officer's portfolios contain around 5 percent informal businesses. While these documentation requirements exist at all the Foundations, its impact on who the program reaches (i.e., its target group) should be examined.

EO Incentive System

SEDAP's incentive system is similar to those followed in the other Foundations, providing bonuses for maintaining high repayment rates and new client growth. For the most part, this system has worked well to develop a high quality and growing portfolio for SEDAP. However, this system does contribute to a low risk portfolio where the most risk free clients are brought into the system. In fact, the EO incentive system, in conjunction with documentation requirements, may contribute to a client base that is more sophisticated than the project's intended target group.⁹

Questions were raised by the EOs as to the fairness and efficiency of the incentive system. Many commented that its focus on individually-based bonuses stifles cooperation, teamwork, and loyalty to the Foundation. The field team also felt that the incentive system could be linked to the EO turnover rate. Since the incentive system is based on individual performance, there is no inherent incentive to support "newer" EOs' portfolio growth. In fact, several EOs referred to issues of "poaching" by new EOs, leading to mistrust between newer and older staff.

⁸ Many women seem to have a problem acquiring a power of attorney from their husbands because their husband's are either living abroad, do not want to accommodate their wives, or feel it is too much trouble for such a small loan.

⁹ For example, 10 out of 32 clients interviewed were well versed in the availability of other sources of credit. In addition, several clients interviewed claimed that they could gain access to a bank loan.

Because SEDAP's outreach is primarily conducted through its EOs, issues that impact EO performance play a critical role in the Foundation's capacity to expand its client base. While the incentive system continues to operate and contribute to a high quality portfolio, an assessment of its impact on overall EO performance is needed.

THE SHORT-TERM RESPONSE: MARKET PENETRATION

SEDAP is on course to reach break-even by December 1996. It appears it can achieve this goal without diversifying its target market or fundamentally changing its product. The Foundation's approach in the short term should be to stay the course and pursue missed opportunities with its existing product within its existing market. Any changes should be minor and should be introduced gradually, with the purpose of consolidating SEDAP's success.

SEDAP should follow a process of incremental change, pegging changes to predictable life cycle stages in the operation of the Foundation. Although SEDAP is moving rapidly towards break-even, it is still in the introduction phase of its life cycle - a stage devoted to adjusting the product to optimize market response. Its task in this stage is to fine-tune its lending methodology and delivery system; and to seek cost efficiencies as the basis for future growth.

Different views exist within SEDAP about market interest in its program. Some think the loan product is a tough sale and becoming more difficult. Others think that the product is becoming easier to sell as SEDAP establishes its reputation. Ironically, both views are probably correct. SEDAP's operational experience conforms to experience of start-up programs in the first stage of operations: growth is not steady but discontinuous, it can stagnate and will need to be stimulated through a set of interventions. The question facing managers is to properly diagnose the factors affecting program growth and select appropriate remedies.

Conclusions

This study concludes that the appropriate response is to pursue a strategy of market penetration before diversifying into new client groups or new products. There is a large portion of the qualified market waiting to make a decision about SEDAP and there are those who have not yet considered a decision due to limited or no knowledge about SEDAP.

The central tasks of SEDAP over the next twelve months is one of *market penetration*. SEDAP should seek to increase adoption rates of eligible SMEs through improved marketing practices and improvements in its overall delivery system. The pricing and features of SEDAP's standard product may not be an ideal fit for all clients, but it is premature for SEDAP to offer a differentiated product mix until after it reaches break-even.

SEDAP's basic product could have broader appeal with new marketing practices designed to reinforce EO efforts and improvements in the delivery system (such as relaxing loan processing and documentation requirements), and removing some blocks to improved EO performance.

Market Mix

Market Mix	Findings	Targeted Response
Promotion	<ul style="list-style-type: none"> • high knowledge of SEDAP but variable understanding of its product or loan program. • cautious market takes wait and see attitude about Foundation. • limits of EO system to achieve wider coverage. 	<ul style="list-style-type: none"> • better sales techniques target rejecters and fence sitters who don't adequately understand product features or benefits. • standard EO sales kits provide consistent message to all target groups regardless of EO. • better systems for walk-in and phone inquiries targets fence sitters and poorly informed. • informal but active business networks targets fence sitters and poorly informed. • fact sheets available at information nodes target uninformed. • Foundation-wide public relations campaign targets all groups by increasing visibility and credibility of SEDAP.
Product	<ul style="list-style-type: none"> • few institutional substitutes. • current price not a constraining variable. • loan terms favor clients with rapid cash turnover. 	<ul style="list-style-type: none"> • maintain focus on standard product until break-even is reached. • changes in marketing practices and promotion activities expected to increase adoption in SEDAP's chosen market.
Loan Conditions	<ul style="list-style-type: none"> • strict documentation requirements dampens interest and disqualify good prospects. • front line sales persons unclear about decision criteria applied to new loans 	<ul style="list-style-type: none"> • relax strict documentation policies except to clients where loan at risk due to sanctions and/or closure by government regulators • specify licensing requirements and acceptable alternatives by sector to reduce confusion among EO and clients • streamline loan approval process especially for repeat applicants with record of on-time repayments; reward EOs for increasing client referrals or reaching priority target groups (e.g. added value businesses or home-based clients)

The Marketing Mix matrix, presented above, provides a summary of the team's findings and suggestions to improve market response in this stage of SEDAP's operations. This matrix is followed by a detailed explanation of each market mix variable.

Promotion Changes

SEDAP operates in a small and conservative market context where "people need to hear again and again about the program". The first 15 months of operations indicate the limits of the EO strategy to service existing clients and to promote SEDAP with the right messages in a consistent manner. SEDAP has already taken steps to assist EOs in promoting SEDAP through the publication of a brochure about the program. This is a good first step, however, SEDAP should also consider implementing a package of marketing and promotional activities common to all categories of clients.

SEDAP could increase the market response to its standard product by being more pro-active in promoting itself to the business community. The suggestions which follow are low in cost and can be implemented without recruiting additional specialized staff:

Sales kit for the EO's

Promotion requires a consistent message to market the benefits, costs and conditions of lending. A sales kit could improve the consistency of the message if all EOs used similar sales techniques and promotional materials. The kit would include a fact sheet on SEDAP and a blank business card which the EO fills out at the time of making contact with the client.

The fact sheet could be a low cost method of promoting the program while ensuring the accuracy of the information provided to prospective clients. Included in the fact sheet should be basic information on SEDAP, the loan program, application process, eligibility criteria, interest rates, and methods of payment.

Systematic Method for Dealing with Walk-ins

Preliminary indications reveal that a growing number of potential clients are pro-actively approaching the Foundation.¹⁰ These individuals have often been visited by an EO or have heard about the program indirectly. At the present time there is no system for fielding these client inquiries; entrepreneurs are randomly directed to available Extension Officers. These walk-ins and telephone inquiries could be capitalized on by instituting "clinic hours" where designated EOs or other Foundation staff would be responsible for assisting these potential clients with information and documentation on the program.

¹⁰ While in the field, the team observed daily walk-ins at the Foundation. Many of these entrepreneurs are from groups not currently served by the program, e.g., taxi drivers.

Promotional Material at Key Locations

The key to marketing SEDAP is to reinforce its name and message without standing the expense of increased direct EO contacts. This could be done by placing program information in places where potential clients might visit. For example, one taxi driver who was interviewed had heard about the program at his local bank. As the government expands its building of formal market stalls for many of its street vendors, the District Office will also gain more walk-in traffic from this group of entrepreneurs.

SEDAP should distribute a fact sheet, as noted above, and perhaps place promotional posters at key information nodes. Possible locations could include:

- District Offices
- Local banks
- Post Offices
- Public Places (street locations or coffee houses)
- Non-Governmental Organizations
- Other credit programs (such as the Social Fund or Productive Families)

Newsletter and Periodic Mailings

SEDAP's client database could be used as a mailing list for annual direct mail campaigns and a program newsletter. This type of simple promotional material could also include informational highlights on Foundation progress, taxation, training courses, or supplier and distribution contacts. By regularly contacting its own client base SEDAP would reinforce interest in the program of existing clients and possibly attract new clients.

Public Relations Using Client Testimonials

Client referrals are a powerful means of attracting interest in a start-up program. SEDAP should explore the feasibility of getting local newspaper, TV and radio to publish and broadcast interviews with satisfied clients. This could be a low cost way to increase SEDAP's visibility and to reinforce its credibility in Port Said.

Product Changes

The features of SEDAP's standard product -- its pricing and terms -- do not appear to be a major constraint against client adoption. While the terms are not an ideal fit for all clients, there are few substitutes at the present time. SEDAP should take note of market interest in new product features -- longer loan terms, grace periods, larger and smaller initial loan amounts -- but avoid making changes to its standard product until after it determines the impact of marketing and delivery system changes on adoption rates.

Successful microenterprise programs are market responsive. That is, they listen to the market, incorporate changes into their product, and test market new products against customer interest. These are core challenges after SEDAP has reached its break-even, and after it has effectively communicated its product and program to a wide spectrum of the small and micro business community in Port Said.

SEDAP'S EO Delivery System

As the key delivery vehicle for the Foundation, EOs' knowledge and understanding of the program is critical. Combined with a targeted promotional strategy, the Foundation should also provide new skills training for its EOs that would assist SEDAP in serving its current clientele better while ensuring a more accurate and targeted message to potential clients.

As a result of this issue, EQI's technical assistance team has designed and administered follow-up training sessions for Extension Officers and Foundation management. Refresher courses and special seminars have been conducted to assist the Foundation confront issues of uniformity and expanded outreach.

Skill development focuses on SEDAP's primary delivery vehicle -- its extension officers. Recent modifications to standard EO training programs include:

- ◆ Training on marketing techniques.
- ◆ In-depth training on the Foundation's policies and practices (with special emphasis on interest rate clarification).
- ◆ Training on sales techniques (how to describe the benefits of the loan to potential clients).
- ◆ Caseload management (e.g., maintaining caseload records).

Loan Conditions

While EOs are a central component to the delivery system, the Foundation's lending policies and management practices directly impact client outreach. While appropriate in the introduction stage of a program, these policies are now becoming a constraint to reaching new clients for whom the existing loan product is suitable.

If SEDAP makes adjustments to some of its policies and processes, it could increase outreach without compromising the integrity of its system and messages of discipline and repayment performance. Below are a few suggestions regarding SEDAP's documentation and incentive system.

Flexible & Uniform Documentation Requirements

SEDAP could expand its client response with more flexible interpretation of its documentation policies. The Foundation's management needs to ask itself:

Documentation is one form of risk guarantee but what risk does it guarantee the Foundation against? The biggest risk is that of business closure or relocation by municipal authorities for lack of proper papers. However, documentation is not a proxy financial guarantee and should not be treated in this fashion. The promissory notes clients sign for each installment as well as the promise of a future loan are a more effective form of financial guarantee.

Clarity and consistent application of its policy on documentation would eliminate much of the EO client screening as well as attract new clients. Defining the minimum acceptable levels for each of the different sectors would improve internal understanding of documentation requirements and streamline decision making for each loan application. The following matrix proposes a documentation framework that is structured by sector.

SECTOR	DOCUMENTATION
Manufacturing and Services	<ol style="list-style-type: none"> 1. Evidence of permanence (electricity bill, rental lease) 2. ID card
Trade	<ol style="list-style-type: none"> 1. Evidence of permanence (electricity bill, rental lease) 2. Business License or Registration card
Home-Based	<ol style="list-style-type: none"> 1. Evidence of residence (electricity bill, rental lease) or client reference or neighbor reference 2. ID card

Incentive Systems

Incentive systems are not universal among microenterprise institutions. In fact, many of the most well known programs -- such as Grameen Bank -- do not provide financial incentives to their staff. Still, incentive systems appear to be gaining popularity among new microenterprise programs springing up around the world. Because there has been no systematic assessment of these programs to date, extreme care must be taken in the development and implementation of these systems.

For SEDAP, it may be possible to reassess the current incentive system in a manner that would encourage EOs to take risks and encourage greater cooperation. For example, EOs could be penalized on client default rather than on delinquency. EO cooperation and teamwork could be fostered through methods of calculating incentives. A thorough assessment of SEDAP's incentive system could reveal better methods that would support the Foundation's growth strategy and retention of Extension Officer.

One basic principle used in successful incentive programs has been to base incentives on group, unit, or team performance. Bonuses based on individual performance have been considered to be counter-productive to the objectives of these organizations.

As these systems evolve the trend has moved away from individual awards for specific accomplishments toward systems that promote teamwork and reward all employees for positive institutional performance.¹¹

SUMMARY

This chapter places the issue of client diversification in the context of SEDAP's current operations so as to pose these key questions:

- ◆ Is there a strong rationale to diversify its target group?
- ◆ Is now an appropriate time for SEDAP to actively pursue a program of client diversification?

Group Incentives

One successful example of group-based incentives is being used in BRI of Indonesia. The BRI distributes 10% of a unit's annual profits to its staff (up to a maximum of 1.5 months of an employee's salary). This approach has been successful and affordable for BRI. It has been successful in that it is based on team performance, requiring staff to work together and collaborate. It has been affordable since it has been based on net profits and therefore rises and falls according to overall profitability. (Rhyne, 1994: 58)

¹¹ Stearns, Katherine. *Monetary Incentive Schemes for Staff*. GEMINI Report. Washington, D.C.: DAI, 1993. p. 23.

- ◆ Can it achieve its immediate goal of break-even by continuing to target fixed address businesses?
- ◆ Is there room for continued penetration of its existing market using existing products and the EO delivery system?

The study found that SEDAP need not take steps now to diversify its target group or to fundamentally change its standard product in order to achieve its primary short term goal of break even. There is room for expansion within the existing target group and SEDAP should be able to increase adoption rates with improvements in operational performance -- specifically by implementing a package of promotional activities designed to complement and reinforce direct EO efforts and by applying current practices on loan documentation and decision making with more consistency.

These steps taken together should have the effects of both deepening and diversifying the portfolio. Potential impact from these changes could include:

Penetrating the Market - There are a range of entrepreneurs in Port Said that can be brought into the program through more aggressive and uniform marketing strategies. Many of these will be those sensitive to documentation requirements. Others can be reached through more targeted outreach messages.

Increasing Productivity - EO productivity (i.e., the ratio of applicants to client contacts) could be increased with new incentive structures, differentiated sales techniques, better marketing skills, and more flexible documentation requirements.

Serving the Difficult to Reach - Prospective clients with difficulty meeting documentation requirements tend to be smaller in scale and in more difficult to reach locations (such as home-base entrepreneurs).

These suggestions make sense for SEDAP but also conform to lessons learned from programs worldwide. That is, effective programs seek to optimize operational efficiencies as the basis for future expansion. These include increasing extension officer caseloads without adding new staff; increasing adoption rates for a given level of contact hours per EO; increasing the turn around time between application and payment.

SEDAP's dedicated focus on achieving break-even, while simultaneously maintaining a high quality portfolio, is well placed. Future portfolio quality and growth are dependent on a reputation in the market for seriousness about borrower discipline in meeting its credit obligations with SEDAP. SEDAP has achieved this portfolio through a combination of effective internal systems, a basic product for its clients and conservative lending decisions relative to client eligibility. Still the broader strategic questions of the client diversification remain on the table for SEDAP's consideration. The context for these changes and a description of long-term options are presented in Chapter III.

CHAPTER III

INVESTING IN THE FUTURE

INTRODUCTION

In this chapter we will examine the following reasons why SEDAP, in the medium- to long-term, should diversify and expand its client base to a broader spectrum of existing micro and small enterprises in Port Said:

- Real concerns about market size and potential for saturation.
- Heavy market positioning in the trade sector and associated portfolio risks.
- Fit between who SEDAP serves and its own vision as a development institution in Port Said.

Why Diversify?

Portfolio Risk: SEDAP's loan program will unavoidably reflect the commercial bias of the Port Said economy. As of December 1995, nearly 65% of SEDAP's portfolio was concentrated in the commercial trades.

This business sector is exposed to risks in common: increased competition due to liberalized import policies, increased availability of local manufacture of branded products or high quality local substitutes; changes in the valuation of the Egyptian pound relative to the dollar,¹² and a downturn in purchasing power of the middle class consumer due to pressure on wages.

Small Market SEDAP's active client population must reach about 1,800 clients at the time of break-even or an increase of 80% over December 1995. This appears to be an achievable target given the interest in repeat loans from existing clients and the confidence of EOs to attract 5 new clients each month during 1996. While there is more room for growth, SEDAP will face the very real challenge of how to maintain portfolio growth in a market that may approach saturation in the next 3-4 years.

Market saturation necessitates product diversification. SEDAP's future growth will be dependent on such diversification. SEDAP should factor into its normal course of operations the interrelated tasks of market and product testing to assess the viability of client group additions and/or product changes. These actions, taken early, will position SEDAP to expand into new markets with proven products and methods in anticipation of future marketing problems.

¹² For example, the late 1980s was characterized by a dramatic devaluation of the pound to the dollar.

When to Diversify

Microenterprise programs go through predictable stages of growth from initial introduction, to expansion and ultimately to sustainable operations. SEDAP is in the first stage of its growth which has been characterized by variable but continuous new loan issues, gradual expansion of a high quality portfolio using standard measures of on-time repayment and delinquency.

After break-even has been achieved, SEDAP must begin considering its "marketing mix". This would include promotional activities targeted to fence sitters and poorly informed business owners as well as complementary outreach activities to small businesses that may be difficult to reach through EO contact alone.

How to Diversify

A range of approaches exist to move SEDAP beyond its current strategy of market penetration to develop *new* markets and *new* products. This study considers alternative strategies SEDAP could employ to achieve portfolio growth goals as and when further penetration is no longer a viable option. These alternative strategies include:

Product Development - Would involve an assessment of client's unmet needs. This will require answering the following questions:

- ◆ What additional products could SEDAP offer to its existing market?
- ◆ How should these products be offered?
- ◆ What are the financial and administrative implications of these changes?

Market Development - To reach new markets using existing products SEDAP must assess the following issues:

- ◆ What market segments not currently being targeted could be eligible and interested in SEDAP's current loan product?
- ◆ What is the degree of fit between SEDAP's existing product and potential clients' needs?
- ◆ Can these clients be reached and monitored using existing lending methods and delivery channels?

Market Diversification - Can be achieved by combining the above two approaches in addition to exploring the following questions:

- ◆ What new products can SEDAP develop to satisfy the service needs of new markets?
- ◆ Could SEDAP invest in testing and promoting new business opportunities to new or existing clients?

PRODUCT DEVELOPMENT

A key ingredient in the success of microenterprise finance programs worldwide is that they are market responsive. They attempt to offer their customers a range of products beyond the initial standard product option. These options include choices in loan term, loan type, and loan size. As stated in a recent development journal:

Microfinance institutions will have to diversify products and services if they want to keep their best clients. If they don't take the necessary steps to meet future client demands, they run the risk of losing their (often times best) clients.¹³

The field team's interviews with clients, Foundation staff and EOs revealed important differences between clients and prospective clients that could be instructive for planning future product options:

The current loan term requires rapid turn over or ease of liquidity - The current loan terms are best suited to traders, whose businesses are characterized by high sales volume. The loan term is generally less suited to the needs of manufacturers - such as carpenters or shoemakers - who have long production periods and often sell on credit to fixed income customers.

The installment size is too big for many businesses - The team's research showed that the vast majority of clients are most sensitive to installment size rather than loan amounts or interest rates. For some, such as kiosks or home-based businesses, the installment size for a 1,000 LE loan is too large. Although many of these businesses requested larger loans, at the same time they needed a longer period of time to repay the loan amount.

¹³ NEXUS article entitled "Financial Services: Extending the Frontier", taken from Hank Jackelen and Jeffrey Poyo's presentation at the SEEP Annual meeting. Number 32, March 1996.

KIOSKS

During the field investigation, the team identified three cases in which kiosk owners were not accepting repeat loans from SEDAP. The reasons given were that: installments were too large and they were unsure as to whether or not they could pay another loan on time. They would, however, consider taking another loan from SEDAP in the future.

While these kiosk owners would like smaller loans (around LE 500) they also noted that LE 1,000 loans for longer loan periods would also address their needs.

The loan size is too small for many larger businesses - EOs confirmed that many clients, particularly traders, find the initial loan size insignificant. Some reject SEDAP's product, while others try to work up the ladder to reach much larger loan amounts as quickly as possible. Many of SEDAP's entrepreneurial clients are lobbying for product diversification, such as larger loans with longer loan terms.

The short duration and lack of grace periods means that many businesses can't properly invest loan funds - Many clients stated that they put aside first and second installments to be sure of their ability to meet their monthly installments. Most small-scale manufacturers have long production processes or are forced to sell on credit. In general, these clients have a long cash flow gap between expenditure and revenue.

Product Options

Below is a series of product options that could better serve SEDAP's existing client base while reaching out to new clients in the "rejecter" or "fence sitter" categories. Five possible new product options are considered from the perspective of their market appeal and their impact on SEDAP's break-even.¹⁴ The analysis below examines benefits to portfolio growth, program income, expenses and effects on EO caseloads and loan loss provisions. Adoption of some of the suggested product options examined below would also involve several modifications to the Foundation's MIS and accounting systems, procedures, and number of staff required to maintain current caseloads.

¹⁴ Cash flow analyses for all these cases use the same time period as the base case for comparison purposes. These can be found in Annex 1.

Loans with Longer Loan Terms

Data presented in Annex 3 shows that SEDAP rejects about 27 percent of all cases because of problems with repayment capacity. Existing clients also cite that they do not benefit from the loan because they have to pay it back in too short a time period.¹⁵ Many prospects who reject the product do so because they think the installment size is too big for them to manage.

The EO group leaders confirmed that extension of the first loan to eight months would reduce the psychological barrier for micro businesses of the large installment size. Clients are willing to pay the added interest costs of a longer term loan to reduce installment payments and invest the loan proceeds in their business. Such a product would appeal to manufacturers, such as carpenter -- who have slow cash flow and turnover -- and to businesses with low sales volumes.

Extending the loan periods would have the effect of increasing the average loan term for the entire portfolio. The cash flow chart in Annex 1 (entitled, SEDAP: Longer terms to allow for smaller installments) shows that increasing the average loan term from eight to twelve months (the average term was 8.11 months as of March 1996) will have no negative consequences on the portfolio or the break-even point. The portfolio would remain undamaged as the interest per loan would increase in proportion to the term extension (because interest is charged according to the loan term). This product option has the advantage of reducing EO caseload because fewer new loan issues (from 11 in the base case to 8 in this case) are needed to meet lending targets.

Grace Periods

Grace periods offer the client the option of longer loan terms. SEDAP could offer clients a grace period of 1-3 months for which they would pay a fee on the initial loan amount for each month of grace. Table 7 below provides an example for a LE 1,000 loan for six months with a 3 percent fee on the initial loan amount, or 30 LE for each month of grace. If the client elected a three month grace period, the sum of all payments over the nine month period would only marginally increase the APR from 26.9 percent to 31.3 percent.¹⁶

¹⁵ Client rejection of loan renewals is 19 percent -- for the project's entire lending history, 1995 - May 1996.

¹⁶ These percents represent the IRR for all payments made over the period of the loan contract.

Table 7

Grace Periods: 3% per month on the initial loan amount, up to 3 months.

Example: LE 1,000 loan of 6 monthly payments at 180 LE/month

<u>Months' Grace</u>	<u>APR</u>
1.....	29.0%
2.....	30.4%
3.....	31.3%

Lower average loan size

The study identified a potential market segment for small size loans that can not be easily satisfied with SEDAP's standard loan product. These are enterprises -- such as street vendors, kiosk operators, home-base enterprises, even fishermen -- with relatively low sales volume but with daily cash turnover. Some in this category, like market vendors, may switch their product mix or volume depending upon opportunities they see at the time.

Prospective clients in this group are more sensitive to opportunity and transaction costs than to the interest rate on the loan product. They require speed in loan processing or they may lose a business opportunity; and they require ease in transacting a loan contract and cannot afford the time or cost in securing unnecessary paperwork.

This target group is costly to reach given SEDAP's current product, its price, and delivery methods. The cash flow chart, "SEDAP: Lower Average Loan Size" (found in Annex 1), adjusts downward the average loan size from the current LE 2,152 to LE 1,500 while maintaining the average loan terms at eight months. The result is slower portfolio growth, postponing the break-even point from December 1996 to August 1997.

While costly to serve, the estimated size of this group (upwards of 3,000 micro businesses) urges SEDAP to consider this market segment as an addition to its portfolio. To serve this group effectively, SEDAP will need to offer this market segment a choice of loan amounts and terms while adjusting its lending methods to meet customer requirements of speed and ease. SEDAP also will need to consider adjusting its interest rate policy (or requiring additional fees) to compensate them for the additional costs to service smaller loans.

Loan needs for small entrepreneurs include:

- Initial loans ranging from LE 500 - 1,000 which may cap at LE 2,000 - 3,000.
- Options for monthly or weekly installments
- Repayment capacity appears to range between LE 100 - 200 per month.

Small Loans: How to maintain cost coverage?

Let us assume that a kiosk owner needs a loan. She knows she cannot afford a large loan and decides to ask for the smallest loan size from SEDAP. If provided with a range of repayment options, she might very well choose to repay her loan in weekly installments. Therefore her product might be a LE 500 for 13 weeks.

At SEDAP's current interest rate, the weekly installment for this loan would be about LE 39.80 (or LE 155 for a month). Given the additional costs and assumed risks of servicing a weekly loan product, SEDAP could charge this client a marginal increase in her weekly payment -- perhaps around LE 1.30 to 41.10 a week. The effective interest rate of this loan would change from 26.9 percent to 50 percent -- although SEDAP would almost double its interest rate for this type of loan, the increase to the client is marginal and still within the repayment capacity of a microenterprise with daily sales of around LE 60 - 100.

To capture this market, SEDAP would be compelled to develop lending methods that offered the client rapid turn around time between loan application and disbursement (e.g., same day service) and very low transaction costs (e.g., eliminate the need to secure costly and timely documentation) to compensate for the marginal interest rate increase. SEDAP would also have to consider whether individual EOs could monitor these loans or if group-based lending schemes would need to be adopted.

The cash flow chart in Annex 1, "SEDAP Serves Clients with Small Loan Needs", shows the financial implications of a new weekly product serving clients with smaller loans as part of SEDAP's overall portfolio. These assumptions were made: a lending goal of LE 500,000 through 1997 (less than 10 percent of the portfolio); average outstanding per client at LE 500; and 13 weekly payments.

The financial projection also assumed higher risks associated with small loans and mitigated risks to SEDAP in two ways. First, an effective interest rate increase from 27 to 50 percent was used. Second, sizable increases in loan loss provisions from 1995 were included. Costs were unchanged from the base case scenario which reflects increases in staff costs (to cover 20 EOs) and the addition of depreciation.

Weekly Installments: The cash flow projection illustrates that the addition of a weekly product at 10 percent of the overall portfolio has no negative consequences on SEDAP's financial health and that break-even could be reached at an earlier stage (October 1996 versus December 1996) because of the rapid rotation of funds with weekly instead of monthly payments. SEDAP would have to increase its outreach -- by an estimated 768 active clients -- over the base case scenario. This scenario assumes 1,000 active clients with small weekly loans. (This number is not large given the potential market for Microenterprises with small loan needs.) The case load implications -- an increase from around 133 to 172 active clients per EO -- do not appear to be unmanageable for an active group of 20 EOs.

Loans at 14 percent flat interest rate

This product responds to concerns within SEDAP, voiced by the Executive Director and members of the Board, that the current interest rate is above commercial rates and is therefore not in keeping with a development orientation. It is worth noting that few clients voiced complaints about the interest rates, but it is possible that repeat borrowers may bring pressure on SEDAP to lower interest rates as they move up the loan ladder to larger amounts.

The cash flow chart in Annex 1 (entitled, "SEDAP: Base Case Scenario with 14 Percent Flat Interest Rate") demonstrates the impact of a lowered interest rate on the borrower and on SEDAP. From the borrowers perspective the monthly payment would be reduced by only a few pounds. The monthly payment on a LE 1,000 loan would drop from LE 180 to LE 178. The effects of lower interest rates in SEDAP would be dramatic. *If SEDAP adopted an across-the-board policy of lowered interest rates it would postpone its break even point from November 1996 to August 1997.*

Other Products

One alternative the Foundation may consider in the long run is offering higher first time and repeat loans to larger clientele. This strategy is being taken up by a range of microfinance programs around the world as a way of moving towards financial self sufficiency. One of these has been ADEMI in the Dominican Republic which loans 25 percent of its portfolio for loans of up to \$40,000.

Any development program designed to assist entrepreneurs with limited access to formal financial systems must carefully assess the implications of moving in this direction. The financial implications for SEDAP could be extremely positive, although it may also have a negative impact on efforts to reach its intended target group by placing a high proportion of loanable assets within one target group.

ADEMI established a Small Business Loan Program in 1991 to meet the demands of entrepreneurs with larger, longer term credit. As of 1994, the Program had disbursed over 100 such loans to mostly former microenterprise clients. It now represents 25 percent of its portfolio. (Rhyne and Rotblatt, 1994).

Strategy

The research team recommends that SEDAP test new loans with longer terms in the immediate period following break even. This product should be offered along with SEDAP's standard products to potential clients and repeat borrowers.

The new product will essentially target itself. Those who have large credit needs will choose to stick to the current loan product. Clients with lower repayment capacity, and hence more modest ambitions relative to future loans, may choose to adopt the new product. Market reaction, in terms of which clients from which sectors are adopting, should be monitored closely by SEDAP's MIS Department for possible future targeting and promotional efforts.

At a later date, SEDAP could offer weekly installments coupled with smaller loan sizes. This product would self target to those with varied product demands. Although these steps should be taken slowly and monitored closely, the financial benefits of offering weekly installments could potentially off-set the increased costs and associated risks of smaller loans. The long-run benefit of this strategy would be to reach new target groups that previously rejected or were unapproached by the program.

MARKET DEVELOPMENT

SEDAP's future growth, in its small market context, will depend on expanding outreach beyond its current target group into potentially large and profitable new markets. To identify new markets, the field team made a systematic effort to assess the eligibility, interest, and significance of new sectors for SEDAP's existing product.

This procedure involved screening potential sectors through a combination of interviews with key informants including, SEDAP staff and board, government officials and business owners in the various sectors. The team adopted a set of review criteria against which to assess the relative merits of new sectors. These criteria, summarized in Table 5, include the decision making criteria currently used by SEDAP as well as other criteria on size and risk. These categories were then used to identify, screen, and classify potential new client groups for SEDAP

By using these criteria, the study assessed:

- ◆ The relative degree of fit between the new sectors and SEDAP's lending conditions.
- ◆ The degree of fit between SEDAP's current products and practices and the service needs of the new sectors.
- ◆ Changes in SEDAP's current products and delivery methods that would be required to satisfy the needs of new markets.

Criteria	Definition
Eligibility	Meets character assessment. Full time careerists vs part time or temporary involvement. Resident of Port Said.
Available Documentation	Some form of recognized business license or acceptable substitute(s) to avoid closure by government authority because of illegal location.
Repayment Capacity	Capacity to repay the loan from the earnings of the business according to an agreed installment plan.
Ability to monitor and collect payments	Continuity in business location even with no specific fixed business address. Ability to track at home, through family, or business association.
Loan Needs/Demand	Uses, benefits, substitutes for small sum working capital credit.
Size of Group	Estimated numbers of active, eligible business within this group.
Risks	Threats and market trends common to all businesses in sector.

A range of sectors were originally considered by the study team to investigate, including harbor services, construction-oriented businesses (builders, electricians, plumbers), taxi drivers, fishermen, home-based entrepreneurs, street vendors, and professional services. Several sectors were eliminated based on their meeting of the Foundation's own criteria (noted in Table 5, above) in addition to feedback from Extension Officer interviews, interviews and site visits¹⁷, and

¹⁷ For example, a one day investigation was made of the harbor services to determine the range, number, and type of businesses involved in this sector.

discussions with senior Foundation management about their long-term lending priorities. As a result of the preliminary investigation, the following four sectors were identified for more in-depth examination: fishermen, taxi owners, home-based entrepreneurs, and street vendors.

Fishermen

The fishing subsector has been in decline since the establishment of the free trade zone. Past participants with capital shifted into trading ventures yet there remains a sizable number of participants in the subsector with an estimated 700 owners of non-motorized boats with about 4-13 workers for each boat. Fishing boats range from felluccas (valued at approximately LE 5,000-8,000), to boats with motors (ranging from LE 10,000-50,000), to several large vessels that leave Egyptian territorial waters to fish. Most of the localized fishing is done year-round.

There is a Port Said Fishermen's Association with 606 members, i.e., registered boat owners. Qabouty (outside the city limits but within the governorate) has its own association. In the past, the Port Said Fishermen's Association once loans for its members from the Development Bank and the Agricultural Credit Bank. However, it broke off this 20-year relationship after the Bank increased its interest rate increase from 7 to 13 percent.

Target Group - The primary target group within the fishing subsector would be cast net fishermen with non-motorized boats who fish year round along the coast and in the canal.

Credit Needs - Fishermen's credit needs range from LE 3,000 - 8,000 for overhauling and maintenance of their boats and renewal of equipment such as nets. Loan demands fall within the range of existing loan products and would allow fishermen to finance maintenance costs through loan proceeds instead of through advances from fish traders. The biggest issue will be meeting the monthly repayment terms for which a quarterly or possibly a weekly alternative could be considered depending on the season and the cash flow of the boat owner.

Eligibility - This client group could satisfy SEDAP's documentation criteria with their boat license as well as active membership in the Fishermen's Association. The Association provides meaningful benefits to its membership in terms of reduction in levies on catches, help in getting licensed and obtaining bank loans. This Association offers an opportunity for SEDAP to work through this group to identify qualified borrowers as well as monitor loan repayments.

A review of these issues should be completed before loans are made to cast net fishermen:

- ◆ The degree of interest in a loan product based on market prices.
- ◆ Possible shift of disbursement and repayment functions from SEDAP to an association as a form of security against the loan.
- ◆ Alternative payment terms to coincide more closely with cash flow dynamics of cast net fishermen.

Taxi Owners

Passenger transport by taxi or mini-bus is a dynamic and growing subset in the transportation sector. Data from interviews with the Department of Motor Vehicles indicated that there are 2,000 private taxis and 2,500 mini-buses registered with the city.

Credit Needs - This client group could become a quality addition to SEDAP's client base with very few changes to its existing product or process. Interviews with taxi owners revealed a large demand for credit to purchase new vehicles (which could cost up to 30,000 LE). However, interest was also expressed in small sum loans to cover maintenance costs estimated at 5,000 LE. With incomes averaging around 25 LE a day, most drivers felt they could repay a 2,500 LE loan within six months.

Eligibility - Though not fixed address businesses, taxi owners/operators could satisfy SEDAP's documentation requirements with ownership papers of their vehicles, their operating license, registration with the Department of Motor Vehicles, as well as evidence of tax payments.

The major risk factors with this client group appears to be lost income due to accidents as well as the relative ease for owners to get out of the business. SEDAP could mitigate against these possible risks by accepting only clients who are full time owner/operators, with a minimum number of years in the business; by checking references through the licensing authorities, through the taxi owners' syndicates, and by taking some form of guarantees against the vehicle.

Home-based enterprises

SEDAP does have several home-based entrepreneurs in its lending program. A few of these have been particularly successful businesses and are show-cased by the organization to interested visitors. Still, only a limited number of home based businesses enter the program due to their different needs and constraints as entrepreneurs.

Home based businesses are often involved in the manufacturing sector, particularly the clothing industry. However, in Port Said many home based women are active traders (or "dallalat"). Estimates of the overall size of the sector are difficult to determine although they probably number in the thousands.

New Markets for SEDAP's Existing Products

Criteria	Fishermen	Home-Based	Taxi	Street Vendors
Size of group	◊ About 700 boat owners with association; 4000 fishermen in Kabuty	◊ Several thousand	◊ Around 3000 including private taxis and mini-vans	◊ Several thousand
Eligibility	◊ Cast net fisherman with non-motorized wooden boats who fish year round along coast and in canal.	◊ Length of time as a working business	◊ Owner/operators of taxis and mini-buses with credentials as careerists in this occupation	◊ Street vendors in process of becoming "formalized" with new markets/settlements; ◊ Mobile street vendors
Available Documents	◊ Boat licensed in Port Said; ◊ Membership in association	◊ Apartment lease or ◊ Electricity Bill	◊ Vehicle ownership papers; ◊ Operating license and registration with the Department of Motor Vehicles ◊ Tax payments	◊ District peddler license
Loan Needs	◊ Purchase wooden boat LE5-8000; ◊ Annual maintenance 600-1000; ◊ Substitute working capital advances from fish traders with loan proceeds	◊ LE 500-3000 for working capital	◊ LE 2000-3000 for maintenance	◊ LE 500 - 3000 for raw material
Repayment Capacity	◊ Weekly installments covered by daily sales; ◊ Monthly installments more risky because of uncertainty of catch	◊ Monthly installments	◊ Monthly installments	◊ Weekly installments covered by daily sales
Ability to Monitor and Collect	◊ Through Fishermen's Association with past experience in mediating between bank and its members	◊ Through home location	◊ Through associations ◊ Through Traffic Department	◊ Through regular methods, or through fixed location referee
Risks	◊ Undependable catch, seasonality; competition from big boats	◊ Limited business expansion ◊ Accessibility	◊ Accidents ◊ Mobile	◊ Mobile ◊ Ease of business liquidation ◊ Government harassment
Possible SEDAP Response	◊ Guarantees through association; loan disbursement and repayment functions through association; different installment terms	◊ Group Guarantee ◊ Client references	◊ Collection through associations ◊ Longevity of operation	◊ Group guarantee ◊ Client references

The difficulty in estimating their number reflects the complexity of access to them. By their nature, home-based businesses are tucked away in residential neighborhoods, hidden from the eyes of the government regulator and the tax collector. They are informal but they do operate from fixed locations.

Credit Needs - The credit needs of home-based businesses, generally between LE 500 - 3,000, fall at or below the lower end of SEDAP's credit program. Their repayment capacity is around LE 100- 150 per month. Cost effective lending would require a different methodology than the Foundation currently follows. Options to consider include (1) group-based (to reduce processing and outreach costs); (2) repayments made through weekly installments (to accelerate portfolio movement, i.e., profitability per loan); (3) cross subsidization through higher-end lending; (4) higher interest rates for smaller loans¹⁸; or (5) the development of a fee schedule based on the size of the loan.

Eligibility - In order to systematically reach home-based businesses, a more flexible approach to documentation requirements would be needed. A special set of conditions might be developed to allow easier entry for home based businesses that usually have no formal business license, registration, or even access to their apartment lease.

Street Vendors

This study considered two subgroups within this broad class of microenterprises. The first group are existing open air vendors in various trades who are in the process of becoming "formalized". The second group includes vendors working in the new District-sponsored markets. (There are plans to construct between 1,500 to 3,000 new shops and stalls to relocate open air vendors from congested market areas.)

Target Group - "Formalizing" street vendors represent an eligible, low risk client group for whom loans would provide financial assistance at a critical point in their growth. Mobile street vendors' credit needs would require changes in SEDAP's loan product and lending methodology. Therefore, the question SEDAP must ask at some point is whether or not serving the needs of informal, unlicensed street businesses fits into its future vision and organizational goals.

Credit Needs - Street vendors' credit needs could be satisfied with small sum loans (below LE 1,000) with weekly payments (ranging from 10 - 40 weeks) and guaranteed by peer mechanisms commonly used in solidarity type lending programs. Cash flow projections of this scenario (shown in Annex 1) reveal this as a viable lending alternative.

¹⁸ Interest rates could be doubled with little effect on the client while compensating SEDAP for the increased costs of serving this group.

New Geographical Areas

Although not a new sector per se, new client groups will become available to SEDAP as the city grows. It is anticipated that the numbers of small and micro enterprises in Port Said will increase not only due to changes in the economic situation but because of natural growth factors.

While time did not permit an assessment of SME sector dynamics, the team wanted to assess environmental factors affecting the urban growth of the sector. Interviews were conducted with district officials to assess growth and new settlements and/or new zoning of commercial districts and their effects on SEDAP's target group. This could provide an indirect proxy on the potential growth beyond the initial baseline survey.

Currently, the governorate is encouraging the development of new settlement areas, including the reclaiming of marsh land in order to house the growing population. At the same time, there is a movement to formalize existing informal business areas and markets by building new shop spaces and relocating informals, centralizing them at specific locations. This formalization movement will provide opportunities for SEDAP to expand its client base into these new areas.

Many of these new markets are being built in Al Manakh, which is the largest district in Port Said. It is moving to formalize all the informal markets within the district, by relocating them to new areas. Seventeen new markets have been established so far. These include 856 shops, 47 offices, and 90 covered stalls.

As part of the governorate's plans to address its housing shortage, eight thousand new housing units are being planned and built. These are in addition to 2,940 new housing units built in other parts of the city. Along with these new developments will undoubtedly sprout new small businesses to serve their needs.

Strategy

To diversify its market, SEDAP should specifically target at least one new sector requiring only minor changes in eligibility criteria. Those sectors that respond most favorably could be pursued with direct promotional and marketing efforts.

As noted under product development, this strategy is one of cautious, incremental change coupled with close financial monitoring.

MARKET DIVERSIFICATION

In the long-term, SEDAP could serve as a catalyst to reach out to other communities in the private sector to serve new client groups through innovative product mixes. The team explored this market diversification avenue in terms of increased private sector partnerships

SEDAP/Business Linkages: The Case of Thread Winding:

The garment industry offers a promising opportunity for SEDAP to establish a private sector partnership. This sector is well established in Port Said, with many of the businesses located in the Duty Free Zone. Interviews were conducted with two of the of the largest garment factories in the Free Zone to inquire about possible linkages with local small businesses..¹⁹ (See Annex 2 for a complete case study on the garments industry.)

Factories expressed an interest in sourcing a range of products locally - especially items that are used on a daily basis and are therefore purchased and stored in large quantities. The General Managers of these factories felt that the cost price of many products could be reduced and profits increased if they could lower inventories and reduce storage costs.

Although the Managers noted a variety of items that are used in large quantities such as zippers, buttons, shoulder pads for suits, garment labels, few appeared to fit the size limits of the SEDAP's current clients. For example, the cost of a high quality zipper machine would vary between 100,000 and 200,000 LE suggesting an investment size larger than the capacity of the average SEDAP client.

Thread waste was one promising area for potential backward linkages into the local small business community. A typical factory uses many thread "cones" every day, with leftover thread of mixed colors ranging between 200m to 600m.²⁰

Thread waste was one promising area for potential backward linkages into the local small business community.

Factories have attempted to re-use the leftover thread in the past, however, this has not proven to be cost-effective. Many factories are now interested in selling the waste in lieu of re-using it. The General Manager suggested that the Free Zone garments factories could sell their thread waste to small businesses in Port Said who could re-spool it onto smaller cones.²¹

¹⁹ Walid Mostafa, Manager, Port Said Garments Co and M. Hany El Hossiny, General Manager, Dolphin Garments.

²⁰ The size of one production line "cone" averages 5,000 meters (an average weight of 400 grams).

²¹ The factory executives interviewed thought that the Port Said Investment Authority would agree to local sale of left-over thread even though it was brought into the country duty free.

The Linkage: The opportunity would be to get small manufacturers linked to the garments factories in the Free Zone. The garments factories might even sponsor several small businesses to purchase the thread rewinding equipment to initiate the manufacture of new cones/spools (of between 2.75 and 6 meters) from the thread waste.

Costs: The cost of an electric rewinding machine is about LE 1,000 - 3,000 and is available in the Cairo market. The other cost factors include simple packaging, small paper (or plastic) spools, and limited space (production could be done in the home). The garments factories noted that the thread waste would be low in cost (at around LE 10-20) due to its limited utility for their business.²² (Thread waste could be sold on a daily basis, by weight; threads would be a mix of high quality and imported threads.)

Sales: This re-spooled thread could be sold in the local market to specialized thread merchants, tailors and households. This represents an interesting opportunity because of the negligible raw material costs and the low entry costs to start the business. Local small scale producers could be price competitive with existing large thread factories because of the high quality of the thread, and low distribution and marketing costs. Interviews with tailors and retailers indicated that they would buy from local producers provided they met quality standards and price benchmarks for the product.

Future Role for SEDAP: Thread rewinding illustrates a future role for SEDAP in assisting clients to diversify into new business opportunities. While the case of thread re-winding is low-cost and low-skilled, it would involve SEDAP in all the steps needed to package business opportunities and promote them to interested microenterprise owners. These steps would include:

- Step 1 Product testing (ie, insuring that a re-winding machine delivers the desired product).
- Step 2 Market testing (ie, providing samples to future buyers to get their feedback on quality, quantity, packaging).
- Step 3 Promoting the opportunity to clients (through: EO's, garment factories, or a newsletter).
- Step 4 Packaging services (credit and technical assistance) designed to assist interested clients to get started in the business.

In promoting a business opportunity, SEDAP's role relative to its clients should be based on the same principles as the lending service. SEDAP should not be involved directly in the client's business nor take on functions (specifically marketing) that are the responsibility of the client. SEDAP's role should be to package and promote a marketable service to eligible micro and small business owners. As such:

²² If 5,000 meters of thread weighs 400 grams then 1 kg of thread would yield 12,500 meters of re-wound thread; if the cost/kg of left-over thread is LE20/kg then the raw material cost for a 6-meter spool would be a negligible part of the cost price of the product.

- ◆ SEDAP should work as an intermediary between interested entrepreneurs and the sources of raw material.
- ◆ SEDAP would recruit garment factories to participate in the project and set-out common sourcing arrangements.
- ◆ SEDAP would promote the opportunity by presenting information on the market, start-up costs, profitability and how to get started in the business.
- ◆ SEDAP could promote the opportunity through its existing EO delivery channels or through alternative channels (such as garment factory employees).

Garments manufacturing is a big industry in Port Said: 105 factories and warehouses are already functioning as well as 30 new ventures in the industrial zone and 40 new factories in the public free zone. Recycling thread waste based on the principles of mutual business advantage (cost savings to the factory and a new resource to the SME) provides an excellent entry point for pursuing future linkages between large factories and the SME sector. Garment factories are interested in out-sourcing through sub-contracting but the SME sector in Port Said may not be able to accommodate its demands for quality and quantity. As a disinterested party to the business transaction, SEDAP is uniquely placed to garner the cooperation of private garment factories and be an honest broker to the SME sector.

SEDAP is presently not organized to invest staff resources in a research and development effort with uncertain returns in new clients and/or marketable products. However, SEDAP should take steps to study further the potential of this opportunity and assess the staffing implications and costs for such an effort.

PVO/SEDAP Linkages: The Case of Carpet Weaving:

Another avenue of private sector partnerships was explored in terms of working with the Non-Governmental Organizations (NGOs) and Community Development Associations (CDAs) community in Port Said. The study posed these questions:

- ◆ Could SEDAP reach out to more difficult-to-reach clients (such as home based women) by positioning its product in alternative delivery channels?
- ◆ Are there existing NGOs in Port Said working in income generation, skills training or microenterprise development where a minimalist credit service would complement their own projects?

The research did not reveal promising leads, however, the case of carpet weaving is briefly profiled here to illustrate some of the pros and cons of working in partnership with the NGO sector in Port Said.

Interviews with NGO directors and representatives from the Ministry of Social Affairs indicated that the most promising area of linkage with SEDAP might be in the garments and carpet weaving area. These were two sectors that had a range of NGO involvement and were also income-generating in nature.

Hand-knotted woolen carpets of Persian design emerged as a product of interest for a number of reasons. First, there is a strong market in Egypt for hand-knotted carpets especially silk carpets. Second, the Department of Social Welfare reports having trained many people in carpet weaving over the years (even though few have translated the training into marketable skills). Finally, there are a number of NGOs involved in this sector.

The study team met with one of these NGOs, called the Port Said chapter of the Light and Hope Society. Light and Hope has been engaged in carpet production and sale for the past 30 years. Today, the Foundation employs 30 persons -- 15 sighted and 15 sightless -- to produce carpets against orders it receives either through the annual trade fairs organized by the national Society or special orders. The Society engages the services of a master carpet weaver to assist with designs. After 30 years of involvement, the Society has expertise in all facets of carpet production, pricing and sales.

The Linkage: The Society would allocate space for another 10-15 looms and technical supervision. These looms would be allocated to women interested in self-employment under one of two arrangements: (1) a fixed fee for space/service paid by the user to the Society; or (2) a profit sharing arrangement between the producer and the Society. SEDAP would assist by providing a loan package to finance the looms (estimated at LE 250-300) and working capital. (See Annex 2 for a complete case study on this model.)

The Benefits: The benefits to the Light and Hope Society would be to serve more of its target group and expand production with start-up capital provided by SEDAP. The benefits to SEDAP would be to target a marketable skill area, unblock space constraints faced by home producers and, in so doing, develop new clients for its program.

The Problems: Important roadblocks exist that may hinder this partnership. Central to this is the core philosophies of the two organizations. In SEDAP, operational self-sufficiency through loan revenues is key while Light and Hope takes a more social welfare-oriented approach. These different approaches could cause problems down the road.

In general, these philosophical differences will exist between most local NGOs and SEDAP. The majority of NGOs in Port Said are very small in scale and based on social welfare principles. SEDAP's message of self-employment through enterprise development is at best unfamiliar and quite possibly unsettling to many NGOs in Port Said. Pursuing these options may prove a difficult and unfruitful endeavor for the Foundation.

CHAPTER IV

CONCLUSIONS & IMPLICATIONS

SUMMARY AND CONCLUSIONS

The goal of this report has been to take a systematic look at market opportunities for the small and micro enterprise project, namely regarding the Port Said Foundation SEDAP. A series of findings and options are given (presented in a matrix at the end of the Executive Summary) regarding the short-, medium-, and long-term strategic options for the Foundation. These options are summarized as follows.

Short-Term: The period prior to reaching break-even (expected in December 1996)

Major issues for SEDAP include reaching out to a market that has a range of characteristics (see adoption model presented in Chapter II). Each segment of SEDAP's "existing target group" has different needs and will require a different set of marketing strategies.

Recommendations include deepening the Foundation's market penetration of its existing client group. A few minor institutional changes are recommended to streamline SEDAP's efforts including relaxation and greater uniformity in documentation requirements and enhanced Extension Officer training.

Options to improve and target its marketing efforts include developing a systematic method for dealing with "walk-ins", providing sales kits to the EOs, and utilizing key locations (such as District Offices or local banks) to advertise the Foundation's services.

Medium-Term: An expansion phase for SEDAP where it must avoid market saturation

Major issues for SEDAP include increasing concentration of its lending in the trade sector and continued portfolio growth. SEDAP's single product will not meet the needs of many potential clients in Port Said and the Foundation will be unable to reach profitable new markets.

Recommendations include exploring new products to offer the market while simultaneously reaching out/targeting new client groups.

Product options to consider include longer loan terms, grace periods, smaller initial loan sizes, and weekly repayments. Market options might be "formalizing" street vendors, home-base enterprises (manufacturers and traders), fishermen, and taxi owners.

Long-Term: The period beyond the turn of the Century when SEDAP's project cycle will have reach sustainable operations

During this period SEDAP must have a clear vision of its future role (as a business partner and developmental institution) within the Port Said community.

Recommendations are for SEDAP to consider building collaborative relationships with other business and development organizations -- including the private sector.

Options encompass working with the local garments industry in the Free Zone and developing partnerships with local associations. (See Annex 2 for case studies of these options.)

STRATEGIC IMPLICATIONS

Micro enterprise programs are designed to provide credit and non-financial services to large segments of a market that are currently unserved by the formal banking system. The primary goal of these programs is to achieve scale in outreach. Yet by extending these services, microenterprise programs do more than just make loans to individuals, they also place investments of scarce development capital in the local economy in order to alleviate poverty and generate social and economic gains.

The title of this report, *Investing in the Future*, was deliberately selected to underscore SEDAP's central role as a development Foundation serving the needs of its community. The study team believes that SEDAP will be faced with several strategic choices in the coming years regarding:

- ◆ Growth strategies (to attract more clients or provide larger loans to fewer clients).
- ◆ Target groups (trade versus other sectors).
- ◆ Product mix (larger, repeat loans versus smaller, initial loans).
- ◆ Product prices (setting its interest rates, user fees, and other charges).

During its first stage of operation, SEDAP has made choices that have been guided by prudent portfolio management. In the future, the study team believes that these choices will become more difficult as the Foundation examines its own development vision. Questions it must address include:

- ◆ Is SEDAP reaching "unbankable" SMEs operating viable businesses? If not, how can these entrepreneurs be more effectively targeted and brought into the program?

- ◆ Are SEDAP's scarce resources reaching clients for whom small sum working capital loans provide a meaningful resource to achieve their business objectives?
- ◆ Are SEDAP's investments in the SME sector contributing to job creation, improved productivity, or the economic vitality of Port Said?

To answer these questions, SEDAP must have a clear view of its own development vision as a provider of credit to small businesses in Port Said. Among all ranks of the Foundation, there must be an emerging consensus of several key issues.

Who do they want to serve?

How will it invest its resources?

What risks are they willing to take to serve a broad spectrum of the microenterprise sector?

The Foundation's vision will become sharper once these questions have been explored and addressed. This vision will also provide the basis to make choices about the options presented in this paper. It is only the Foundation that can put its developmental vision into practice by determining who to lend to; how much; and in what manner.

RELEVANCE FOR OTHER FOUNDATIONS

This report has taken the position that diversification has many intrinsic merits including financial health and greater development impact. Diversification should therefore be considered by all of the USAID-funded, SME Foundations at some point in their life cycles. Factors for each Foundation to consider for the timing of diversification are:

- ◆ The sectoral composition of the Foundation's markets.
- ◆ The efficiency and mastery the Foundation has achieved in disseminating its product.
- ◆ The market response to its existing product and promotional strategy.
- ◆ The Foundation's financial and institutional sustainability.

By systematically examining these issues, the Foundations will be able to take advantage of diversification strategies that will not only strengthen their portfolios but increase their community level impact. This study, while focusing on SEDAP, will hopefully provide all of the Foundations useful information about expanding their outreach through a new product and marketing mix.

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ANNEXES

ANNEX 1

Cash Flow Analyses

Base Case Scenario

	Jan-96	Feb-96	Mar-96	Apr-96	May-96	Jun-96	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97
Balance	2,341,223	2,488,751	2,636,278	2,783,806	2,931,334	3,078,862	3,226,390	3,373,917	3,521,445	3,668,973	3,816,501	3,964,029	4,111,556	4,259,084	4,406,612	4,554,140	4,701,667	4,849,195	4,996,723	5,144,251	5,291,779	5,439,306	5,586,834	5,734,362
of (revenue) revenues	31,827	49,359	51,564	55,173	57,928	61,053	64,032	67,048	70,073	73,081	76,100	79,113	82,129	85,144	88,159	91,174	94,189	97,204	100,220	103,235	106,250	109,265	112,280	115,295
	31,827	49,359	51,564	55,173	57,928	61,053	64,032	67,048	70,073	73,081	76,100	79,113	82,129	85,144	88,159	91,174	94,189	97,204	100,220	103,235	106,250	109,265	112,280	115,295
	20,785	22,137	23,490	24,842	26,194	27,547	28,899	30,251	31,604	32,956	34,308	35,661	37,013	38,365	39,718	41,070	42,422	43,775	45,127	46,479	47,838	49,202	50,554	51,895
	11,042	27,221	28,074	30,333	31,734	33,506	35,133	36,796	38,469	40,125	41,791	43,452	45,116	46,778	48,441	50,104	51,767	53,430	55,092	56,755	58,412	60,063	61,726	63,400
Interest:																								
Expenses	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000
Revenue	70,237	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426
		(13,205)	(14,351)	(12,093)	(10,692)	(8,920)	(7,293)	(5,629)	(3,957)	(2,301)	(635)	1,026	2,690	4,353	6,015	7,678	9,341	11,004	12,667	14,329	15,986	17,638	19,300	20,974

Debt	1,088	1,156	1,225	1,293	1,362	1,430	1,499	1,567	1,636	1,705	1,773	1,842	1,911	1,979	2,048	2,116	2,185	2,253	2,322	2,390	2,459	2,527	2,596	2,664
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Interest Rate 26.9%
 Growth Linear
 Funds 11.0% (The volume of borrowed funds is assumed to equal the outstanding loan balance.)
 Depreciating Costs 50% increase over 1995 averages, and includes depreciation.

Interest 8 monthly
 Outstanding 2,152 Egyptian Pounds

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longer terms to allow for smaller installments

	Jan - 96	Feb - 96	Mar - 96	Apr - 96	May - 96	Jun - 96	Jul - 96	Aug - 96	Sep - 96	Oct - 96	Nov - 96	Dec - 96	Jan - 97	Feb - 97	Mar - 97	Apr - 97	May - 97	Jun - 97	Jul - 97	Aug - 97	Sep - 97	Oct - 97	Nov - 97	Dec - 97
Income	2,341,223	2,488,751	2,636,278	2,783,806	2,931,334	3,078,862	3,226,390	3,373,917	3,521,445	3,668,973	3,816,501	3,964,029	4,111,556	4,259,084	4,406,612	4,554,140	4,701,667	4,849,195	4,996,723	5,144,251	5,291,779	5,439,306	5,586,834	5,734,362
Interest	32,016	30,064	32,312	34,277	38,508	61,255	64,024	67,118	70,258	73,214	76,219	79,255	82,276	85,286	88,306	91,326	94,343	97,361	100,380	103,398	106,416	109,434	112,452	115,470
Provision for	32,016	30,064	32,312	34,277	38,508	61,255	64,024	67,118	70,258	73,214	76,219	79,255	82,276	85,286	88,306	91,326	94,343	97,361	100,380	103,398	106,416	109,434	112,452	115,470
Net Interest	20,785	22,137	23,490	24,842	26,194	27,547	28,899	30,251	31,604	32,956	34,308	35,661	37,013	38,365	39,718	41,070	42,422	43,775	45,127	46,479	47,831	49,183	50,535	51,887
Provision for	11,231	27,927	28,822	29,435	32,313	33,708	35,193	36,866	38,655	40,257	41,910	43,594	45,263	46,920	48,588	50,256	51,921	53,586	55,252	56,918	58,578	60,252	61,898	63,575
Net Interest	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Provision for	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
Net Interest	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000
Net Interest	70,237	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426
		(14,499)	(13,603)	(12,991)	(10,112)	(8,718)	(7,231)	(5,559)	(3,771)	(2,168)	(516)	1,168	2,837	4,494	6,162	7,830	9,495	11,160	12,827	14,492	16,152	17,806	19,472	21,149

Net Interest	1,088	1,156	1,225	1,293	1,362	1,430	1,499	1,567	1,636	1,705	1,773	1,842	1,911	1,979	2,048	2,116	2,185	2,253	2,322	2,390	2,459	2,527	2,596	2,664
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Stage Rate 26.9%
 Growth Linear
 Funds 11.0% (The volume of borrowed funds is assumed to equal the outstanding loan balance.)
 Costs 50% increase over 1995 averages, and includes depreciation.

Terms 12 monthly
 Outstanding 2,152 Egyptian Pounds

Result: Slower rotation of loan portfolio. Lower workload: 100 new borrowers plus fewer repeat borrowers each month.

Total Number of Borrowers	3,000				
Number of Monthly Installments	4	6	8	10	12
Total Loans Processed per Month	750	500	375	300	250
New Borrowers per Month	100	100	100	100	100
Loans Processed for Repeat Borrowers	650	400	275	200	150

25

Base Case Scenario with 14% Flat Interest

	Jan-96	Feb-96	Mar-96	Apr-96	May-96	Jun-96	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97
Balance	2,341,223	2,488,751	2,636,278	2,783,806	2,931,334	3,078,862	3,226,390	3,373,917	3,521,445	3,668,973	3,816,501	3,964,029	4,111,556	4,259,084	4,406,612	4,554,140	4,701,667	4,849,195	4,996,723	5,144,251	5,291,779	5,439,306	5,586,834	5,734,362
Interest	27,758	42,959	44,800	47,996	50,365	53,091	55,678	58,300	60,930	63,545	66,170	68,789	71,411	74,033	76,654	79,275	81,896	84,518	87,139	89,760	92,382	95,003	97,624	100,246
Revenue	27,758	42,959	44,800	47,996	50,365	53,091	55,678	58,300	60,930	63,545	66,170	68,789	71,411	74,033	76,654	79,275	81,896	84,518	87,139	89,760	92,382	95,003	97,624	100,246
	20,785	22,137	23,490	24,842	26,194	27,547	28,899	30,251	31,604	32,956	34,308	35,661	37,013	38,365	39,718	41,070	42,422	43,775	45,127	46,479	47,838	49,202	50,554	51,895
	6,973	20,822	21,310	23,154	24,170	25,544	26,779	28,048	29,327	30,589	31,861	33,129	34,398	35,667	36,936	38,205	39,474	40,743	42,012	43,281	44,544	45,801	47,070	48,351
Assets:	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Liabilities:	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
Expenses:	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000
Net Income	70,237	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426
		(21,604)	(21,116)	(19,272)	(18,256)	(16,882)	(15,647)	(14,377)	(13,099)	(11,837)	(10,564)	(9,297)	(8,028)	(6,759)	(5,490)	(4,221)	(2,952)	(1,683)	(414)	855	2,118	3,376	4,645	5,925

Assets	1,088	1,156	1,225	1,293	1,362	1,430	1,499	1,567	1,636	1,705	1,773	1,842	1,911	1,979	2,048	2,116	2,185	2,253	2,322	2,390	2,459	2,527	2,596	2,664
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Interest Rate: 23.0%
 Growth: Linear
 Funds: 11.0% (The volume of borrowed funds is assumed to equal the outstanding loan balance.)
 Costs: 50% increase over 1995 averages, and includes depreciation.

Assets: 8 monthly
 Outstanding: 2,152 Egyptian Pounds
 Load: 17 loans per month

Key factor governing portfolio growth: loans processed per month by each extension officer.

Average Term	Loans Processed
4	30
6	20
8	15
10	12
12	10

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Alternative Vision (Weekly Installments = 20% of Portfolio)

	Jan - 96	Feb - 96	Mar - 96	Apr - 96	May - 96	Jun - 96	Jul - 96	Aug - 96	Sep - 96	Oct - 96	Nov - 96	Dec - 96	Jan - 97	Feb - 97	Mar - 97	Apr - 97	May - 97	Jun - 97	Jul - 97	Aug - 97	Sep - 97	Oct - 97	Nov - 97	Dec - 97
Balance	2,341,223	2,488,751	2,636,278	2,783,806	2,931,334	3,078,862	3,226,390	3,373,917	3,521,445	3,668,973	3,816,501	3,964,029	4,111,556	4,259,084	4,406,612	4,554,140	4,701,667	4,849,195	4,996,723	5,144,251	5,291,779	5,439,306	5,586,834	5,734,362
of arrears)																								
revenues	37,233	50,273	52,722	56,255	59,127	62,284	65,329	68,403	71,484	74,551	77,627	80,699	83,773	86,846	89,919	92,992	96,065	99,139	102,212	105,285	108,358	111,431	114,505	117,578
	37,233	50,273	52,722	56,255	59,127	62,284	65,329	68,403	71,484	74,551	77,627	80,699	83,773	86,846	89,919	92,992	96,065	99,139	102,212	105,285	108,358	111,431	114,505	117,578
	20,785	22,137	23,490	24,842	26,194	27,547	28,899	30,251	31,604	32,956	34,308	35,661	37,013	38,365	39,718	41,070	42,422	43,775	45,127	46,479	47,838	49,202	50,554	51,895
	16,448	28,136	29,233	31,413	32,932	34,737	36,430	38,152	39,880	41,595	43,319	45,038	46,760	48,481	50,201	51,922	53,643	55,364	57,085	58,806	60,520	62,230	63,951	65,683
net income:																								
	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
expenses	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000
	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000
serve	70,237	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426	4,426
		(14,290)	(13,193)	(11,012)	(9,494)	(7,689)	(5,996)	(4,274)	(2,546)	(831)	893	2,613	4,334	6,055	7,776	9,496	11,217	12,938	14,659	16,380	18,094	19,804	21,525	23,257
owers	1,373	1,459	1,546	1,632	1,719	1,805	1,892	1,978	2,065	2,152	2,238	2,325	2,412	2,498	2,585	2,671	2,758	2,844	2,931	3,017	3,104	3,190	3,277	3,363
verage Rate	26.9%																							
rowth	Linear																							
Funds	11.0%	(The volume of borrowed funds is assumed to equal the outstanding loan balance.)																						
ng Costs	50% increase over 1995 averages, and includes depreciation.																							
ments	8	monthly																						
	10	weekly																						
utstanding	1,705	Egyptian Pounds (2,500 for monthly installments, 750 for weekly installments)																						
rk load	44	loans per month <i>Note that this would require a different credit methodology.</i>																						

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ANNEX 2

Case Studies

CASE STUDY

A Home-Based Business

Business Owner/Entrepreneur

Madame X is a young married woman in her mid to late thirties. She is a university graduate. Other than her degree from the Faculty of Commerce she received no business training prior to starting up her business. Madame X owns and operates a ready-made clothing business from her home.

Description of Business

The garment-making sector in Port Said seems to be a very vital one. The ready availability of imported clothing makes this a very competitive sector. Local businesses have to compete both in terms of quality of the product and price, which means that only those who are able to feed a particular niche in the market, such as children's wear, house robes for women (abayahs), or evening gowns have a chance to prosper.

Madame X's business is located in a rented flat in a residential block in Al-Shark District. Madame X operates her workshop from this flat, where she lives for part of the year during the height of production for the winter season.

She began her business 11 years ago with a single sewing machine that she operated herself. She started to sew made-to-order items for neighbors and acquaintances, as many other home-based women do. Then she took out a loan from the Social Fund to buy a knitting machine [The initial loan was for LE 10,000 and the knitting machine cost LE 9,500]. She began to produce items on this machine. A neighbor in the retail trade approached her with an offer to market her products to various stores in return for a commission on the items sold. After a time, she approached the same shops on her own and cut out the middle man.

As the business grew she needed more space so she rented a flat. She currently employs 7 employees in her workshop, and sub-contracts to another 6 home-based women. Her work is divided into two seasons. She produces children's knitwear items, sweaters and knitted dresses and suits, for sale during the winter season. In the summer, she makes both ready-made and made-to-order clothes for both women and children. During the winter season her rolling stock may reach LE 100,000. The value of a single order can be as high as LE 30,000. The production of knitwear items is the cornerstone of the business.

She currently sells her products to seven retail shops in Port Said. She has also begun to export her products to Cairo and Dakahalia. At the time of the interview, she had just returned from exhibiting her products at a trade fair for young college graduates in Cairo.

The business has been steadily growing for the last ten years. She now has a number of sewing and knitting machines, which takes up three rooms. She employs 7 full-time staff in the workshop, as well as 6 women working from their own homes. She has set up an entire production line. The home-based women specialize in certain components, sleeves, backs etc. They receive the materials and design instructions from her. Assembly and finishing are carried out in the workshop.

Her entire family assists her in the business. It can be described as a family enterprise in the full sense of the term. Her mother helps by caring for her children. Her sister manages the workshop. Her husband and father assist her in marketing. The latter in particular plays a valuable role. It was he who first heard of SEDAP and went to investigate it. He paid a visit to the Foundation, where he met the EO who currently deals with Madame X. This EO then paid a visit to the workshop.

Plans for Expansion

Madame X is planning to open a retail outlet for her products in a new area of the city. She sees opening her own shop as the natural progression of the business. She plans to continue to sell to various other retail establishments in Port Said as well as to export to other governorates in Egypt.

Relationship with SEDAP

The EO contacted by Madame X's father paid a visit to the business to assess it. Although Madame X does not have a business license and operates from a rented flat, making her ineligible for a bank loan, the EO thought that she would be a good client for the program. She is currently on her second loan and hopes to advance to the highest levels. She was pregnant with her second child during the period of her first loan. Her EO worried at the time that this would interfere with her repayment ability, but she was able to pay off that loan early.

She used the loans she received from SEDAP to meet running costs. She has high working capital needs. She says that she used the loans to purchase more raw materials so that she could produce more items. She buys her raw materials from wholesalers mainly located in Cairo. Everything she makes goes right back into the business so SEDAP gives her more breathing space/maneuverability. She carries out no savings, preferring to invest in equipment or raw materials or to produce more inventory/stock. She had no complaints either about the initial loan sizes or about the interest rate charged. She has had no difficulties so far in repayment. She has been with the program a year and plans to continue her association with SEDAP for some time.

Madame X is an example of a client who was in the market for credit, actively seeking out alternative sources of credit. We describe these clients as self-selected. The capital needs of her growing business are fairly high since she is producing for the high end of the ready made clothing market. As a young graduate she is entitled to a LE 20,000 from the Social Fund. She has already taken a loan to buy her first knitting machine. She has also applied for another LE 10,000 loan from the governorate, which she will take in the form of shop space in a new shopping complex being constructed in one of the new settlement areas in the city. She is ready to network with other young graduates and has in fact referred others to the program.

Relevance

Madame X operates a home-based business, but she is not typical of such enterprises as she herself is aware. She said that what makes her different from any other woman who starts out with a sewing machine is that she had ambition and aggressively marketed her products. She is very sensitive to the market and is tailoring her product to fit a narrow niche; high quality children's knitwear [including recently branching out into school uniforms]. The main constraints to the growth of her business are foremost:

- Working capital needs
- Competition from imported goods
- Export regulations which hamper her in exporting her goods outside of Port Said.

Comments about other home-based women:

Madame X believes that there are many other women in Port Said who are operating small businesses from their homes. Most of these have a single sewing or knitting machine which they use to produce made-to-order items. Many of these women are engaged in production to supplement their income and not as a business. They work irregularly for specific clients. Although some have heard of SEDAP, others have not. She thinks that the majority would be hesitant about becoming clients of SEDAP because of the irregular nature of their earnings.

Another problem is that many home-based women are not able to respond to market demand quickly enough. They lack creativity and are unwilling to take risks, in order to expand their business. "They want to stay behind their closed doors." Every season she designs new models/lines, using a computer program to help her create new patterns. She then approaches retailers with samples. Once she gets an order she produces it in bulk, because she has established that there is a market for it.

She said that there are another 46 women in Port Said who took loans from the Social Fund in order to enable them to start their own home-based garment enterprises, but that many of these projects failed. "The machines are not working". This is because many of these women had absolutely no experience in producing items for a market, and had no ability to market their products.

Conclusion

Madame X is a success story. As such it is interesting to explore the reasons behind her success. We need to ask: What has allowed her to be more successful than other women in similar situations? According to the field team's interviews, a few of the interconnected variables may include:

- Familial support
- Entrepreneurial mentality
- Knowledge about the business - detailed knowledge about production and quality control; other businesses have failed because the owners "... don't have their hands in the work."
- sensitivity to the market - carving out a market niche

SEDAP's provision of credit to Madame X and others like her is another key factor to their success. As most small businesses, especially home-based women, around the world acknowledge, access to credit can be critical to the viability of a business.

While gaining access to home-based women may be more difficult, meeting their business needs could have great social and economic benefits. Although exact figures do not exist, it is probable that there are a significant number of home-based enterprises in Port-Said who could become new clients to SEDAP.

CASE STUDY

Growing with Poultry

Madame Y owns and runs a one-room poultry shop below her house in El Arab District. She began the business a year and a half ago. Her husband is a manager in the municipal government. Up until a few years ago he ran a small import/export business from the same location. He closed this down because of the fluctuation in the dollar-pound exchange rate. Last year Madame X decided to try her luck in business, despite the strong objections of her husband's family and the ridicule of her neighbors. She and her husband used their savings to remodel the shop space, constructing cages, installing a telephone, a sink, making a water connection and buying a poultry cleaning machine.

She began the business by buying chickens from a wholesaler and supplying them to a cafeteria. She then began branching out, supplying to other restaurants in the area. She sells all kinds of poultry (and even a few rabbits). She has recently diversified her product range. She purchased a freezer, stocking it with frozen vegetables. She has also set up a display case for dry goods, such as rice and pasta, cooking oil and detergents, so that people "can pick up an entire meal on the way home."

Due to the shop's good location Coke and Pepsi distributors selected it as an outlet. She was eager to try this new venture and it has been very successful, taking business away from shops further down the road.

It was implied that she started up the business to supplement the household income, but that with a combination of skill and luck it has become very successful. The enterprise is thriving and growing steadily. She currently supplies both the retail and wholesale ends of the market. She buys in bulk directly from poultry producers and then sells to smaller wholesalers, or supplies restaurants and cafeterias, as well as the individual customer. She even takes phone orders from the latter. She has begun to target the seasonal market, stocking up on turkey and geese during the Christmas and New Year Season, and fresh eggs during Sham El Nessim and Easter.

She does all the work herself, even slaughtering the poultry. There are no other employees in the shop, although her husband and younger son both help her out a great deal, especially when she goes to buy poultry. She deals with several large poultry farms outside of Port Said. At this point, she cannot afford a helper in the shop. She would have to pay any worker at least LE 10/day, and she can not spare that money.

Plans for Expansion

Madame Y has many plans for future expansion. In the short term she plans to continue to diversify her product line and to sell more dry goods, becoming more like a grocer. If she can get a license she would like to start roasting chickens in the store. She also wants to buy larger quantities/numbers of poultry so that she can supply even larger establishments, like the big hotels. She had to pass up the opportunity of supplying the Sonesta because she did not have enough working capital to cover the cost of their order - LE 20,000.

One of Madame Y's long range plans is to begin a calf fattening operation on land leased from the governorate. This will need vast start-up capital, in order to buy the livestock and to construct the necessary buildings.

Relationship with SEDAP

Madame Y and her husband, who advises her on business issues, can be characterized as "Immediate Adopters". They were approached by an EO last year, just as they were opening the business. They had depleted their own personal savings in setting up the business and were in great need of working capital. As soon as the loan program was explained to them they seized on it, although they say that the loan size is rather small for their needs.

They own the shop and possess all the necessary documents qualifying them for a bank loan, but Madame Y says she would not feel comfortable dealing with a bank, and having to mortgage or even risk losing the shop itself. She prefers to deal with the Foundation also because banking procedures are too complicated.

At the time of the interview she had applied for her third loan and it was approved. Dealing with SEDAP has enabled her to manage her overhead and running costs. One of the main benefits is that it allowed her to bypass the wholesaler she was dealing with, and to deal directly with producers.

The main constraint that she feels in her business is the lack of capital. In the past year she has been able to seize opportunities as they came along, such as diversifying into other food lines. She says she feels "suffocated" because she sees other opportunities for growth and expansion but she cannot take them up.

Madame Y has been satisfied with the loan program so far. But she feels limited both by the loan size and by the lack of a grace period. Although she has rapid turnover in her business, she often feels that making the loan installment is a burden. She paid off her second loan early in order to qualify for the third loan quickly. The loan size she is targeting eventually is LE 20,000. In general, she would like larger loan sizes coupled with longer loan terms as an option from SEDAP's program. She had no objections to the current interest rates charged.

Conclusion

Madame Y has tremendous drive and determination. She overcame the objections of her husband's family who have disowned them and the initial scorn of the neighbors which has been replaced by envy. She has been quick to seize opportunities as they arose and has a fine understanding of the markets she is targeting. She clearly makes all the major business decisions herself, advised and guided by her husband. But she has also benefited from a number of unique conditions:

- The availability of shop space, without which the business could not have been started
- The support and encouragement of her immediate family, particularly her husband.

CASE STUDY

The Shoe Maker

Description of Business

Haj Z has been a cobbler for twenty-five years. He currently runs a number of related businesses in Al Manakh District. He started out with a small shoe repair workshop employing just himself and one other laborer. Gradually he expanded and opened a store selling shoe materials wholesale to other shoemakers/repairers like himself next door to the original business. More recently, he has begun to produce shoes and is planning to open a retail shop in addition to all his other activities. He now employs two people in the shoe repair shop and two people in the wholesale shoe supply shop. He currently deals with ten wholesalers in Cairo from whom he purchases both imported and domestically produced shoe materials.

Relationship with SEDAP

Haj Z was approached by an EO a year and a half ago. He was the EO's first client. They have known each other for many years, growing up in the same neighborhood. It was this previous relationship of trust that encouraged Haj Z to apply for a loan immediately. He is currently on his third loan and plans to continue with the program to the maximum levels.

He used the first loan as working capital. It allowed him to buy more raw materials from wholesalers in Cairo. The loan gave him more leeway in making business decisions, and he was able to leverage this access to working capital in a variety of ways. He was able to purchase his original small workshop, and to expand into a adjacent work space which he turned into the shoe supply store. He has been able to purchase more equipment, more raw supplies and to employ more people. He says that at the very least the loans he receives from the Foundation help him to keep working: "...it (the loan) keeps the work running". He would like access to more capital so that he can buy in bulk from manufacturers in Cairo, cutting out the wholesalers entirely.

When asked what the Foundation could do to improve the credit service it offers to the small business community he suggested that the first loan remain for a six month period, because this is a trial period during which the Foundation and the client get used to each other. After that the second loan should be for ten months and the third for a year. He hopes that once a client has demonstrated his credit-worthiness, as he has done, that this grant him access to larger loan sizes over longer loan periods, e.g., over fourteen months, so that the installment size remains manageable.

Conclusion

Haj Z is an example of a successful entrepreneur who has been able to capitalize on his intimate knowledge of a particular craft to expand into related spheres. He was a shoe repairman for many years before he received a push from the Foundation which enabled him to seize opportunities which he could not exploit previously. He feels extremely confident in his own business abilities, which are based on his long years in the shoe trade, and on his own talent for dealing with customers.

He considers himself a craftsmen before being a tradesman. He stated that he had referred a number of clients to the program, both in the shoe trade and in other businesses. He is careful about who he informs about SEDAP. He always makes sure that they are people who are disciplined; who are trustworthy; and who he is sure will pay their installments on time.

He had no suggestions for non-credit services which the Foundation could offer entrepreneurs. He was open to the idea of participating in a Foundation sponsored scheme to attract new types of entrepreneurs into the program through a more aggressive client referral program.

APPRENTICESHIP MODEL

Working with NGOs

Background

There are a variety of NGOs and CDAs in Port Said that work in the social welfare field. Many of these organizations' target groups include poor women, handicapped or other groups.

While the majority of these non-profits address social and community issues, some run small income generating activities. These range from carpet making and sewing to entrepreneurship training.

Apprenticeship Model

The premise of the apprenticeship model is to establish linkages with these existing NGOs in Port Said and to build on their current economically oriented activities. This offers SEDAP a range of opportunities to reach new target groups while at the same time expanding its coverage of entrepreneurs in Port Said.

The model may take several forms, however. One scenario might be that SEDAP provide loans to trainees within the NGO. They would use these loans to purchase the necessary supplies or tools needed and undertake a period of training within the NGO. During this period they would be under the supervision of the NGO but would still be generating income through their production.

After a given interval, the "apprentices" would leave the NGO to start their own workshop. They could continue their relationship with the NGO (in terms of receiving technical assistance or marketing support) while also continuing to receive working capital loans from the Foundation.

There are a range of issues that still must be examined in order to move forward with this model, including:

- ◆ How to address the practice of providing wages (used by many NGOs) in lieu of revenues from production?
- ◆ What are the risks involved in providing loans for what could be considered a business start up?
- ◆ What are the short term costs and long term benefits of engaging in such partnerships for SEDAP?

Below is a description of several NGOs the field team visited that might prove to be potential future partners for SEDAP.

Light and Hope Association

This is a very well established association in Port Said that helps the disadvantaged blind throughout the city and surrounding villages. They have been involved in carpet weaving since 1966 as their primary activity.

The Association provides for looms, working space and training in carpet weaving for all its members. A sighted member works on a loom together with a blind member. They produce carpets of Persian designs on simple looms. The producers are paid a wage by the Association based on government salaries. There may be some wage differences depending upon their skill, experience and length of participation in the Association.

Over the past years, the Association has trained a number of its members on carpet weaving (approximately 50). Due to family and other commitments, they cannot all permanently work in the Association. These trained workers represent an opportunity and need. The NGO is capable of training more workers than it can employ, i.e., the opportunity. While blind members are trained in carpet weaving they are unable to produce any carpets, hence the need.

The apprenticeship plan can be applied in the case of the Light and Hope as follows:

1. L&H provides training and space for apprentices.
2. SEDAP would assist by providing a loan package relevant to the needs of the apprentices.
3. Light and Hope would provide initial space for apprentices with the aim of their eventually moving out of the NGO.
4. SEDAP would continue lending to apprentices once they become independent entrepreneurs.

The potential for this partnership to be sustained is high. This is due to the similar approach taken by the two organizations in terms of emphasizing cost-effectiveness. The strong market demand for well-made carpets is indicative of this approach. It's continual and growing demand will provide a sound basis upon which both organizations will be able to operate their program effectively.

Nasser Foundation

The Nasser Foundation is located next to the densely populated Kabouti area (one of Port Said's fishermen's residential areas). The Foundation is supported by a number of business men of Port Said. It has a clinic, a library, a nursery, a football playground, a ballroom, and a sewing workshop that contains three sewing machines.

The apprenticeship plan can be applied in the case of the Nasser Foundation as follows:

1. Nasser Foundation provides space and sewing machines for skilled women.
2. SEDAP would assist by providing a loan package for supplies and other needs.
3. SEDAP would continue lending to apprentices once they become independent entrepreneurs.

The Foundation's ballroom could be used as a showroom to market their production. In such a busy area like Kabouti, there would always be a high demand for reasonably priced ready-made clothes, children's clothes, and other garments.

One of the potential constraints to a partnership with this Foundation is its inattention to issues of cost recovery. Currently the Nasser Foundation serves its clientele as if they were welfare recipients, providing them with inputs but demanding little in return.

If a sustainable partnership is to be developed with this Foundation, certain adaptations in approach would have to be made and agreed upon at all levels. While this is possible, building a long-term relationship with Nasser Foundation may be too costly and time-consuming to pursue.

PRIVATE SECTOR PARTNERSHIP MODEL

The Garments Industry

The Model

The garment factory case study can be the basis for introducing a new market prospect. The concept of creating linkages between existing enterprises or beginning entrepreneurs and established factories through SEDAP can be very successful. It can be applied as follows:

Step 1

SEDAP can help organize supply through interested factories. 105 factories and warehouses are already functioning and 30 new ventures in the industrial zone and 40 new factories in the free zone will soon begin production.

Step 2

Survey interest in the factory, transmit the package to SEDAP members through the EO network.

Step 3

Put together a financing package for interested parties.

Step 4

Test market the product.

Also, through surveying this prospect, there might be potential in some industries for backward linkages through sub-contracting/sourcing and not only recycling factory by-products.

Garment Factories

The Garment sector was assessed for the following reasons:

- 1) To explore opportunities to extend new products to new sectors.
- 2) To examine backward linkages with home-based businesses.
- 3) To create a model that can be applied with other major industries in Port Said's industrial and free zones.

Two factories were visited: Port Said Garments in the Industrial Zone and Dolphin Garments in the Free Zone. Major themes discussed included:

- ◆ Their relationship (through sub-contracting, etc.) with local industries.
- ◆ How their by-products are utilized.
- ◆ Business opportunities for small enterprises in the garment sector.

After an assessment through these interviews and site visits, the team was able to identify several possibilities for future collaboration among the large and small businesses in the garments industry.

The most promising opportunity suggested in both industries was thread rewinding and sale.

- ◆ Production line thread cones average 5,000 meters (average weight is 400 gms).
- ◆ Used cones cannot be recycled. Waste ranges between 200m to 600m. It is more cost-effective for the factory to resell the leftover thread rather than store it.
- ◆ Quality is a mix of high quality imported and local threads, in a variety of colors.

Market Opportunities

- ◆ A small entrepreneur would buy a thread rewinding machine that automatically rewinds a large size cone into small spools in a few minutes. The average size of rewound spools is 2.75 m to 6 m. Machine cost is between 1,500 LE to 3,000 LE.
- ◆ Other cost factors are: a) simple cellophane packaging, b) small spools, c) limited space for the machine.
- ◆ Retail price for the spools is between .90 LE to 4.0 LE according to meters per spool.

Opportunity for such an investment is most likely for home-based entrepreneurs, possibly girls working in the garment factories, or in a larger-scale, thread retailers.

SEDAP could support and encourage these activities through several channels. First, the Foundation could introduce this concept through the interested garment factories in Port Said. Their employees could be initial customers of this product. SEDAP could offer those interested a start-up loan to begin their business while the factory provides technical assistance. If this system proved successful, SEDAP could expand this effort to include other home-based entrepreneurs.

ANNEX 3

Dropout Matrix

**SEDAP
CLIENT DROP OUT**

These figures were generated through a screening of 187 clients (on May 31, 1996).

REASON	FIRST LOAN	SECOND LOAN	PERCENTAGE
Bad Payer	45	5	27
Client Rejection of Program	34	2	19
Business Failure	21	3	13
Left Port Said	5	1	3
Temporarily Left *	9	6	8
Died	6	0	3
Religious Reasons	3	0	1.6
Renewed	35	9	24
Rejected by SEDAP	3	0	1.6

Notes

* These clients have noted that they would (at some point in the future) like to renew their loan but due to the seasonality of the business or cash flow problems, they are unable to continue with the program.

** Although some clients initially accept paying the interest rate on the loans, some later reject the concept due to Islamic beliefs against paying interest.