

**ALEXANDRIA
BUSINESS
ASSOCIATION**

ABA

**SMALL AND
MICRO
ENTERPRISE
PROJECT**

1996

THE SMALL & MICRO ENTERPRISE PROJECT
OF
THE ALEXANDRIA BUSINESS ASSOCIATION

Written By
NABIL A. ELSHAMI
Executive Director

(1) BACKGROUND

The Alexandria Business Association (ABA) began its activities in 1983 under the auspices of The Alexandria Chamber of Commerce and started off as the Economic Committee for Businessmen. Its objective was to provide support for the private sector, promote the interests of the businessmen and consolidate business and social ties amongst them. The ABA had been instrumental in giving a "Voice" to the private sector by representing the sector to the government. This concept soon developed beyond this scope to encompass the community service and the members began to contribute time, money and effort towards constructing and upgrading hospitals, schools and various social institutions such as homes for the aged.

These new activities necessitated the formation of an independent entity for the Businessmen of Alexandria, accordingly *The Alexandria Businessmen's Association* was founded and registered with the Ministry of Social Affairs under number 952 on March 12, 1988 as a private non-profit organization with a 15 member managing board under the chairmanship of *Mohammed Ragab*. Now the ABA as a whole represents nearly 300 large business concerns.

The USAID/Egypt was impressed by the focus and direction of the ABA and entered into a formal relationship with the organization in 1989 to implement *The Small & Micro Enterprise Project (SMEP)* in metropolitan Alexandria. The management board then formed an Executive Committee and selected *Nabil ElShami* as the Executive Director of the Project. Mr. ElShami has remained as Executive Director since the launch of the project.

The ABA has developed a strong relationship with the commercial banks in Alexandria. The funds provided by the USAID, to ABA/SMEP, are deposited with the local banks, on which the banks pay an interest fee. The total amount of the deposit then generates a credit line available to the Project to extend to its borrowers at commercial rates. All cash handling, including the loan release and installment payments, take place in the banks themselves, although the ABA runs its own Management Information System (MIS) and employs all its loan officers and staff.

The credit program was initiated in January 1990, and self-sufficiency was achieved by January 1992, two years before the expected time.

(2) OPERATIONAL APPROACH

Since lending began in January 1990 , ABA has taken a very measured approach in extending its services. There has been some public promotion of the program , but largely the information on the project has been spread by word-of-mouth. Alexandria is very densely populated , which allows for the spread of the program without much public promotion.

All loans are given on an individual basis , without utilizing groups. Although grouping of borrowers was considered in the preliminary phases of design , it rapidly emerged that the Egyptians entrepreneurs were not willing to join into groups. On the other hand , Egyptians take a formal debt very seriously , as a consequence late repayment rarely goes above 1.5% of the active portfolio.

The loan officer is the key decision maker in developing new clients. The loan officers (presently about 100 total) are assigned to a branch office (presently eight branches) , each branch office has a specific geographical area of Metro Alexandria to cover. The loan officer appraises the credit needs and develops the loan application in concert with the potential borrower. Applications are then reviewed by the branch management and in exceptional cases are referred to control management. The exceptional cases usually arise when the proposed loan size exceeds the norm significantly , or if some of the brief documentation required does not appear to be correct.

For new and repeat borrowers , the loan releases are made on scheduled days throughout the months. All new borrowers meet at the branch office to receive their disbursement cheques after signing the post-dated installment cheques as well as attending the 45 minute briefing/orientation session given by the Branch Manager at the end of which disbursement cheques are distributed.

BRIEFING SESSION AGENDA

- Clients introduce themselves and state their enterprise activity
- Branch manager explains history and purpose of ABA/SMEP
- Branch manager describes credit service and emphasizes importance of on time repayment
- Branch manager describes the borrower's responsibilities and opportunities as a client to ABA
- Branch manager describes non-financial services of ABA/SMEP
- Branch manager explains the contents of a folder that is prepared for each client and includes the disbursement cheque, a record book, and a sticker with the ABA logo
- Folders are distributed to each client

The operational approach to lending is both innovative and traditional. An approved borrower receives a cheque in the amount of the loan, and signs post-dated cheques in the amount of the installments that will come due over the course of the loan. As each repayment (at the respective bank office) , the post-dated cheque is shown as being payment in full. Late repayments are considered "bad cheques" and penalties can involve fines or imprisonment through the legal system. All borrowers who have repaid on-time and in-full are usually guaranteed subsequent finance , if they so desire, and qualify for a larger loan.

The Management Information System (MIS) , operated by the project, is very tightly integrated into the operational approach. All information on the borrower is maintained by the project, along with the status of the current and previous loans. At the end of each business day, the bank that is receiving the repayments sends a fax to the ABA and the information is put directly into the MIS , with a daily report then generated for the management and loan officers. The client's status report shows both payments that were made, as well as any that were missed. Any late payers are immediately followed up by the responsible loan officer, along with a letter of collection. If the repayment is still not made after one week, the loan is turned over to the Legal Department for formal recourse.

(3) LOAN PORTFOLIO

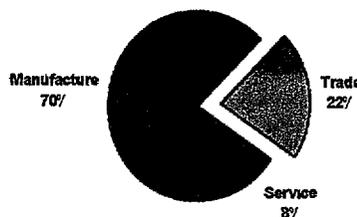
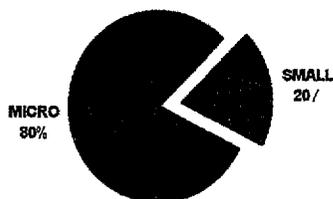
The ABA/SMEP , since the inception of the lending program, has divided its portfolio between existing "MICRO" entrepreneurs, meaning five or less employees, and existing "SMALL" entrepreneurs, meaning 6 - 15 employees. The planning target for the portfolio was to have at least 70 % of the borrowers from the MICRO category , although no prejudice was held against the SMALL entrepreneur. As the program has expanded, approximately 80 % of the borrowers have come from the MICRO classification. During the design phase of the project, it was assumed that MICRO entrepreneurs would require loans of L E 1,000 - 3,000 (US\$ 300 - 1,000), and that SMALL entrepreneurs would require loans of L E 5,000 - 25,000 (US\$ 1,500 - 7,500). Those average loan sizes have been adjusted somewhat based on market demand and usage.

Initially, manufacturing and processing was the primary targets of the SMEP. Recently, however, the project has extended its assistance to include the service and trade categories. The portfolio has been divided among the activities shown below.

Main Activities

- **Garments and ready-made clothing** , including woven and knitted clothing
- **Leather products** , including the manufacture of shoes, handbags, belts, jackets and other specialty items
- **Wood products** , including full and partial fabrication of furniture items like chairs, tables , beds cabinets, and dressers. Also wooden doors and windows
- **Metal products** , which include both manufacture and repair of a wide variety of aluminum , steel , brass, and iron products
- **A miscellaneous category** , that captures some of the huge variety of products being produced by the Micro Entrepreneurs such as glass, lampshades, plastic products, spice grinding , and prepared foods

The **Manufacture** category represents 70% of the portfolio, **Trade** about 22% while **Service** category represents 8%



The program has concentrated its services in the metropolitan Alexandria area, which has a population of about 4 million.

For program purposes, the city is broken down in geographical sections for the location of the branch offices and assignment of the loan officers.

The project is currently extending more than 1,500 loans per month , on-time repayment is now exceeding 99%

(4) FINANCIAL PERFORMANCE

The ABA , although existing as an organization previously , essentially “started from scratch” with its SMEP lending in 1990 . The USAID funds (in US\$) are deposited in the name of the project in several banks . The banks allow interest to accrue to the same account at an interest linked to the London Interbank Overnight Rate (LIBOR) . The banks then make a line of credit available to the SMEP for lending in an equivalent amount of Egyptian Pounds (L E or Livre Egyptien) . The SMEP makes loans from the credit line , repayment by borrowers are placed back with the banks to reduce the outstanding amount of the credit line . This “collateral fund with right-of-offset” has worked very well , the original fund deposited in US\$ maintains its value against any decline in the exchange value of the L E and serves as a guarantee against default . No default has yet occurred.

The SMEP generally has a markup on its cost of capital to cover its operational costs . The USAID did provide operating expenses to the SMEP during its initial operation , but the SMEP became self-financing and reached a break-even point in almost two years from the beginning of its credit operations .

The project has continued to cover all of its costs , as well as expand, since early 1992 .

The SMEP introduced a new **Provision-for-Bad-Debt Policy** based on the aging of portfolio

The provisions for doubtful debts are calculated as follows

- 25% of the portfolio at risk 31 - 60 days past due
- 50% of the portfolio at risk 61 - 90 days past due
- 100% of the portfolio at risk more than 90 days past due

N B Calculations of the portfolio at risk also include all undue installments

According to this policy the portfolio at risk is around 1.7% of the outstanding portfolio

For accounting purposes , SMEP writes-off uncollected installments once they reach 12 months beyond their due date . This does not mean, however, that SMEP stops collection procedures , the legal department continues to collect these funds . The writes-off as a percentage of the average portfolio is only 0.91% .

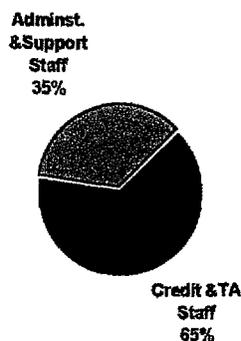
SMEP has also maintained the cost per one US\$ lent at 8 cents only and the cost per loan at about US\$ 65 .

(5) STAFFING ISSUES

The Alexandria Business Association actually has a membership of about 300 business people from the city of Alexandria. For the purposes of the Small and Micro Enterprise Project SMEP, a four person Executive Committee was formed from the Board Members which meets twice monthly. The Executive Director of the project serves as a member of the Committee, which addresses policy issues. Decision making authority rests with the branch managers, department heads and field personnel. Major decisions are taken by the Executive Director and the Executive Committee.

The number of permanent staff has grown substantially, and currently houses an operations department, eight branch offices employing approximately 100 loan officers, as well as a MIS department, financial and accounting department, personnel department, a legal department and a deputy executive director.

The operations and technical assistance staff represent 65%, while administration and support staff represents 35%.



Loan Officers training is a continuing issue with SMEP, as they are continually expanding their program and have a continuing demand for new officers, above and beyond normal staff turnover. Following recruitment, the training program consists of one week orientation and awareness course, followed by one week dedicated specifically to familiarize trainees with forms, documents and procedures, another two weeks of canvassing with experienced loan officers, and six weeks of field training under the supervision of a branch manager. During this period, they observe carefully the interaction between the loan officers and their clients and learn the policies and procedures in detail. Every Thursday, they come to the Head Office to review what they have seen. The operations manager gets to know the candidates and can judge their opinions on various situations. If they appear to be progressing well, they will be asked to develop a few new clients. If the judgment applied to these loan applications is sound, they will be assigned a coverage area and will still be on probation until the end of the third month from their date of hire.

Responsibilities of the Extension Officer

- Developing new clients
 - Completing and submitting loan applications for new and repeat clients
 - Preparing to disburse loans getting clients to sign installment cheques, listing maturity dates in client record books and client follow-up cards, disbursing cheques
 - Following-up on late repayments
 - Signing client record books and updating client history cards on a monthly basis
 - Accepting pre-payments in the branch, answering client questions, resolving client problems
- Requesting payment "shifting" for clients in unusual circumstances

ABA/SMEP has developed an elaborate **INCENTIVE SYSTEM** which has a significant effect on staff behavior and project performance. The system is fully automated, with monthly bonuses calculated by the MIS system within a few days after the month end cut-off.

Loan Officers receive incentives based on repayment rates, active clients, and the number of accepted loans, with a special bonus related to accepted new loans. Repayment rates and active clients are the most significant determinants of the monthly incentive. Loan officers must achieve a repayment rate of 97% to qualify for the incentive program.

The office staff of the project also benefits from the incentive system, based on the workload of the office represented in the number of processed loans during the month as well as the overall repayment rate of the project. The Attorneys receive bonuses based on past due installments collected.

The ABA management is very pleased with the results of the incentive system, asserting that the benefits far outweigh the costs. The incentive program has also helped ABA meet its planned objectives in terms of number of borrowers, rates of repayment and administrative efficiency.

The staff selection and development have been the key to insuring high level of staff performance. The incentive scheme as outlined above has contributed to the high level of repayment, and thereby contribute sustainability.

In addition to the financial incentives paid monthly, ABA/SME holds an annual meeting with all staff on January 28th, the anniversary day of the launch of the project. At this meeting, ABA presents awards honoring the Best Extension Officers, the Best Branch Manager, and the Best Clients of the year. The identification of staff winners is again fully automated and follows certain performance rules.

Transaction costs are small compared to the overall performance. Loan processing time for new borrowers is 14 days while it is reduced for repeat borrowers to 72 hours from application. Workload of the extension officer is set at no more than 150 active clients. Rescheduling of loans are decided by the Executive Director only.

The outcome has been that

BY SETTING A STRICT POLICY, LOAN QUALITY IS STRENGTHENED

Staffing profile is dependent on skills, background and the successful completion of the training program.

(6) TECHNICAL AND NON-FINANCIAL ASSISTANCE

The Small and Micro Enterprise Project established the

ALEXANDRIA SMALL BUSINESS CENTER "ASBC"

as a technical support facility designed to address the non-financial needs of entrepreneurs. It performs a complementary function to the credit delivery mechanism.

Objectives of the ASBC

- Upgrade the managerial and technical skills of clients
- Assist clients with improving production technology to maximize efficiency and meet market needs
- Assist clients with marketing activities
- Assist clients in solving technical and administrative problems
- Assist clients through providing updated knowledge and technology

ABA believes that non-financial services are important and are creating value. These services may eventually reach financial self-sufficiency. No services are provided free of charge. Clients correctly believe that WHAT IS FOR FREE IS WORTHLESS.

Four Types of Non-Financial Services

- 1 **Client Training** Business training in taxation, licensing, social security, marketing and bookkeeping. Technical training in woodworking, garment making, and other trades.
- 2 **Marketing** Sourcing retail outlets for client products, displaying products in the ABA showroom, organizing exhibitions, and obtaining supply contracts on behalf of clients.
- 3 **Library** Maintaining a library of catalogues that allow clients to be aware of new fashions and production techniques etc. Catalogues are available on subjects such as garment making, woodworking, leather crafts, and metalworking.
- 4 **Technical Assistance** Cooperating with international organizations such as USAID through the International Executive Service Corps (IESC) and GTZ through CIM with the sourcing of volunteer experts from various sectors to provide technical assistance to clients. To date, leather makers, and woodworkers, and garment makers have benefited from this service.

Clients pay a fee for rights to access the library, for training courses, and for technical assistance. Products sold on behalf of clients, either through the showroom or through other retail outlets, are marked-up by 20%.

The ASBC is now also taking the responsibility for all training of new ABA Extension Officers as well as training of management and staff of the SME projects in Cairo, Port Said, and Assiut, for which the Center earns a training fee. Other international development foundations (such as CARE of Egypt and UMP/UNDP), are also contracting with ASBC for training services.

**ABA/SME Project
Statistical Summary
1990 - 1995**

Description	1990	1991	1992	1993	1994	1995	1990/1995
No of loans issued	1,630	4,509	5,564	7,347	11,719	16,370	47,139
Amount of loans granted in in millions L E in millions US\$	3 66 1 08	8 92 2 62	10 73 3 16	17 74 5.22	32 62 9 60	48.37 14 23	122 03 35 90
Amounts of loans outstanding in millions L E in millions US\$	1 75 0 51	4 04 1 20	5.22 1.54	10 31 3 03	17 83 5.25	25 28 7 44	25 28 7 44
Loans Recovery Rate % as of 31/12/95	99 93	99.53	98 82	99.30	99 53	99 59	99 47
No of Chents	1,237	3,748	6,270	9,701	14,590	20,991	20,991
No of Active Chents	1,012	2,816	3,675	5,699	8,201	11,066	11,066
No of Staff Members	26	51	78	119	158	190	190

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**ACHIEVEMENTS
UP TO
OCTOBER 31 ,1996**

TOTAL AMOUNT LENT	L.E 169,048,250 (US\$ 49.72 M)
TOTAL NUMBER OF LOANS	62,225
AVERAGE LOAN SIZE	L.E. 2,700 (US\$ 800)
TOTAL NUMBER OF CLIENTS	25,325
ACTIVE PORTFOLIO SIZE	L.E. 50,295,714 (US\$ 14.80 M)
LOANS OUTSTANDING	L.E. 29,834,366 (US\$ 8.78 M)
LATEST REPAYMENT RATE	99.36 %
LOAN SIZE CREATING ONE NEW JOB	L.E. 2048 (US\$ 600)
NUMBER OF JOBS CREATED	82,540

BRANCH OFFICES

VICTORIA	MONTAZA	FLEMING	MOHARRAM BEY
MANSHEYA	ATTAREEN	KARMOUZ	AMREYA
DEKHEILA			

MAIN ACTIVITIES

GARMENTS	WOOD WORKING	LEATHER PRODUCTS
METAL PRODUCTS	PLASTICS	GLASS PRODUCTS
PAPER PRODUCTS	PRINTING PRESSES	BUILDING MATERIALS
CLEANING ARTICLES	WAX PRODUCTS	FOOD PROCESSING
CONTRACTORS	SERVICES	TRADE & RETAIL

COOPERATING BANKS

EXPORT DEVELOPMENT BANK OF EGYPT	NATIONAL BANK OF EGYPT (8 Branches)
MISR BANK (6 Branches)	BANK OF ALEXANDRIA (4 Branches)
BANK OF CAIRO (5 Branches)	INTERNATIONAL ISLAMIC BANK
NATIONAL BANK OF ABU DHABI	MASHREK BANK
ARAB BANK	

The ABA / SME Project Terms and Conditions

Item	Description
1 Location of Services	Metropolitan Alexandria
2 Target Group and activities	Micro Entrepreneurs 1 - 5 employees Small Entrepreneurs 6 - 15 employees
3 Loan Size	MICRO Min L E 1,000 Max L E 3,000 SMALL Min L E 5,000 Max L E 25,000
4 Criteria for Eligibility	Existing enterprises undertaking the following activities manufacture, services, retail business or trade
5 Grace Period	<ul style="list-style-type: none"> • No grace period for working capital financing • Grace period varies between 1 and 2 months for fixed investment financing
6 Mode of Repayment	The loan term is from 4 to 12 months for working capital, and up to 18 months for fixed investment financing
7 Guarantee and Collaterals	None
8 Interest Rate	Market interest rate (flat)
9 Administrative and other costs	None
10 Requirements	1 Identity Card 2 Lease or ownership contract for the enterprise site 3 Social Security Certificate 4 Work permit, license 5 Trade business commercial register 6 Tax Card For first time Micro borrowers , only the identity card and the lease/ownership contracts are required
11 Procedures	1 Work on the loan application with the loan officer Review of application by branch management For large loans, where the size significantly exceeds the norm, review by senior management is required 2 Upon approval, new borrowers meet on specific dates, scheduled throughout the month, to receive their loans and attend a brief session with other borrowers 3 The borrower receives a check in the amount of the loan, and signs post-dated checks in the amount of the installments Borrowers applying for the first time receive their loan within 15 days, while repeat loans are disbursed within three days
12 Delivery offices	In addition to the head office, clients are served through eight branch offices The project extends its credit through the branches of nine banks (28 branches)
13 Contact Information	<i>NABIL A ELSHAMI</i> , Executive Director, 52, El-Horreya Avenue Alexandria 11521 - Egypt