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PRODUCT COSTING TECHNICAL ASSISTANCE

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PRODUCT COSTING TECHNICAL ASSISTANCE

USAID/EGYPT MICROENTERPRISE FINANCE
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EXECUTIVE SUMMARY

The ABC Product Costing exercise is an important tool which can assist MFIs to better understand and quantify the price of their financial products. Globally as well as in Egypt most MFIs do not possess an accurate understanding of their real costs, and are thereby unable to price their financial products appropriately. Therefore, as an activity in support of Task 1 – MFI Expansion, the USAID Egypt Microenterprise Finance (EMF), invited ShoreBank International consultant Salim Jiwani to work with counterpart MFIs to acquaint them and providing hands-on training on using the MicroSave ABC Product Costing Tool.

Accurate costing information is critical to the long-term financial sustainability of microfinance institutions. Certain partner MFIs are currently in the planning process for the introduction of revised product pricing structures for new products. Other partner MFIs wish to analyze delivery costs with the aim of reducing end-user pricing. Still other partner MFIs are interested in gaining a better understanding of true design and delivery costs to be better able to exploit operational efficiencies. Properly applied, the ABC Tool can be a key element in accomplishing all of these objectives.

The ABC Tool can be applied effectively to support the aims of the EMF partners if the MFIs have the commitment and capability to complete the process within an appropriate timeframe. Over the course of this consulting assignment, Mr. Jiwani found that there are some critical challenges faced by some of the MFIs in completing the exercise that are discussed in detail in the individual TA reports. For these MFIs, EMF will be required to provide a more hands-on and proactive support. For others on-site support should be provided based upon the MFIs achieving clear, previously agreed upon benchmark results.

During this three week consultancy, Mr. Jiwani was able to provide on-site training and assistance to five counterpart MFIs comprising two one-day visits to each MFI to introduce the ABC Tool. In addition, Mr. Jiwani assisted the MFIs to identify and organize the teams at each MFI that will be dedicated to and responsible for completing the exercise, outline a work-plan tailored to the requirements of each MFI, identified pilot test sites where the tool will be tested, and provided on-the-job training to key EMF technical staff.

It is suggested that the MFIs should undertake the Activity Based Costing exercise on a regular basis – at-least once each year – so that the benefits of cost savings and efficiencies can be passed on to the clients of the MFI.

INTRODUCTION

Product Costing Training

In the second half of August 2006, EMF conducted a five day classroom training on the MicroSave ABC Product Costing with the staff of all counterpart MFIs including nine NGOs and two banks. The training provided an opportunity to expose MFI staff to the basic concepts of product costing, as well as to deepen understanding among EMF project staff. The training also introduced key concepts and terminologies used in the product costing exercise.

Following the training and as an activity in support of Task 1 – MFI Expansion, EMF invited ShoreBank International consultant Mr. Salim Jiwani to work with the counterpart MFIs to provide hands-on training in the use of the MicroSave ABC Product Costing Tool.

Layout of the Report

This technical assistance (TA) report begins by introducing the ABC product costing tool and its features. Following this introduction, the methodology for utilizing the tool is outlined in detail. This is followed by the presentation of individual reports for each MFI which received TA as part of the consultancy. The individual reports include details of work plans and objectives each MFI has committed to accomplishing, observations relating to the exercise, and recommendations for follow-up capacity-building and reinforcement by EMF staff. The final section details Tasks accomplished, Conclusions and Next Steps.

ACTIVITY BASED COSTING TOOL

Introduction

MFI rarely cost their individual products to determine whether they are viable, even though each product contributes to the bottom line (positive or negative). Better management information on products contributes to improved decision-making regarding product design, delivery mechanisms, and pricing. A costing exercise can also raise awareness of the cost components of different products, including hidden costs.

What Does the Tool Do?

The MicroSave ABC Product Costing tool outlines two methods for determining the cost structure of individual microfinance products. Once product costs are determined, the tool suggests methods for understanding how and why costs are incurred for a specific product, and how the product contributes (or not) to the overall financial viability of the MFI.

The tool moves beyond simple cost allocation among products to analyze the causes of costs. The tool also allows managers to more fully understand the true costs of each product, identify excess capacity in their operations, and make informed decisions to improve efficiency.

Audience for this Tool

The product costing tool targets (1) managers of MFIs with multiple products and (2) managers of banks that have begun downscaling and want to understand the costs of their microfinance product(s).

Although the tool aims to simplify the product costing process, MFI managers should know that a product costing exercise is a complex project that delves into nearly every aspect of an MFI's operations. A costing exercise requires both commitment from top management and buy-in from staff members throughout the organization.

Benefits of Product Costing

1. Determines the full costs of delivering products
2. Sheds light on the profitability/contribution of products
3. Contributes to better product design
4. Improves delivery mechanisms and customer service
5. Promotes more rational product pricing
6. Assists in decisions regarding selection of products
7. Increases awareness of cost structure of products
8. Reveals hidden costs and excess capacity
9. Instills cost consciousness among staff

10. Contributes toward increased efficiency
11. Promotes a high quality MIS
12. Enhances productivity and can be used as a basis for staff compensation
13. Provides basis for business planning and investment decisions

The ABC Tool

The MicroSave ABC Product Costing tool is an Excel spread-sheet based model and consists of eight consecutive steps for completion of the exercise. Each of the eight steps is outlined as follows:

| No. | Steps | Description |
|------------|----------------------|---|
| 1. | Plan | Plan the exercise |
| 2. | Products | Identify Products for Costing |
| 3. | Process/Activities | Determine Core Processes and Activities |
| 4. | Staff Time Estimates | Conduct Staff Time Estimates for each activity |
| 5. | Activity Costs | Calculate Costs for each Activity |
| 6. | Unit Costs | Assign Cost Drivers and determine Unit Activity Costs |
| 7. | Product Costs | Drive Activity Costs to Products |
| 8. | Analyze Costs | Analyze Cost for Product Viability and Branches |

Under each step there are several types of information feedback that is needed. The tool requires that each step is completed sequentially. Some of the steps - such as the Activity Cost - are fully filled in automatically once the information under steps 1-4 are completed. Similarly in steps 6-7 most of the information is filled in automatically but some additional data is required to be entered for analysis.

METHODOLOGY USED

Visit One

On the first visit, Mr. Jiwani met with the Executive Director (ED) of the MFI or General Manager (GM) of the Bank and explained to him/her the purpose and process of the exercise followed by selecting a team of staff members to complete the exercise. Mr. Jiwani then introduced the ABC Product Costing Tool to participants by showing them a blank format of the tool and then walking them through with a fully filled in example of the tool.

After introducing the tool, the ED announced the names of the team members and the team leader to be assigned to complete the exercise. As a result, a team of 5-7 members have been formed in each MFI/Bank. The team then began to develop a detailed work plan to complete the product costing exercise.

At the end of the visit one, the team was provided the following documents on CD and photocopy:

1. The tool in which information relating to the institution was filled in
2. The filled-in example used during discussions
3. A copy of the draft work plan
4. Photocopy sheets of activities, processes and cost driver information of five institutions that had completed the product costing exercise

The team members were also encouraged to download other relevant product costing materials including a copy of the manual on product costing tool from the CGAP website www.cgap.org/productcosting/tool.html.

Visit Two

The team then worked on the tasks identified in the work plan independently for a week, followed by a second visit by the consultant. Due to timing constraints, at two MFIs - ABA and NBD - the second visit followed the next day.

The second visit accomplished the following:

1. Assessed progress since the first visit
2. Made changes in the draft work plan, if any
3. Provided guidance and additional information

At the conclusion of both the visits, ED/GM of the MFIs/Bank were briefed on processes adopted, progress made and issues observed. However, in the case of LEAD this was not possible as the ED was on leave or was not available.

SBACD

The Product Costing Team

SBACD has formed a five member team to complete the product costing exercise. The team is lead by Mr. Ahmad Raslan – manager in charge of Non-Financial Services. Additional team members are from branches, operations and finance departments.

Purpose

Define current products cost (SME and GL) and know their actual cost to enable pricing two additional loan products - educational and car loans currently in design.

Management Commitment to Product Costing

SBACD is highly committed to completing the product costing exercise as eight staff members including the ED himself attended training. The ED also had detailed discussions with the team members on both visits, and is indirectly overseeing the whole process for completion. The team is a highly cohesive unit, motivated and quite eager to complete the exercise.

Observation

The team leader may be a weak link in the team as he seems to provide very few inputs and his participation in the discussions was observed to be very limited. However, the ED considers him to be the right person to lead this exercise.

Final Work Plan

| No. | Task | Responsibility | Start date | End date | # of days |
|-----|---|---------------------|------------|----------|-----------|
| 1 | Develop a work plan | ED/Team members | 22.8.06 | 22.8.06 | 1 |
| 2 | Develop a draft of roles for each team member | ED | 22.8.06 | 22.8.06 | 1 |
| 3 | Finalize the draft roles | Ahmad Raslan | 29.8.06 | 29.8.06 | 1 |
| 4 | Identify branches for testing | E.D. | 22.8.06 | 22.8.06 | 1 |
| 5 | Complete missing information on plan sheet | Samir | 30.8.06 | 5.9.06 | 7 |
| 6 | Determine the activities and process | Team members | 23.8.06 | 31.8.06 | 9 |
| 7 | Design a draft time sheet | Team members | 31.8.06 | 31.8.06 | 1 |
| 8 | Feedback from branches on time sheet and activities/process | Nahed, Walid, Gamal | 3.9.06 | 5.9.06 | 3 |

| | | | | | |
|----|---|-----------------|----------|----------|----|
| 9 | Finalize activities/process and time sheets | Team members | 9.9.06 | 9.9.06 | 1 |
| 10 | Training staff on filling time sheets | Team members | 28.10.06 | 1.11.06 | 5 |
| 11 | Fill time sheets | Team members | 4.11.06 | 3.12.06 | 30 |
| 12 | Collecting time sheets | Team Leader | 12.11.06 | 4.12.06 | 23 |
| 13 | Analyze times sheets | Team members | 13.11.06 | 6.12.06 | 24 |
| 14 | Consolidate time sheets | Team leader | 14.11.06 | 7.12.06 | 24 |
| 15 | Identify cost drivers and allocation basis | Samir | 13.9.06 | 20.9.06 | 8 |
| 16 | Collect and update cost drivers | Samir | 21.11.06 | 7.12.06 | 17 |
| 17 | Analysis and findings from the model | Team members | 8.12.06 | 16.12.06 | 9 |
| 18 | Present findings and recommendation to ED/Senior Management | Team members | 16.12.06 | 17.12.06 | 2 |
| 19 | Agree on action plan | ED/Team members | 17.12.06 | 20.12.06 | 4 |

Follow-up by EMF

1. Ensure that the team is working effectively under the team leader by maintaining regular phone contact with the team members. Should any issue come up, inform the ED immediately.
2. At the completion of the following key tasks, conduct on-site visits to SBACD to ensure that the work has been correctly and accurately accomplished.

| Task No. | Task | Follow-up Date |
|----------|---|----------------|
| 9 | Finalize activities/process and time sheets | 9.9.06 |
| 15 | Identify cost drivers and allocation basis | 20.9.06 |
| 17 | Analysis and findings from the model | 16.12.06 |
| 18 | Present findings and recommendation to ED/Senior Management | 17.12.06 |
| 19 | Finalize action plan | 20.12.06 |

Summary

SBACD received two days of on-site TA. With a cohesive team and an enthusiastic ED quite eager to know the cost of products, it is highly likely that with follow-up support from EMF as outlined above, it will be able to complete this exercise within the timeframe committed.

ESED

The Product Costing Team

ESED has formed a six member team to complete the product costing exercise. The team is lead by Mr. Tarek Hamed – Loan Audit Manager. The other team members are from branches, operations, finance and planning and training departments.

Purpose

To conduct product analysis to achieve efficiency and know the actual costs of products.

Management Commitment to Product Costing

The Chairman and ED of ESED are committed to completing the product costing exercise. However there are some issues which may affect the team's ability to complete the exercise, see discussions below.

Observation

Upon the conclusion of the first day's visit, the team leader told Mr. Jiwani that he was not willing to continue to be a part of team and he would speak to the ED about it. He went to the ED and came back after a little while saying that ED has not accepted his opinion and has asked him to continue as the team leader to complete the exercise. Similarly two of the branch managers in the team said that they were also not willing to serve on the team.

During our briefing at the day end, Mr. Jiwani apprised the ED of the situation. Mr. Jiwani also said that, with the exception of a couple of people in the team, the rest of the team members seemed to be disinterested in the work or were unwilling to serve on the team. The ED said that he would set things right.

On the second one-day visit the following week, all the team members were present, but seemed to be a bit disorganized. The team leader apologized for his behavior of the previous week. Mr. Jiwani observed that the two branch managers were also taking interest in the exercise and were participating fully. They then presented to Mr. Jiwani a revised work-plan with the exercise being targeted to complete in early May. This appeared to include unreasonable assumptions re: required timeframe, and was followed up with additional questions about underlying assumptions for key completion dates. Mr. Jiwani concluded that the team was buying more time than required to finish the work. Finally after some discussions, the EMF team managed to negotiate a revised work-plan with an end date of the third week of January 2007.

At the end of day two visit, Mr. Jiwani briefed the ED and the Chairman on the above issues. They assured Mr. Jiwani and the EMF team that the exercise would be completed to the satisfaction of EMF and on the time frame committed.

In-spite of all the assurance, this team seems to be a non-cohesive unit and not very eager to complete the exercise in the agreed time.

Final Work Plan

| No. | Task | Responsibility | Start date | End date | # of days |
|-----|--|---------------------|------------|----------|-----------|
| 1 | Develop work plan | Team Members | 23.8.06 | 23.8.06 | 1 |
| 2 | Identify branches for pilot testing | Team Members | 23.8.06 | 23.8.06 | 1 |
| 3 | Complete missing cost information on plan sheet | Essam | 3.9.06 | 10.9.06 | 8 |
| 4 | Determine the activities and processes | Team Members | 28.8.06 | 11.9.06 | 15 |
| 5 | Develop/design draft staff time sheet | Team Members | 11.9.06 | 11.9.06 | 1 |
| 6 | Feed back from branches on time sheet and activities and processes | Labib/Hany | 12.9.06 | 17.9.06 | 6 |
| 7 | Finalize time sheets and processes | Team Members | 18.9.06 | 20.9.06 | 3 |
| 8 | Train staff on filling time sheets | Team Leader | 29.10.06 | 5.11.06 | 8 |
| 9 | Staff to fill time sheets | Team Leader | 12.11.06 | 12.12.06 | 31 |
| 10 | Collecting data/time sheets on weekly basis | Hussein Shoieb | 19.11.06 | 15.12.06 | 27 |
| 11 | Analyze time sheets and data | Team Members | 20.11.06 | 18.12.06 | 29 |
| 12 | Consolidate time sheets | Team Leader | 24.11.06 | 21.12.06 | 28 |
| 13 | Identify cost drivers and basis of allocation | Ibrahim-El Shami | 8.9.06 | 28.9.06 | 21 |
| 14 | Collect and consolidate cost drivers | Ibrahim-El Shami | 1.11.06 | 20.11.06 | 20 |
| 15 | Analyze findings from the model | Team Members | 24.12.06 | 2.1.07 | 10 |
| 16 | Present findings and recommendations to ED | Team Members | 9.1.07 | 11.1.07 | 3 |
| 17 | Agree on action plan | ED and Team Members | 16.1.07 | 23.1.07 | 8 |

Follow-up by EMF

1. Ensure that the team is working effectively under the team leader without any problem. Should any issue come up, inform the ED immediately.

2. Provide more hands-on support to the team by maintaining regular telephone contact, particularly on completion of each step in the work-plan. Should any step be delayed, inform the ED immediately for corrective action.
3. At the completion of the following key task, the EMF staff should conduct on-site visits to ESED to ensure that the work has been accomplished correctly and accurately.

| Task No. | Task | Follow-up Date |
|----------|---|----------------|
| 7 | Finalize activities/process and time sheets | 20.9.06 |
| 13 | Identify cost drivers and allocation basis | 28.9.06 |
| 14 | Collect and Consolidate cost drivers | 20.11.06 |
| 15 | Analysis and findings from the model | 2.1.07 |
| 16 | Present findings and recommendation to ED | 11.1.07 |
| 17 | Agree on action plan | 23.1.07 |

Summary

ESED received two days of on-site TA. The team seems to be a disjointed unit and lacks motivation. Close supervision will be required from EMF. Besides visiting ESED on the key follow-up dates, the EMF staff should also maintain regular telephone contact with the team members. In case of problems, intervention of the ED should be immediately sought to resolve any issues. It is likely that with continuous follow-up support from EMF, it will be able to complete this exercise. However, completing the exercise within the committed timeframe is not certain.

ABA

The Product Costing Team

ABA has formed a five member team to complete the product costing exercise. The team is lead by Mr. Magdy Mostafa – Operations Manager Group Lending. The other team members are from branches, IT and finance departments.

Purpose

Determine cost of current products to achieve higher profitability.

Management Commitment to Product Costing

ABA is highly committed to completing the product costing exercise as nine staff members attended the training. Even though the ED has nominated five people to the product costing team, the EMF team observed on the second one-day visit that all the nine people who attended the training on day one were present and contributing as team members. The team is a highly cohesive unit and motivated to complete the exercise.

Observations

ABA seems to have assembled a team of good quality staff. In the case of ABA, Mr Jiwani's second visit immediately followed the first. On day two, the EMF team spent time with the ABA team helping them further define their core activities. However, the time spent was not adequate as there were a lot of discussions going on within the team members on the job description of the branch staff and then relating it to the activities undertaken. Had the second visit occurred after the typical one-week interval, Mr. Jiwani could have provided more and better input to the team members. During a follow-up telephone conversation Mr. Jiwani did provide inputs on defining the processes and activities.

Final Work Plan

| No. | Task | Responsibility | Start date | End date | # of days |
|-----|--|----------------|------------|----------|-----------|
| 1 | Develop work plan | Team Members | 27.8.06 | 27.8.06 | 1 |
| 2 | Develop role for each team member | Team Leader | 28.8.06 | 28.8.06 | 1 |
| 3 | Identify branches for testing | Team Members | 27.8.06 | 27.8.06 | 1 |
| 4 | Complete the missing information on plan sheet | Sherief | 28.8.06 | 28.8.06 | 1 |
| 5 | Determine activities & processes | Team Members | 28.8.06 | 5.9.06 | 9 |
| 6 | Design draft time sheet | Team Members | 6.9.06 | 7.9.06 | 2 |

| | | | | | |
|----|--|-------------------|----------|----------|----|
| 7 | Feedback from branches on time sheet & processes | Team Members | 9.9.06 | 14.9.06 | 6 |
| 8 | Finalize time sheet and activities & processes | Team Members | 16.9.06 | 16.9.06 | 1 |
| 9 | Training staff in filling time sheet | Team Members | 17.9.06 | 22.9.06 | 6 |
| 10 | Filling the time sheets | Staff members | 1.11.06 | 30.11.06 | 30 |
| 11 | Collect time sheets | Team Leader | 8.11.06 | 2.12.06 | 25 |
| 12 | Analyze time sheets | Team Members | 9.11.06 | 5.12.06 | 27 |
| 13 | Consolidate time sheet | Amr | 10.11.06 | 6.12.06 | 27 |
| 14 | Identify cost driver & allocation basis | Sherief | 16.9.06 | 20.9.06 | 5 |
| 15 | Collect & update cost driver | Sherief | 20.11.06 | 30.11.06 | 11 |
| 16 | Analysis & findings from the model | Team Members | 16.12.06 | 21.12.06 | 6 |
| 17 | Presentation to ED & Senior management | Team Members | 22.12.06 | 22.12.06 | 1 |
| 18 | Finalize action plan | ED & team members | 25.12.06 | 28.12.06 | 4 |

Follow-up by EMF

1. Ensure that the team is working effectively under the team leader by maintaining regular phone contact with the team leader. Should any issue come up, inform the ED immediately.
2. At the completion of the following key tasks, conduct on-site visits to ABA to ensure that the work has been correctly and accurately done.

| Task No. | Task | Follow-up Date |
|----------|---|----------------|
| 8 | Finalize activities/process and time sheets | 16.9.06 |
| 14 | Identify cost drivers and allocation basis | 20.9.06 |
| 16 | Analysis and findings from the model | 21.12.06 |
| 17 | Presentation to ED and Senior Management | 22.12.06 |

| | | |
|----|----------------------|----------|
| 18 | Finalize action plan | 28.12.06 |
|----|----------------------|----------|

Summary

ABA received two days of on-site TA. With a good quality staff and cohesive team, it is highly likely that with follow-up support from EMF as listed above, it will be able to complete this exercise within the timeframe committed.

NBD

The Product Costing Team

NBD has formed a seven member team to complete the product costing exercise. The team is lead by Mr. Ahmed El Katib – Manager Research and Marketing. The other team members are from branches, operations, finance, audit and IT departments.

Purpose

To understand cost of products delivered and analyze the pricing structure in detail.

Management Commitment to Product Costing

NBD is highly committed to completing the product costing exercise. The GM is herself very much aware of the benefits of this exercise and wants to use it to price the Bank's MF products accordingly. She had detailed discussions with the team members on both of the visits, and is indirectly overseeing the whole process for completion. The team is a highly cohesive unit and quite keen to complete the exercise.

Observations

The team is a blend of highly intelligent people who have previously worked in the field in various capacities. They have sufficient knowledge of field operations and immediately started filling in the activities and processes details based on their own knowledge the next day. However, the whole team being driven by the team leader was unable to differentiate between direct activities and indirect activities. They defined very few direct business activities but defined the indirect processes with a high degree of detail (not required for this exercise). The consultant provided several examples to help the team consider additional direct activities, but the team leader was quite adamant in his approach. We had to seek the intervention of the GM who told the team that she was interested in defining the direct business activities in detail. The consultant encouraged the team to go directly to the field to identify all direct costs associated with the delivery of the bank's loan products.

Upon the conclusion of the second visit, it was felt that the team members were still unsure of defining in detail the direct business activities and therefore recommends that more hands on support should be provided to the team by EMF in defining the direct activities.

Final Work Plan

| No. | Task | Responsibility | Start date | End date | # of days |
|-----|-----------------------------------|----------------|------------|----------|-----------|
| 1 | Develop a work plan | Team members | 4.9.06 | 4.9.06 | 1 |
| 2 | Develop role for each team member | Team leader | 5.9.06 | 5.9.06 | 1 |
| 3 | Identify branches for testing | Team members | 4.9.06 | 4.9.06 | 1 |

| | | | | | |
|----|---|-----------------|----------|----------|----|
| 4 | Fill in missing information from Income Statement | Shobaky | 10.9.06 | 10.9.06 | 1 |
| 5 | Fill in missing information product sheet | Houssen | 5.9.06 | 5.9.06 | 1 |
| 6 | Determine core process & activities | Team members | 4.9.06 | 18.9.06 | 15 |
| 7 | Design draft time sheet | Team members | 18.9.06 | 18.9.06 | 1 |
| 8 | Feedback from branches on time sheet and process/activities | Team members | 19.9.06 | 25.9.06 | 7 |
| 9 | Finalize the time sheet and process/activities | Team members | 26.9.06 | 28.9.06 | 3 |
| 10 | Train staff fill in time sheet | Team members | 1.10.06 | 10.10.06 | 10 |
| 11 | Fill in the time sheets | Staff members | 5.11.06 | 4.12.06 | 30 |
| 12 | Collect times sheets | Ibrahim | 12.11.06 | 4.12.06 | 23 |
| 13 | Analyse time sheets | Team members | 13.11.06 | 11.12.06 | 29 |
| 14 | Consolidate time sheets | Team leader | 14.11.06 | 13.12.06 | 30 |
| 15 | Identify cost drivers and allocation basis | Shobaky | 1.10.06 | 5.10.06 | 5 |
| 16 | Collect and update cost driver model | Shobaky | 1.12.06 | 10.12.06 | 10 |
| 17 | Analysis and findings from the model | Team members | 14.12.06 | 25.12.06 | 12 |
| 18 | Presentation to GM and Senior Management | Team members | 2.1.07 | 2.1.07 | 1 |
| 19 | Finalize action plan | GM/Team members | 3.1.07 | 8.1.07 | 6 |

Follow-up by EMF

1. Ensure that the team is working effectively under the team leader by maintaining regular phone contact with the team members. Should any issue come up, inform the GM immediately.
2. At the completion of the following key task conduct on-site visits to NBD to ensure that the work has been correctly and accurately done.

| Task No. | Task | Follow-up Date |
|----------|---|----------------|
| 9 | Finalize activities/process and time sheets | 28.9.06 |
| 15 | Identify cost drivers and allocation basis | 5.10.06 |
| 17 | Analysis and findings from the model | 25.12.06 |
| 18 | Present findings and recommendation to GM & Senior Management | 2.1.07 |
| 19 | Finalize action plan | 8.1.07 |

Summary

NBD received two days of on-site TA. With a cohesive team and an enthusiastic GM quite keen to know the cost of products, it is highly likely that with follow-up support from EMF as listed above, it will be able to complete this exercise within the timeframe committed.

LEAD

The Product Costing Team

LEAD formed a five member team to complete the product costing exercise, which was reduced to two members during the EMF team's second visit. In the coming days a new team will be re-constituted with five members. The team is lead by Mrs. Manal Selim – Business Development Officer. The other team members are expected to be from branches, operations and finance departments.

Purpose

To identify the real cost of loans and activities associated with it.

Management Commitment to Product Costing

LEAD is committed to completing the product costing exercise. The ED is very much interested to know the cost of products and introduce within the Foundation best practice systems and procedures as endorsed by CGAP.

Observations and Issues

During visit one, the ED set up a team of five persons with Mrs. Selim as the team leader. However, due to prior commitments and scheduling conflicts a curtailed planning session was conducted on the work-plan. The draft work plan was subsequently finalized by the EMF team to the extent possible, and the LEAD team was tasked to review and edit carefully, due to the unexpectedly shortened planning time.

After one week, the EMF team paid a return visit to the LEAD office for visit two. Unfortunately, key team members were unavailable, nor was the consultant able to determine that any progress has been made. It seemed apparent that there were some issues in the team, and that the work done by Mrs. Selim was done in haste and without properly understanding the concepts of the tool. As the ED was on leave and unavailable, the decision was made to visit again in a week.

After one week, in the afternoon the EMF team again visited the LEAD office to find only Mrs. Selim and Mr. Anwar present. When asked about the absence of the other team members' absence, they provided only a vague response. After much probing, Mrs. Selim stated that she had not been able to get the support from the other team members, and that she wanted to change the team composition. Mrs. Selim confirmed that she had not raised her concerns with the ED. After some encouragement from the EMF team, Mrs. Selim spoke to the ED and was granted permission to assemble a team of her choice.

Due to these internal issues, the whole process at LEAD has been delayed by a couple of weeks (as compared to the other MFIs). It seems apparent that the Management team is thin, and that all the senior staff are hard pressed with multiple competing priorities.

Pending composition of the new team, a draft work plan was prepared for LEAD that will require finalization once the team is in place.

As discussed in the de-briefing, the COP should apprise the ED of this situation, and impress on him the need for a serious commitment and timely completion of this exercise.

Draft Work Plan

| No. | Task | Responsibility | Start date | End date | # of days |
|-----|---|-----------------|------------|----------|-----------|
| 1 | Set-up a new team (5 persons) | Team Leader | 7.9.06 | 14.9.06 | 8 |
| 2 | Presentation of tool to the new team | Abdel-Wahab | 17.9.06 | 17.9.06 | 1 |
| 3 | Review & finalize the work plan | Team Members | 17.9.06 | 17.9.06 | 1 |
| 4 | Determine branches for testing | Team Members | 17.9.06 | 17.9.06 | 1 |
| 5 | Complete missing info on the planning sheet | Team Members | 18.9.06 | 21.9.06 | 4 |
| 6 | Complete missing info on the product sheet | Team Members | 18.9.06 | 18.9.06 | 1 |
| 7 | Determine activities and processes | Team Members | 20.9.06 | 28.9.06 | 9 |
| 8 | Design staff draft time sheet | Team Members | 28.9.06 | 28.9.06 | 1 |
| 9 | Feed back from branches on time sheets and activities and processes | Team Members | 2.10.06 | 5.10.06 | 4 |
| 10 | Finalize activities, processes and time sheets | Team Members | 9.10.06 | 9.10.06 | 1 |
| 11 | Train staff to fill in time sheets | Team Members | 10.10.06 | 19.10.06 | 10 |
| 12 | Fill time sheets | Branch staff/HO | 29.10.06 | 28.11.06 | 31 |
| 13 | Collecting on a weekly basis | Team Leader | 5.11.06 | 29.11.06 | 25 |
| 14 | Analyze time sheets | Team Members | 6.11.06 | 30.11.06 | 25 |
| 15 | Consolidate time sheets | Team Leader | 7.11.06 | 5.12.06 | 29 |
| 16 | Identify costs and cost drivers | Anwar | 7.11.06 | 16.11.06 | 10 |
| 17 | Collect and update cost drivers | Anwar | 27.11.06 | 5.12.06 | 9 |
| 18 | Analyze and findings from the model | Team Members | 11.12.06 | 20.12.06 | 10 |

| | | | | | |
|----|--|-----------------|----------|----------|---|
| 19 | Presentation to ED and Senior management | Team Members | 26.12.06 | 26.12.06 | 1 |
| 20 | Agree on the action plan | ED/Team Members | 27.12.06 | 28.12.06 | 2 |

Follow-up by EMF

1. Provide training on the tool to the newly inducted team members and finalize the draft work plan.
2. Ensure that the team is working effectively under the team leader by maintaining regular phone contact with the team members. Should any issue come up, inform the ED and EMF COP immediately.
3. At the completion of the following key task conduct on-site visits to LEAD to ensure that the work has been correctly and accurately done.

| Task No. | Task | Follow-up Date |
|----------|---|----------------|
| 2 | Presentation of the tool to new team | 17.9.06 |
| 3 | Review and finalize the work plan | 17.9.06 |
| 10 | Finalize activities/process and time sheets | 9.10.06 |
| 16 | Identify cost drivers and allocation basis | 16.11.06 |
| 18 | Analysis and findings from the model | 20.12.06 |
| 19 | Present findings and recommendation to ED & Senior Management | 26.12.06 |
| 20 | Finalize action plan | 28.12.06 |

Summary

LEAD has received two days of on-site TA. However, there are issues of team composition and work-load. A lot of support, encouragement and follow-up would be required from EMF to enable LEAD to complete the assignment.

TASKS ACCOMPLISHED

Introduction

As mentioned earlier, the purpose of this TA was to provide hands-on training in using the MicroSave ABC Product Costing tool at five MFIs, 4 NGOs and 1 bank. The following tasks have been accomplished during the three week assignment:

MFI Staff Trained

The total number of staff exposed to ABC tool is 38 in the 5 institutions, as detailed below:

| Institution | # of participants exposed to ABC tool training | # of persons in the team using the tool |
|-------------|--|---|
| SBACD | 8 | 5 |
| ESD | 9 | 6 |
| ABA | 9 | 6 |
| NBD | 7 | 7 |
| LEAD * | 5 | 5 |

* In LEAD, 5 persons had attended the initial training out of which three people will be replaced and three new people will be trained.

Training for EMF Staff

A one day condensed product costing tool training for the five EMF staff was also conducted. At-least two of the EMF staff members – Mr. Abdel Wahab and Mr. Hamed Hamed - are assessed as being capable to deliver the product costing training independently, and to do the follow-up work with TA recipients.

Other Tasks Accomplished

Following is the list of other tasks that were also accomplished at each MFI:

1. Work plan developed
2. Organized team
3. Product information sheet filled in
4. Pilot testing sites identified

CONCLUSIONS

All the tasks outlined in the SOW have been accomplished.

Completion of the exercise and achieving the desired objectives will depend on the teams assembled at each institution. In some cases the ED is indirectly supervising the activities of the team. These institutions will have greater chance of success. Where the ED is not hands-on with the team, EMF should provide necessary support and guidance, including regular follow-up to enable these institutions to complete the exercise.

Once the exercise is complete, the institutions themselves should realize the benefits accruing from it, including properly pricing their products and sustaining their institutions in the long run.

As this was the first time for all the institutions to have been exposed to such a tool, this year can rightly be termed as a bench-marking year for the MicroSave ABC Product Costing exercise. Repeating this exercise at-least on an annual basis will afford the institutions the opportunity to re-design and institute appropriate processes and activities into existing products, and to help design new products.

NEXT STEPS

As agreed during the de-briefing with USAID, a return TA visit by Salim Jiwani for undertaking similar exercises for the remaining six institutions should be conducted. The timing of the visit will be decided by EMF in consultation with USAID.

However, there are some lessons learned and suggestions for improvement, based on observations from this assignment, as follows:

1. The TA should be of two one-day visits with each of the MFIs as was done during the current visit
2. There should be a gap of at-least one week between the two visits. The visits should not be lumped together or the two days should not follow each other.
3. The ED of the institutions should be encouraged to nominate a team of 5-7 members with a team leader before the visit. It was noted that almost an hour was spent at some MFIs for the team to get assembled. At one place the team composition was not appropriate and the team then had to be changed and the whole process had to be started again.
4. Ideally the team leader should be a senior member of the management, and the team members should be from the operations, branches, IT and finance.
5. Young and experienced people with some command of current institutional business practices should be given preference in the team, so that continuity can be maintained and capacity built.

ANNEXES

Annex I: List of Acronyms

ABA: Alexandria Business Association

ED: Executive Director

EMF: Egypt Microenterprise Finance

ESED: Egyptian Small Enterprise Foundation

GM: General Manager

IT: Information Technology

LEAD: LEAD Foundation

MFI: Microfinance Institution

NBD: National Bank for Development

NGO: Non-Governmental Organization

SBACD: Sharkia Businessmen's Association for Community Development

SOW: Scope of Work

TA: Technical Assistance

USAID: The United States Agency for International Development

Annex 2: Product Costing TA Schedule

| Date | Meeting with / at | Accompanying EMF Staff |
|-----------|---------------------------------------|-------------------------------|
| Sun 20/8 | Arrival | |
| Mon 21/8 | Meeting with COP/DCOP | |
| | Brief to USAID | Michael Alcorn |
| Tues 22/8 | SBACD | Abdel-Wahab and Yasser |
| Wed 23/8 | ESED | Abdel-Wahab and Yasser |
| Thur 24/8 | LEAD | Abdel-Wahab |
| | | |
| Sun 27/8 | ABA | Abdel-Wahab and Hamed |
| Mon 28/8 | | Hamed |
| Tues 29/8 | SBACD | Abdel-Wahab |
| Wed 30/8 | ESED | Abdel-Wahab |
| Thur 31/8 | LEAD/EMF | Abdel-Wahab |
| | | |
| Sun 3/9 | NBD | Abdel-Wahab and Wael Abdel- |
| Mon 4/9 | | Rahman |
| Tue 5/9 | Internal EMF Product Costing Workshop | |
| Wed 6/9 | LEAD/EMF | Abdel-Wahab |
| Thur 7/9 | USAID debrief | Jeff Ferry and Michael Alcorn |
| | | |