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Technical
Assessment:
Rural Small-Scale
Enterprise Pilot
Credit Activity
in Egypt

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Technical Assistance: Rural Small-Scale Enterprise Pilot Credit Activity in Egypt

by

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TABLE OF CONTENTS

	<u>Page</u>
SECTION ONE	
EXECUTIVE SUMMARY	1
SECTION TWO	
CONCLUSIONS AND RECOMMENDATIONS	5
LOANS	5
PERSONNEL ISSUES	5
PROJECT INSTITUTIONALIZATION	6
Training	6
Project Enhancements	7
SECTION THREE	
REPORT OF FINDINGS	9
HISTORY AND BACKGROUND OF RSSE	9
Project Rationale	10
Borrower Criteria	10
Project Implementation	11
CREDIT EXPERIMENTS	12
Portfolio Performance	12
Demand Sensitivity	13
Accessibility Sensitivity	13
Portfolio Size	13
Reward System	14
Petty Traders	14
Itinerant Traders	14
Population Density	15
CREDIT DELIVERY MECHANISM	15
Methodology	15
TESTING KEY CREDIT PROCEDURES	16
Interest Rate	16

Character Based Lending	17
Credit Ceiling	17
Business Plan Development	17
Existing Borrowers	17
Quality Control	17
Local Councils	17
Minimize Investment	18
PROFITABILITY ASSESSMENT	18
INSTITUTIONALIZATION	20
Manuals	20
Training	20
MANAGEMENT INFORMATION SYSTEM	20
MIS Reports	21
Computer System Development	21
FINANCIAL ANALYSIS	22
SURVEY	22
ANNEX 1: PERSONS CONTACTED	1-1
ANNEX 2: BORROWER QUESTIONNAIRES	2-1
ANNEX 3: LOAN FORMS	3-1
ANNEX 4: COMPUTER SYSTEM RECOMMENDATIONS	4-1
ANNEX 5: ASSESSMENT TASKS	5-1

SECTION ONE

EXECUTIVE SUMMARY

USAID/Cairo initiated an assessment of the Rural Small-Scale Enterprise (RSSE) Pilot Credit Activity, Cooperative Agreement Number 263-0161-A-00-7254-00 in September 1990. The assessment was contracted through the AID/PRE GEMINI Project. This report was submitted on October 28, 1990.

In 1987, USAID/Egypt signed a cooperative agreement with Agriculture Cooperative Development International (ACDI), in cooperation with the LDII Technical Amana, the Offices of the Governors of Damietta and Sharkia, and the National Bank for Development (NBD), to conduct a one-year pilot project to ascertain the technical and financial feasibility of lending credit funds to small rural enterprises.

The project was designed to field test a methodology based on the successful experiences of the Badan Kredit Kecamatan in Indonesia; the Grameen Bank in Bangladesh; ACDI's rural credit activities in Egypt, Jordan, Tanzania, the Philippines, and Kenya; and the small-scale enterprise component of the Helwan (Egypt) Housing and Community Upgrading Program. The methodology involves the loan officers going into the villages to make loans and open savings accounts. The following objectives were specified in the Cooperative Agreement for the first 12 months of operation:

- At least 2,000 successful loans made to small-scale enterprises in approximately 72 villages in 12 village council units in Damietta and Sharkia governorates;
- The creation of at least 400 new full-time jobs;
- A fully trained program staff of 52 Egyptian nationals; and
- The completion of at least eight separate credit experiments in the areas of client attitudes, marketing, and lending techniques.

Following the initial design and presentation of the proposal in 1987, two full years passed before the credit funds were transferred to the NBD and the first loans extended. The project began making loans October 2, 1989, in Sharkia and on December 6, 1989, in Damietta. The RSSE is presently operating under a nine-month extension until June 30, 1991, funded partially by the unused budget of the cooperative agreement's first extension dated March 9, 1989.

The success of the project has exceeded all expectations, more than twice the number of loans as specified in the objective have been made in less than 12 months. Much of the success can be accredited to the leadership of the NBD National Project Manager. The major factor for the success of the project is the small entrepreneur, whose hard work, thrift, and appetite for credit have made this pilot credit activity become economically viable. The number of loans has increased dramatically each quarter, from 397 loans during the fourth quarter of 1989 to 2,038 loans during the third quarter of 1990. Demand has resulted in full utilization of the loan fund and has brought the project to the break-even point in operational income and expenses. Because of the outstanding results, the project can be replicated in Cairo in its current form with minor modifications and after some cautionary steps. It is recommended that the credit delivery system be modified to reduce operational costs; the modification should be done prior to any replication.

During September 1990, the project loan fund was fully utilized for the first time since the inception of the project. This maximum utilization of the loan fund puts the project on the brink of profitability. According to ACDI's September 30, 1990, Quarterly Report to USAID, Sharkia achieved a L.E. 15,664 net income in September 1990. The monthly operational break-even point for RSSE is projected to occur during the fourth quarter of 1990. Our analysis of the RSSE finances is in accord with the projection. Money costs are not included in the break-even calculation, however, because the loan funds are a grant and do not bear an interest cost. If a cost of market rate funds were added to the cost of the RSSE activity, the activity would not have the capacity to be profitable. The costs charged to the borrower include the maximum allowable interest rate plus significant charges for transportation, insurance, and late payment penalties. Because of the high costs associated with small entrepreneur credit, it is highly unlikely that a small-scale entrepreneur loan activity would be attractive to any Egyptian bank without heavy donor contributions. If the project is to be expanded into Cairo, USAID should re-evaluate the RSSE institutionalization objective and limit the activity's goal to the promotion of small-scale credit.

An important issue in the project is the inability of ACDI and USAID to obtain adequate certifiable operational expenditure data. Although there has been some recent improvement in this respect as evidenced by the September 30, 1990, Quarterly Report prepared by ACDI, the expenditure data obtained from NBD are still unreliable. This issue should be resolved before USAID extends the project to other governorates. Therefore, prior to any expansion, an independent financial audit of the project should be carried out and USAID's concerns regarding NBD's provision of financial data should be resolved.

Two important stated measures of the project's success are the number of jobs created and the increase in client income. Random interviews with six borrowers were conducted by the assessment team on a field trip to Damietta and Sharkia. Each borrower reported increased income as a result of project loans; two of the borrowers had hired a total of five additional full-time people. The survey questionnaires are shown as Annex 2.

Based on this limited sample plus the borrower success stories recited by the loan officers it appears that the RSSE activity is having a positive effect on employment and income generation.

Key RSSE achievements include the following:

- As of September 30, 1990, the project had made 4,816 loans in the total amount of L.E. 3,959,650. There have been no loan losses and the loan delinquency ratio is 0.3 percent. Women comprise about 9.3 percent of the total borrowers and about 10 percent of the amount loaned.
- The amount of loans outstanding on September 30, 1990, was L.E. 2,332,324. The loans were made at market-based rates to small entrepreneurs in 93 villages in 38 village council units on an unsecured basis.
- As of September 30, 1990, 3,087 outstanding loans were being serviced weekly by 36 loan officers; this is an average of 86 borrowers per loan officer.
- There are over 100 different types of activities funded by the project. Although working capital loans are common, most loans have been made for the purchase of small machines, equipment, and tools. The average maturity is 4 to 5 months, within a range of 1 to 12 months.

Key recommendations of the assessment team include the following:

Loans

- A three-month loan experiment designed to increase the efficiency of the project should begin immediately in 10 villages. In these villages, all loans to repeat borrowers should be made using one loan form instead of four; the weekly payment of loan costs should not be mandatory for repeat borrowers; and a repeat borrower should have the option of making payments at a project office with the understanding that the transportation fee will be refunded if all of the payments are made at the office.

Personnel Issues

- An organizational study that results in effective staff assignments should be completed by January 1, 1991. The objective of the study should be to evaluate the number of staff required to make, service, and administer the loans.
- The reward system should be modified based on the results of the organizational study. The system will need to be carefully designed to be equitable to all staff members;
- Computer training should begin in November, 1990. The train-the-trainer approach should be used to train the computer personnel.

Audit

- The September 30, 1990, Quarterly Report from ACDI to USAID states that the NBD has planned for Arthur Anderson Shawki to conduct an official audit of the project. The audit should be completed prior to the final consideration of the proposed two-year project extension and expansion described in ACDI's proposal submitted to USAID in October 1990.

SECTION TWO

CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations are based on the Report of Findings, presented in Section Three.

LOANS

As the project grows, increased demands will be made on the loan officers' time. There are a number of modifications to the existing loan procedures that could increase the effectiveness of the loan officer. They are:

- The number of loan forms should be reduced from four to one for small loans to repeat borrowers. Documentation for repeat borrowers could, for example, be limited to a one page loan memorandum when the loan maturity is for no more than ninety days and the amount does not exceed L.E. 500.
- Weekly payment of loan costs should not be mandatory for repeat borrowers.
- A repeat borrower should have the option of making payments at a project office with the understanding that the transportation fee will be refunded if all of the payments are made at the office.

PERSONNEL ISSUES

- The number of staff required to make, service, and administer the loans is a serious management issue that requires additional study. An organizational study should be done which results in effective staff assignments. There are a number of issues to investigate in making the study. For example, the role of the Follow Up Team which is currently utilized in one branch is criticized by the loan officers who view the Team as a nuisance. The Team members are unhappy because they are not eligible for bonus payments which the loan officers can receive.
- The reward system should be modified based on the results of the organizational study. The system will need to be carefully designed in order to be equitable to all staff member particularly in view of the fact that many of the present loan officers are scheduled to become bookkeepers and cashiers.
- The proposed reduction of nine loan officers to three loan officers at each markaz, as depicted in the revised organization chart, should be studied carefully. The reduction is inconsistent with the existing project methodology of weekly village calls.

Development Planning Unit

PROJECT INSTITUTIONALIZATION

- Upon completion of RSSE Loan Tracking System programming, which is now in process, the Operations Manual, Record Keeping System section should be rewritten to describe usage of the new design of borrower forms and reports. The Reporting and Record Keeping Forms appendix should also be updated with examples of a computer generated borrower savings statement, borrower loan card, and all periodic output reports. Maintenance of the manual should be done by the NBD Credit Officer.
- A MIS Manual should be written to provide computer operator instructions. The manual can serve as a reference tool for existing computer personnel and also as a training tool for new computer personnel. The MIS Manual should contain specific and exact instructions and procedures for:
 - Daily computer power up and power down
 - Operation of daily data entry
 - Operation of all periodic reports
 - Creation of non-standard reports through the Report Generator
 - Operation of data backup programs
 - Storage of data input forms and computer reports
 - Retention schedule of forms and reports
 - Addresses and phone numbers of RSSE computer personnel, management, NBD Computer System Specialist, and any other maintenance, supplies, and support personnel who may be critical to the computer operation. Maintenance of the manual should be done by the NBD Computer System Specialist.
- A MIS Reports Manual should be written to show management and other appropriate persons what reports are available from the computer and the reason for the report. An example of each actual report should be printed for insertion into the manual; borrower names should be obliterated. An explanation should be printed of each report which explains the following items:
 - purpose of the report
 - frequency of the report
 - department(s) or person(s) to normally receive the report
 - identification of each line item on the report; how it is calculated, meaning of the codes, etc. Maintenance of the manual should be by the NBD Computer System Specialist.
- Manuals should be retained in the project offices at all times. Maintenance of new manual pages should be done by appropriate NBD national office staff and distributed to the project offices for updating. An annual audit should be made to confirm the completeness and correctness of these manuals.

Training

- Computer training should begin at once. The "train the trainer" approach should be used to train the computer personnel. A NBD employee should be trained as the Computer System Specialist as quickly as possible. This specialist should be involved in the computer

installations and be very familiar with the Report Generator program. When the contracted computer specialist leaves NBD, the on-staff Computer System Specialist will be the contact person for all future computer problems and enhancements. The Computer System Specialist should train the Computer Operation Specialists and Computer Operators. The National Office Computer Operation Specialist may double as the Assistant Computer System Specialist.

Project Enhancements

- The September 30, 1990, Quarterly Report from ACDI to USAID, states that the NBD has planned for Arthur Anderson Shawki to conduct an audit of the project. The audit should be done in view of the proposed two year project extension and expansion described in ACDI's proposal submitted to USAID in October, 1990.
- Approximately three months after the completion of the installation of all computer center hardware and software, a short term consultant should be contracted to review the computer programs and to correct any problems that have surfaced. One month should be sufficient for this purpose. Prior to the arrival of the short term consultant, the Computer System Specialist, the Computer Operation Specialists, and the ACDI Technical Advisor should review the computer system and reports for possible enhancements to the system. The short term consultant may also be contracted to program these enhancements. This decision would be dependant upon the value of the requested enhancements and the proposed costs.
- One year after the completion of the short term consultancy described above, the NBD should conduct a future MIS needs analysis to determine computer enhancement needs within the system. Many of these needs should be acquired through the Report Generator. At the conclusion of the MIS study, consideration may be given for additional programming requirements.

SECTION THREE

REPORT OF FINDINGS

HISTORY AND BACKGROUND OF RSSE

In 1987, USAID/Egypt signed a cooperative agreement with Agriculture Cooperative Development International (ACDI), in cooperation with the LDII Technical Amana, the Offices of the Governors of Damietta and Sharkia and the National Bank for Development (NBD), to conduct a one-year pilot project to ascertain the technical and financial feasibility of lending to small-scale enterprises (SSE's), with no previous formal credit. The project, known as the Rural Small-Scale Pilot Credit Activity (RSSE) specified the target borrower group as SSE's with fewer than 10 employees and less than L.E. 25,000 in business assets including land and buildings. The following objectives were specified in the Cooperative Agreement for the first 12 months of operation:

- At least 2,000 successful loans made to SSE's in approximately 72 villages located in twelve village council units in Damietta and Sharkia governorates;
- The creation of at least 400 new full-time jobs;
- A fully trained program staff of 52 Egyptian nationals;
- The completion of at least eight separate credit experiments in the areas of client attitudes, marketing, lending criteria and procedures, and interest rate sensitivity on credit demand.

The NBD, based in Cairo, was selected as the project implementing agency because of its extensive network of affiliate banks in the rural areas, as well as its interest in the RSSE concept. The NBD in conjunction with the Ford Foundation has a similar SSE project in Minia. The Bank's development experience also includes a \$23.5 million agri-industries project with World Bank as well as a \$29.5 export development loan agreement.

The Bank is governed by the regulations of the Central Bank of Egypt which limit lending to a loan to deposit ratio of 60 percent. Central Bank has modified this requirement for the NBD because of a L.E. 150 million loan from Central Bank to NBD which was made in 1981 for the purpose of investments; in 1988, the loan was paid in full. However, the deposit growth of the NBD, because of the economic conditions the past few years, has not been large enough to improve the Bank's loan to deposit ratio. NBD officials reported that the Bank's loan to deposit ration was 117.8 percent as of September 30, 1990 compared to 119.7 percent one year earlier. Deposits were L.E. 598 million on September 30, 1990 compared to L.E. 537 million one year earlier. Loans were L.E. 705 million on September 30, 1990 compared to L.E. 644 million on September 30, 1989.

Project Rationale

Although the reforms of the Egyptian banking sector brought about by the implementation of the Open Door Policy in 1974 have been beneficial to the economy, particularly for the trade and industrial sectors, they have had little impact on the small rural enterprises. It has been conservatively estimated that there are more than 906,000 small-scale businesses in the secondary and rural cities of Egypt. Only a fraction of these businesses have direct access to bank credit.

There are a number of reasons for the lack of availability of bank credit to the small Egyptian entrepreneur. They include:

- The state capitalism of the 1950's and widespread nationalization in the early 1960's virtually eliminated private sector industry, and the viability of the remaining SSE's.
- SSE loans are risky as compared, for example, with agricultural loans in Egypt where production is certain, production costs are known, and the market for many products is profitable.
- Small SSE loans are time consuming to make and service which causes a lender's administrative costs to be high; for this reason, as well as the risk, they are not considered profitable.
- SSE lending is the most difficult type of lending because the small entrepreneur often lacks business management skills and adequate financial records.

Because the banking system has been reluctant to address the credit needs of SSE's due to the factors mentioned above, the SSE sector has relied on informal credit sources which include those which charge usurious rates.

Borrower Criteria

The type of borrower that the project is attempting to identify and serve must possess the following qualifications:

- Be entrepreneurs of existing, off-farm rural small-scale enterprises, in the villages located in the areas served by the four designated marakez in the governorates of Sharkia and Damietta, which are: Kafr Sakr, Belbeis, Damietta and Faraskour.
- Be primarily involved in the agricultural service sector of the economy, for example: light manufacturing and assembly operations; maintenance, transport, storage and distribution services; and agricultural product processing and marketing.
- Have a value-added, productive enterprise, rather than simple trading operations, in order to generate new employment and strengthen the productive base of the local economy.
- Be an ongoing operation, with a minimum one year of operation, as determined by the RSSE National Project Office.

- Be credit worthy, as determined by village council members, personal references, and credit history.
- Employ less than 10 people and have fixed assets generally not exceeding L.E. 25,000, including buildings and land.
- Request the loans for specific purposes, such as short term working capital needs to purchase inventory, acquisition of small capital equipment and tools.

Other project criteria objectives:

- Actively promote the participation of women as staff members and as borrowers.
- Extend loans to qualified beneficiaries in a range not less than L.E. 250, nor more than L.E. 2,500. This upper limit may be exceeded in cases where the past credit history of the borrower in the project has been exemplary and the cash flow supports the credit, provided that all other requirements previously mentioned have been met.

Project Implementation

The project was implemented through the existing structure of an NBD affiliate bank in Damietta and another in Sharkia. These affiliates are two independent Banks in which the NBD has at least a 50 percent participation.

The project, managed by the NBD/RSSE Project Manager with the technical assistance of the ACDI advisor, was designed to field test a methodology based on the successful experiences of the Badan Kredit Kecamatan in Indonesia, the Grameen Bank in Bangladesh, ACDI's rural credit activities in Egypt, Jordan, Tanzania, the Philippines, Kenya and the small-scale enterprise component of the Helwan (Egypt) Housing and Community Upgrading Program. The methodology involves the loan officers going into the villages to make loans and open savings accounts.

The RSSE Project was approved in September 1987. The Cooperative Agreement has been modified to extend the period of the operational phase. These modifications were necessitated because of difficulties experienced in reaching a consensus of all of the parties involved concerning the project documentation and the procedures for managing the project.

Following the initial design and presentation of the proposal in 1987, two full years transpired before the credit funds were transferred to the NBD and the first loans extended. The project began making loans October 2, 1989 in Sharkia and on December 6, 1989 in Damietta. The RSSE is presently operating under a nine month extension until June 30, 1991, funded partially by the unused budget of the Cooperative Agreement's first extension dated March 9, 1989.

CREDIT EXPERIMENTS

The Cooperative Agreement required that eight credit experiments, discussed in 3.2.1 through 3.2.8, be conducted by the project as a means of testing the following hypotheses:

- The small-scale entrepreneur is much less concerned with interest rates than with the accessibility, speed and reliability of the credit delivery system.
- Most rural SSEs have a very high return on investment as evidenced by the high interest rates, often in excess of 100 percent, which SSEs pay to informal moneylenders.
- The most pressing need for rural SSEs is for working capital to increase retail inventory or raw material stocks, purchase spare parts, or repair existing equipment.
- Traditional social and religious values in rural Egypt compel a borrower to repay. The traditional rural Egyptian takes pride in honoring his commitments and loses face in his village if he is delinquent in repaying his debts.
- The rural small business Egyptian entrepreneur does not require a lot of expensive technical assistance to manage money and business activity, given the limited investment and simplicity of the business.
- Due to the relative simplicity of a wide range of SSE business activities, the credit system will not require lengthy individual borrower loan appraisal.
- Village council leaders can be relied on to give honest character references for borrowers and to follow up on seriously delinquent clients.
- The prospect of qualifying for larger loans of longer maturities represents the most important repayment incentive for borrowers.
- The credit program can be financially viable if the interest rates are competitive with the local market.
- Personal savings can be mobilized in rural Egypt if savings instruments are easily accessible, secure, and offer competitive rates of interest.

Portfolio Performance

A formal portfolio performance experiment has not been conducted, however, the loans which have been made give an indication of the results which might be expected from the proposed experiment. The intent of this experiment was to determine if the borrowers' rate of repayment diminishes with less frequent visits from project personnel. Implied in this experiment is the need to extend loans having a repayment schedule less frequently than weekly as is the current practice. There is no clear pattern at this time which demonstrates that borrowers with a principal repayment schedule less frequently than weekly are more likely to be delinquent on loan installments. Weekly payments of loan costs are mandatory on all project loans. There have been a significant number of loans made with principal

payments scheduled less frequently than weekly. Nevertheless, the loan officers continue to call on all borrowers during their regular weekly visits to the villages. The added time to collect the interest each week is considered by the Bank to be nominal because of the small size of the villages. On the other hand, it is clear that changes need to be made in the frequency of loan repayments because of the increasing number of borrowers. At the present time, each of the 36 loan officers have an average of 18 borrowers to call on daily to collect loan payments.

Demand Sensitivity

The rate sensitivity experiment was intended to assist the project management in determining whether the interest rate was too high, and if so, at what lower rate would the small-scale entrepreneurs borrow and be able to repay. A formal experiment has not been conducted. Project loan experience has shown that small entrepreneurs can and will pay the costs described in this report, 3.5 Profitability Assessment, as illustrated by the number of repeat loans, low delinquency ratio, the lack of loan losses, and the fact that there are no reported complaints concerning the interest rate.

Accessibility Sensitivity

The accessibility experiment was intended to test whether the SSE's would seek loans and make the required installments on time if the Bank did not go to them. No formal experiment has yet been constructed to test this issue, since it is inconsistent with the present project method of operation existing in the target market marakez. However, during the month of January 1990, heavy rains in the Damietta area turned the roads to deep mud. The loan officers could not make their periodic visits to the villages. In spite of the mud, the borrowers found their own means to get to the Bank branch and pay the amounts due. This isolated instance indicated the willingness of the borrowers to travel to meet their banking requirements. According to a senior project official, as many as 40 percent of the borrowers make their payments at the branch offices.

Portfolio Size

The purpose of the portfolio experiment was to determine the optimum number of active loans which a loan officer can effectively service. In effect, this experiment is being carried out in the daily operation of the project.

Presently, the 36 markaz junior staff are performing the roles as loan officers on a trial basis. Although initial plans called for the three most promising in each markaz to serve as loan officers, with the other six to perform the bookkeeping and cashier functions, the plans do not fit the present operating mode of the project.

Under the existing system, the 36 loan officers each service approximately 86 borrowers every week. Project officials stated that the break-even point for the Ford Foundation project in Minia which is similar, is reported to be around 90 borrowers per loan officer.

Reward System

The reward/performance experiment was designed to provide information which could be used in determining whether or not a reward system has any effect on the performance of the loan officers. From the date of project implementation, there has been a bonus system in place, whereby a loan officer can earn an additional L.E. 50 each month by meeting all three criterion established by the National Office. The criteria are:

- Book 11 loans to new borrowers during the month;
- Maintain a repayment rate at least equal to the project average for the period; and
- Keep their books and reports in proper format, as outlined by the NBD.

These criteria are strictly monitored by the branch managers and regional supervisors, who are responsible for determining if the loan officer's performance meets the bonus criteria. Most of the loan officers meet the criteria and receive the bonus. The branch manager also qualifies for the bonus if the branch as a whole achieves the targets.

Petty Traders

The intent of the special loan window experiment was to ascertain whether extending credit to the petty traders is both a profitable and manageable form of lending under the project. The petty traders are subsistence vendors who buy their goods from local merchants. By borrowing from the project the petty traders are able to pay cash to the local merchants for their goods as opposed to taking credit from them at exorbitant rates or less favorable terms.

As of February 28, 1990, when data from the experiment was studied, the project branches had made numerous loans to petty traders. Their loan requirements normally fall in the L.E. 250 to L.E. 500 range. The petty traders have been good project clients whose credit requirements are for frequent short-term loans. Their repayment record has been good and they are now considered to be as good a credit risk as any other industry segment in the project target group.

Itinerant Traders

The purpose of the itinerant trader experiment was to determine if these traders who ply their business in different towns and villages, are credit worthy. Itinerant traders are very similar to the petty traders in that they buy vegetables, cloth, ceramic items, etc., from the local merchants. The itinerant traders however, and sell the goods in the neighboring villages and towns. The itinerant traders normally have only enough inventory for a few days up to a maximum of one month's inventory.

The project's experience with the itinerant traders has been similar to that of the petty traders. The credit performance of the itinerant traders like that of the petty traders has been excellent.

Population Density

The population density experiment was conceived as a means of substantiating whether SSE's in more densely populated areas are more likely to repay their loans, compared to SSE's in sparsely populated areas. A second objective was to compare transaction costs per borrower with transportation costs in less densely populated areas. Regarding the first objective of the experiment, the project management have not found a discernable pattern of repayment rates between borrowers based on population density.

The second objective is not considered by project management to be a worthwhile experiment for the RSSE project because the transportation fee is felt to be a nominal cost. The project charges 3 percent of the principal amount of the loan as a transportation fee. The fee is charged to offset the transport costs of the loan officers' borrower visits to the villages. It is evident that a greater borrower population density generates more transportation fees.

CREDIT DELIVERY MECHANISM

The project has developed a credit delivery mechanism that can be modified to serve a greater number of borrowers and provide a model for replication. The loan objective for the project provided that at least 2,000 successful be loans made to SSE's in approximately 72 villages in 12 village council units in Damietta and Sharkia governorates.

As of September 30, 1990, project loan officers had made 4,816 loans totaling L.E. 3,959,650. The loans were made at market-based rates to small entrepreneurs in 93 villages in 38 village council units by project loan officers in the two branch offices in Damietta and Sharkia and the four markaz offices on an unsecured basis.

There have been no loan losses and the loan delinquency ratio is 0.3 percent. Women comprise about 9.3 percent of the total number of borrowers and borrow 10 percent of the amount loaned. Additionally, of the total 52 staff members in the governorates, 8 are women.

As of September 30, 1990 there were 3,087 outstanding loans in the total amount of L.E. 2,332,324 being serviced weekly by 36 loan officers which is an average of 86 borrowers per loan officer. The weekly loan payment collections demand that each loan officer call on 18 borrowers each day. Not surprisingly, the loan officers state that their major problem is the administrative work involved in loan and payment processing when they return from the field each day.

Although working capital loans are common, most loans have been made for the purchase of small machines, equipment and tools. The average maturity is 4 to 5 months, within a range of 1 to 12 months. There are over 100 different types of activities funded by the project.

Methodology

The loan staff visits each village on a predetermined day and time each week, so that the clients become accustomed to the pattern. The loan program is publicized in the target villages and cities, applications are taken and screened, and the loans are negotiated with the client, based on the expected cash receipts from the business. A repayment schedule is set, using this information. The loan officer

takes the application to the branch manager for approval; approved applications are sent to the regional office for final review and approval. If the decision is favorable, the loan officer contacts the client and arranges to collect the 10 percent savings deposit and disburse the loan. Two weeks is considered to be the average time required to make a loan.

TESTING KEY CREDIT PROCEDURES

The Cooperative Agreement stipulates that a number of credit procedures are to be tested. The test results are discussed in 3.4.1 through 3.4.8. The credit procedures are:

- Charge interest rates which are high enough to cover operating expenses including the cost of funds, provisions for bad debts, and return a profit for reinvestment and expansion.
- Rely on character references from community leaders and local officials for loan eligibility, rather than on the availability of collateral or lengthy staff analyses of a proposed enterprise's feasibility.
- Reduce risk by making smaller initial loans to a new borrower and then gradually raising that client's credit ceiling as the repayment record warrants.
- Actively involve clients in the development of a simple business plan for the proposed use of the loan funds.
- Lend only to clients with existing business that have consistently returned a profit.
- Use repeat loans as the borrowers primary incentive for full and timely repayment.
- Blend local autonomy with overall program quality control, by stressing a highly decentralized organizational structure with villages as the focus of operations, together with central program technical assistance; and
- Mobilize local popular councils to follow-up on delinquent clients if portfolio performance of the local unit falls below acceptable levels.

Interest Rate

The interest rate which the project charges on all loans is referred to as 16 percent which is the maximum rate authorized by the Central Bank of Egypt under the Banker's Tariff. However, although the principal amount is repaid in installments, the interest is charged on the total principal amount for the total time period which causes the annual percentage rate to be about 32 percent. The effective rate of 32 percent is equitable in view of the cost involved in this type of lending. Informal sources of credit, such as merchant financing, are higher.

Character Based Lending

The project loans are made on an unsecured basis. The borrower must be credit worthy, as determined by the village council, three personal references, and credit history in the project.

Credit Ceiling

The project loans range from a minimum of L.E. 250, to a maximum of L.E. 2,500. The initial loan to a borrower is normally in the lower end of the range. The upper limit may be exceeded in cases where the past credit history of the borrower in the project has been exemplary and the cash flow supports the credit, provided that all other requirements previously mentioned have been met.

Business Plan Development

The project loan officers assist the borrowers in the development of simple business plans through the preparation of the Clients Expected Income Form and the Clients Expected Expense Form. The forms are described in ANNEX 3, Loan Forms.

Existing Borrowers

Project loans are made only to those small entrepreneurs who have been in business for a least one year. The loan officers reported that they have had possibly as many as one hundred requests for small enterprise loans from persons who have just returned from Iraq and Kuwait. Project management is considering a waiver of the one year rule for these persons who have former business experience. The possibility of borrowing a larger loan amount is considered to be an incentive for loan repayment. One thousand four hundred and eighty six project clients have borrowed a larger amount on a subsequent loan.

Quality Control

Information on the loans forms provides a valuable data base for future loans as well as social economic data such as number of employees and income. However, as shown in ANNEX 3 there are four very detailed time consuming loan forms which must be completed on a loan. Additionally, the loan approval process is prolonged as the final approval must come from the regional supervisor and is a significant factor in the average processing time of two weeks.

Local Councils

The members of the local village councils play a role in the success of the project in that they are an important source of business information about a borrower as well as a character reference source.

Minimize Investment

The village is the focal point of the lending operation. The project costs are kept to a minimum in the village as there is no investment in stone and mortar. The loan officers come to the village on the same day every week so they can be accessible to the borrowers.

The accessibility feature has been a major strength of the project. Now that the project is established in a large number of villages, and the loan officers have to call on an average of 18 customers daily the ability to be accessible to the universe of borrowers is diminished. Modifications need to be made in the loan methods which will allow the loan officers to continue to meet the loan demands of borrowers.

PROFITABILITY ASSESSMENT

During the month of September, 1990, the project loan fund was fully utilized for the first time since the inception of the project. This maximum utilization of the loan fund puts the project on the brink of profitability. According to ACDI's September 30, 1990, Quarterly Report to USAID, Sharkia achieved a L.E. 15,664 net income in September, 1990. The monthly operational break-even point for RSSE is projected to occur during the fourth quarter of 1990. Our analysis of the RSSE finances is in accord with the projection. However, money costs are not included in the break-even calculation, because the loan funds are a grant and do not bear an interest cost. If a market rate funds cost was added to the cost of the RSSE activity, the activity would not have the capacity to be profitable. The costs charged to the borrower include the maximum allowable interest rate plus significant charges for transportation, insurance and late payment penalties. Because of the high costs associated with small entrepreneur credit, it is highly unlikely that a small-scale entrepreneur loan activity would be attractive to any Egyptian bank without heavy donor contributions. If the project is to be expanded into Cairo, USAID should re-evaluate the RSSE institutionalization objective and limit the activity's goal to the promotion of small-scale credit.

The project's gross loan revenue includes interest plus fees income from transportation, insurance and late payment penalties. The total cost to the borrower during the course of the loan can be in excess of 60 percent which is the case in the example on the following page. The 60 percent cost results from the interest and the other loan costs being calculated on the total principal amount for the entire six month maturity although the principal and the costs are paid in installments. However, the penalty fee is returned at the end of the loan if there have been no delinquencies, which would reduce the gross loan revenue, in this example to about 48 percent. In addition to the loan costs the entrepreneurs are required to maintain a 10 percent savings balance that all borrowers must pay in cash before receiving the loan.

Following is a sample loan calculation. Assumptions: Principal amount of L.E. 1,000.00, six months maturity, weekly payment of all costs, and monthly payment of principal. Weekly installment: L.E. 6.20 (24 payments); Monthly installment: L.E. 166.67 (6 payments).

Total Principal:		L.E. 1,000.00
Cost for six months:		
	Interest	79.98
	Transportation	15.00
	Insurance	23.75
	Penalty fee	<u>30.00</u>
	Total indebtedness	L.E. 1,148.73

As of September 30, 1990 the project had L.E. 2.3 million in outstanding loans. The gross revenue on the outstanding loans is about 48 percent as illustrated in the example of a typical loan. Gross revenue on L.E. 2.3 million for one month is L.E. 92,000. The project's gross revenue will soon increase due to a recent management decision to increase transportation fees from 3 percent to as much as 6 percent to offset transportation costs. The average monthly income, i.e. gross revenue, for the quarter ending September 30, 1990, was reported to be L.E. 66,125 compared to the reported average monthly expense of L.E. 63,256. At the time of this report, the cumulative income figure for the life of the project through the third quarter had not yet been reconciled by project management due to a reporting error. However, the cumulative income figure through August 31, 1990 was reported to be L.E. 696,056 compared to the cumulative expense figure of L.E. 707,054. Following is a list of the cumulative income and expense through August 31, 1990 as reported by the project management in the September 30, 1990 Quarterly Report to USAID.

<u>Income</u>			<u>Expense</u>		
Interest	L.E.	384,179	Salaries	L.E.	257,436
Transportation fee		72,696	Wages		73,646
Insurance		112,667	Allowances		53,352
Late fees		126,509	Rent		40,500
Other		5	Bonuses		55,874
			Production (supplies)		12,339
			Services		159,345
			(includes transportation cost of 147,071)		
			Interest on savings		10,170
			Services		44,392
Total	L.E.	696,056		L.E.	707,054

Project management reports that a complete analysis of the operating expenses has been undertaken, and differences in accounting methods employed by the two regional banks has been largely reconciled. The audit which took place in the third quarter resulted in accounting adjustments which will be examined ACDI in the coming weeks.

According to the September 30, 1990, Quarterly Report prepared by ACDI, there are pending expense claims from the NBD which have not yet been documented to ACDI. However, the accounts that have been reviewed by the ACDI Financial Manager are reported to be in order. The Quarterly Report states that the NBD has planned for Arthur Anderson Shawki to conduct an official audit of the project. The audit should be done in view of the proposed two year project extension and expansion described in ACDI's proposal submitted to USAID in October, 1990.

The September 30, 1990, Quarterly Report was a noted improvement in financial reporting. USAID has not received the reports required under the Cooperative Agreement with ACDI. Only two quarterly reports were received by USAID — March 1990 and September 1990. In order for the USAID project officer to manage this activity, NBD and ACDI should be required to adhere to the conditions of the Cooperative Agreement.

INSTITUTIONALIZATION

The Cooperative Agreement (Attachment 3, Page 12 of 15) provides that specific accomplishments which are expected to have been achieved by the end of the one year project include objectives concerning manuals and training. The manual objective calls for the creation of a credit operations and training manual detailing program policies, internal procedures, lending criteria, management information processing and analysis and all of the administrative forms required for the smooth and efficient day-to-day management of the program. The training objective calls for the successful completion of a well-defined training program, both formal and on-the-job, for the credit staff.

Manuals

An Project Operations Manual is available in the NBD National Office. The manual meets the objective criteria for use in the daily operation of the small-scale enterprise project. However, the manual was not available in the project offices. This manual outlines the following sections, (1) Loan Policies, (2) Job Responsibilities, (3) Project Monitoring and Record Keeping System, and (4) Reporting System. The manual includes information concerning credit and accounting reporting and record keeping forms. There are also weekly amortization tables and bookkeeping instructions for calculating (1) straight line, (2) accelerated, and (3) equal monthly principal payments.

Training

Intensive training for the original RSSE staffs was held in the Damietta and Sharkia branch banks. The trainees also observed the SSE operation in Minia, a similar program which has been in operation since April 1989. The training instructor was the NBD RSSE National Project Manager who is also the project manager for the Minia program; he was assisted by the regional bank chairmen, their staff, and the ACDI Technical Advisor. The trainees generally lacked banking and credit training so they were educated in the philosophy and methodology of the RSSE and NBD operational lending system. They were taught simple cash flow analysis and conducted interviews of prospective clients. All of the basic project training has been completed. On the job training is an ongoing process. At the present time, the focal point of staff development is directed toward improving the financial reporting system. Plans call for staff training to be an important part of the improved financial reporting system, two seminars of three days each in Cairo for all project staff have been scheduled. Computer training is scheduled to begin following the installation of the computer system.

MANAGEMENT INFORMATION SYSTEM

The Cooperative Agreement, attachment 4, page 14 of 17 states that ACDI will design, set up, test and institutionalize a computerized management information system (MIS) for the financial management of the program based on markaz level cost/profit centers, and the statistical analysis of village, local unit, and markaz-level loan portfolio.

MIS Reports

The existing management information system is adequate. However, the reports are time consuming to produce, subject to mathematical errors, and, of course, are in Arabic. The proposed computerized MIS system should resolve these constraints. Currently, project personnel produce a weekly "Implementation of RSSE Project" report for each branch office, each governorate, and the national office. On this report are totals of the (1) accumulated number of loans, (2) accumulated loan principal, (3) current borrower indebtedness (principal, interest, transportation, penalty, and insurance fees), (4) current outstanding balance (principal, interest, and all fees), (5) current limit of indebtedness due (principal, interest, and all fees excluding penalty), (6) current delinquency installments (past due principal, interest and all fees of loans not yet matured), and (7) current outstanding loans overdue (past due principal, interest and all fees of loans past maturity). Totals from the previous week are included for comparison purposes.

Other MIS reports as illustrated in the September, 1990, Quarterly Report from ACDI to USAID include:

- Branch office reports which indicate the type of businesses financed by the branch; the reader can readily see how many business types are serviced in each office but the project total of each type is not evident. When the borrower data is computerized, each business type should be coded so project totals of each type may be generated.
- An Economic Impact Data report indicates the number of loans which improved borrowers income and increased the numbers of employees.
- A Profile of Loans to Female Borrowers shows the cumulative total of loans to women, and also the ratio to the total portfolio. The current outstanding data would be an useful addition.
- A RSSE Cumulative Loan Growth report shows the spectacular loan growth of the project. This report prints the cumulative loan principal disbursed, total borrower debt, and number of loans made since October, 1989. A similar report should be produced which shows the current principal outstanding, total current debt, and current number of loans for each month; the combination of these two reports would be a useful measure of the project loan activity.
- A Credit Funds Usage By Activity report indicates the amount and number of loans made to each classification group — production, service, investment, and commercial.
- Several Classification reports group loan amounts and borrower numbers by loan size and maturity.
- The Project Manager Monthly Report is a summary of borrower loan data.
- The income and expense reports are adequate, but are difficult to read because they are on several pages and the balances are not carried forward to the next page.

Computer System Development

A computer loan tracking system is being developed by a contracted computer specialist. The system will allow data entry in either English or Arabic characters, although program development will

be in English. This loan tracking system is proposed in four phases: (1) system analysis; (2) system design; (3) program development; (4) testing, debugging and improvement. Following the loan tracking system programming, the following items are to be scheduled: Computer hardware and software installation, employee training, and writing of a computer user manual.

Computers have been purchased for each markaz level center branch office and regional office, and also for the national office in Cairo. Each office will receive an IBM compatible personal computer that contains 80 megabytes of hard disk and a 3 1/2 inch diskette drive. The computer distributor is scheduled to install the computer in the national office in Cairo. This computer will be used for development and testing of the contracted loan tracking system. Upon completion of the loan tracking system programming, the contractor will install the software in the branch and regional computer systems. The computer distributor has offered to train the office staffs to operate the computer hardware; this training will be in Cairo. After the computer hardware and software is installed, the computer staffs are to be trained by a contracted computer specialist.

FINANCIAL ANALYSIS

The amount of loans outstanding as of September 30, 1990, of L.E. 2,332,324 divided by the amount of past due installments of L.E. 8,905 equals a past due installment ratio of 0.03 percent. The outstanding loan amount of L.E. 2,332,324 divided by the number of outstanding loans of 3087 equals an average loan size of L.E. 756. L.E. 756 times the gross revenue figure of 48 percent illustrated in this report, PROFITABILITY ASSESSMENT, equals a gross loan revenue figure of L.E. 365. The cumulative expense figure of L.E. 707,054 as of August 31, 1990 divided by the number of loans on that same date of 2,228 equaled an average expense of L.E. 317 for each loan. This calculation shows that the break-even size of a loan is about L.E. 660.

SURVEY

A survey of six borrowers was conducted by the assessment team on a field trip to Damietta and Sharkia. The survey questionnaires are in this report as Annex 2. Two important stated measures of the project's success are the number of jobs created and the increase in client income. In the six random borrower interviews, five additional full-time jobs were disclosed. Each of the six borrowers reported increased income as a result of project loans.²

ANNEX 1
PERSONS CONTACTED

- 23 -

ANNEX 1

PERSONS CONTACTED

Kim M. Kertson	Project Officer, USAID
Seifalla Hassanein	Project Officer, USAID
Don Wadley	Office Director, USAID
Paul B. Thorn	Associate Director, USAID
Karl F. Jensen	Finance and Investment, USAID
Beth Cypser	Project Officer, USAID
Charles J. Vokral	RSSE Technical Advisor, ACDI
Jeffery Sole	Regional Representative, ACDI
H. Andrew Kim	MIS System Contractor, Kimpro, Inc.
Ismail H. Siam	NBD/RSSE Project Manager
Zaky El Onsby	Chairman, NBD Headquarters, Cairo
Ahmed Abdel Ramid	Chairman, NBD, Damietta
Fathy A. Orabi	Regional Manager, NBD, Damietta
Ragab Simiesem	Damietta Branch Manager, NBD, Damietta
Mohamed Qabil	Head of Credit Extension Group, NBD, Damietta
Ismaiel Shehab	Head of Credit Extension Group, NBD, Damietta
Ahmed Abdel Rahman	Chairman, NBD, Sharkia
Helmy Abualghari	Regional Manager; Deputy Gen. Mgr, NBD Sharkia
Sayed Moaad	Belbeis Branch Manager, NBD, Sharkia
Mustafa Sharfeldin	Kafr Sakr Branch Manager, NBD, Sharkia
Mahmond Fahony	Head of Credit Extension Group, NBD, Sharkia
Gamal Abdelhamid	Head of Credit Extension Group, NBD, Sharkia
Aly El Magraby	Journalist, Sharkia
Shersta Kanstil	Barber, Shosesh District
Zakereys Ahed Solunien	Shoe Maker, Wellad Haman Village
Hamed Zeidan	Paint Factory Owner, Kholojeys Village
Ylhine Mahinond	Electric Appliance Repair and Sales, El Gawsek Village
Ramedon Mohammed Elwon	Motorcycle Repair Shop, Belbeis Village
Aly Ibrshin Haske	Car Painter, Abu Shorut-Kafr Sakr Village

ANNEX 2
BORROWER QUESTIONNAIRES

25

ANNEX 2

BORROWER QUESTIONNAIRES

Borrower Questionnaire #1

Name: Shersta Kanstil Gender: Male
Village: Shosesh District
Describe Business, Employees, Product, Service, Sales,
Barber Shop One Hair cutting 20-30 per day, L.E. 2 each
Loan(s) Amount: L.E. 500; L.E. 1,000.
Loan Purpose: Shop renovations; Two barber chairs (had none)
Borrowed From Bank Before? No. From informal Sector? Yes, a lending pool.
How did the loan(s) help you? New chairs, extra customer potential.
Did you profit by the loan? Yes, with nicer shop and chairs.
Did this loan increase employment? Yes, added one employee.

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Borrower Questionnaire #2

Name: Zakereys Ahed Solunien Gender: Male
Village: Wellad Haman Village
Describe Business, Employees, Product, Service, Sales,
Shoe Maker One, daughter Makes shoes 76 pair per week, L.E. 9.5 each
Loan(s) Amount: L.E. 700; L.E. 1,000.
Loan Purpose: Shop renovations; Leather and supplies
Borrowed From Bank Before? No. From informal Sector? Yes, relatives only
How did the loan(s) help you? Increased production about 24 pairs per week
Did you profit by the loan? Yes
Did this loan increase employment? No.

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Borrower Questionnaire #3

Name: Mamed Zeidan Gender: Male
Village: Kholojays Village
Describe Business, Employees, Product, Service, Sales,
Paint factory six
Makes paint 500 cans per day Loan Amount: L.E. 2,000
Loan Purpose: Purchase paint mixer; to pay cash for paint, can bargain better.
Borrowed From Bank Before? No. From informal Sector? No. How did the loan(s) help you? Old mixer no good; better paint prices.
Did you profit by the loan? Yes, can produce 80% more paint.
Did this loan increase employment? Yes, increased 4 to 6 part & full time.

Borrower Questionnaire #4

Name: Ylhine Mahinond Gender: Male
Village: El Gawsek Village
Describe Business, Employees, Product, Service, Sales,
Electric appliances None Repairs and sells appliances
Loan(s) Amount: L.E. 800; L.E. 1,500.
Loan Purpose: Inventory and supplies
Borrowed From Bank Before? No. Informal Sector? Yes, Wholesaler, 12% per wk.
How did the loan(s) help you? Now I can buy equipment at wholesale prices.
Did you profit by the loan? Doubled his income.
Did this loan increase employment? No.

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Borrower Questionnaire #5

Name: Ramedon Mohammed Elwon Gender: Male
Village: Belbeis Village
Describe Business, Employees, Product, Service, Sales
Motorcycle Repair None Repair, sell parts
Loan(s) Amount: L.E. 500; L.E. 1,000; L.E. 1,800.
Loan Purpose: Inventory
Borrowed From Bank Before? No. Informal Sector? Yes, friends, wholesalers.
How did the loan(s) help you? Increased income from L.E. 40 to L.E.100.
Did you profit by the loan? Yes, Avoid wholesaler interest of 20% in 20 days.
Did this loan increase employment? No.

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Borrower Questionnaire #6

Name: Aly Ibrshin Haske Gender: Male
Village: Abu Shorut-Kafr Sakr Village
Describe Business, Employees, Product, Service, Sales,
Car Workshop One Paints cars 2 to 3 cars per month
Loan(s) Amount: L.E. 300; L.E. 500; L.E. 1,000.
Loan Purpose: Inventory, and a paint compressor
Borrowed From Bank Before? No. From informal Sector? Customer pays in advance.
How has the loan(s) help you? Saves time and money to buy in quantity
Did you profit by the loan? Yes. Income increased from L.E. 250 to L.E. 350.
Did this loan increase employment? No.

ANNEX 3
LOAN FORMS

ANNEX 3

LOAN FORMS

Loan Request Form: Borrower name, sex, address, district, governorate, Owned/rent, number of rooms, ID card number, printed number, age, marital status, number of children, job/craft, date of beginning of job/craft, registered capital, invested capital, trade register number, address of work, rent/own, number of employees, insurance (employer), insurance (employees), previous experience, personal money available, liquid, materials, sum of loan, purpose of loan, period of loan method of payment, present monthly income, monthly income expected after loan, statement of ownership (house, rent-owned), statement of equipment and fixed assets.

Information Form: Borrower name, address, rent/owned, number of rooms, ID number, trade register number, license number, tax card number, job/craft, address of work, rent/owned, number of workmen, registered capital, invested capital, previous experience, previous dealings with banks, properties & present value, machinery and equipment owned, protest, lien, reputation in regular payments, monthly income & source, monthly expenses, number of people (wife + children + other persons), name of bank dealing with, clients dealing with, supplier dealing with, loans obtained, other financial obligations, other information, source of information (specifying craft's chief if available, or country chief).

Clients Expected Income Form: Present income, income after loan, number of product, price of each product, service income, allowance (day allowance x number of days) if daily service craftsman, income of possessions, late income, salaries or pension, interest, securities.

Clients Expected Expenses: Cost of raw materials, materials, other productive materials, other buying, packing expenses, petroleum & electricity expenses, oil and lubrication, transportation expenses, marketing expenses, maintenance expenses, rent, water and electricity, salaries, depreciation expenses (rent of equipment and other expenses); loan service; rent of home, cost of family living, education expenses, medical expenses, water and electricity expenses, energy expense, and other buying; other expenses of cost of loan form other banks, cost of loan from others, due installments to others due securities, and other obligations.

Credit Note Form: Borrower name, address, rent/owned, number of rooms, work address, rent/owned, ID card number, craft/activity, number of persons in family, capital registered, capital invested, kind of job or activity, (productive craft, service craft, trade activity), purpose of loan (investment, operating capital), production cycle till product leaves the workshop (expense), internal cycle from warehouse till receiving of price (income), other income, present income (net income after deduction of all expenses in every internal cycle), expected income (deducting living expenses, also deducting loan service), net income, loan requested, time requested, savings as client's request (10 percent from the value of loan), cash or in weekly installments. Loan is given after payment of savings if client hasn't 10 percent when asking for loan. The committee opinion is given as to the size of loan permitted, period of loan, methods of payment, savings according to size of loan. The branch manager opinion is given. The clients financial activity is determined of marketing possibility and client's reputation; grades are given, excellent, very good, good, on a scale up to 100.

ANNEX 4
COMPUTER SYSTEM RECOMMENDATIONS

30'

ANNEX 4**COMPUTER SYSTEM RECOMMENDATIONS****COMPUTER PERSONNEL REQUIREMENTS**

- The computer staff requirements should include one Computer System Specialist, one Assistant Computer System Specialist, seven Computer Operation Specialists, and seven Computer Operators.
- The Computer System Specialist should be located in the NBD. The System Specialist should become very knowledgeable of all RSSE system programs, Report Generator functions, DOS instructions, and computer hardware components wiring. This Specialist should be responsible for quality control of the computer centers, for the training of new computer employees, and for maintaining the master MIS Manual and the MIS Report Manual.
- The Assistant Computer System Specialist should be located in the NBD. The Assistant System Specialist should be knowledgeable in the duties of the Computer System Specialist, and should assist in the quality control of the computer centers and employee training.
- A Computer Operation Specialist should be located in each of the seven computer centers. The primary duties of the Operation Specialist are to perform the computer operation duties in the absence of the Computer Operator, to operate Report Generator requests, to verify balancing of daily activity, and to trouble-shoot computer problems. In the case of more extensive problems, the Computer Operator Specialist should contact the NBD Computer System Specialist in Cairo.
- A Computer Operator shall be located in each of the seven computer centers. The primary duties of the Computer Operator are to turn on the computer each morning, print the standard computer reports, enter the daily activities, backup the data files, and to turn off the computer each night.

Computer Facilities

- The computer should be housed in a smoke-free private room which can be locked during non-working hours. Keys to the computer room should be available only to computer personnel and management. This room should have a window air-conditioner unit for efficient computer operation. Computer manufacturer requirements for climate control and cleanliness should be followed.
- The computer room should be furnished with a desk and chair for each of the computer personnel. A file cabinet is necessary for computer supplies, reports, and computer manuals.

31

Computer Room Supplies

- A reasonable number of diskettes and computer printer paper should be kept on hand. All computer supplies should be stored in the computer room. Computer diskettes should be stored in an inconspicuous place within the locked computer room. Knowledge of the location of these diskettes should be available to the computer room key-holders only.
- For security against fire and flood, backup diskettes of critical information should be stored in a secure place away from the computer room such as the safe in the managers office. If the safe is not at least 10 meters from the computer room wall, the backup diskettes should be stored in a file cabinet as far from the computer room as possible. It is also advisable to periodically keep key data diskettes in a location farther away, such as in a business several buildings away or in the home of a key-holding employee. The files should be far enough away to be safe, but close enough to be available when needed.

Computer Reports

- Reports should be available at each project office concerning the borrowers applicable to that office. In no instance should an office need to call another office for borrower information. Each of the reports should be programmed for producing period-to-date totals. The following reports should be printed by the Computer Operator in each office.
 - A Daily Transaction Listing should show the borrower loan activity of the day.
 - A Daily Borrower Implementation Report as described in 3.7.1 MIS Reports, should be printed; this report should also show changes from the previous work day.
 - A Weekly Borrower Implementation Report should be printed; this report should also show changes from the previous week.
 - A Monthly Borrower Implementation Report should be printed; this report should also show changes from the previous month end.
 - An Annual Borrower Implementation Report should be printed; this report should also show changes from the previous year end.
- Each of the above reports should be in the format of the current "Implementation of RSSE Project" which is being used in the RSSE offices; the above reports should also show the current number of outstanding loans and the outstanding principal balance. Each of the above reports should be available for period-to-date totals.
- Following is a list of optional reports:
 - A Past Due Report should be available for any period upon request.
 - A Loans Maturing Report should be available for any period upon request.
 - A monthly report listing and summary of borrowers should be available for all loans sorted by account number, loan size, loan due date, borrower name, village, etc. The report should be available on selected type(s) of loan, borrower gender, loan range, etc.
- A Report Generator Software Program should be used for non-standard reports upon request.

ANNEX 5
ASSESSMENT TASKS

ANNEX 5**ASSESSMENT TASKS**

The specific tasks described in the assessment scope of work are:

- Assess the extent to which the RSSE activity is designing and testing different credit delivery mechanisms (the eight experiments mentioned in the cooperative agreement).
- Measure the extent to which the RSSE activity is moving toward a credit delivery mechanism that can be replicated.
- Assess the extent to which RSSE is effectively testing key assumptions of the originally proposed credit delivery methodology (as stated in the cooperative agreement).
- Establish criteria and assess RSSE's progress towards reaching profitability in both Damietta and Sharkia and determine when the project will break-even.
- Assess the extent to which NBD is developing and institutionalizing the internal banking policies and procedures necessary to assure efficient credit delivery, including training the necessary staff.
- Assess NBD's management information system for financial control and monitoring performance at the village, markaz and governorate levels. In particular, assess degree to which NBD and the technical assistance contractor are collecting and compiling data sufficient to (1) monitor activity performance, and (2) conduct necessary financial assessments such as break even analysis and return on investment.
- Conduct financial analysis including break-even analysis and loan default rate.
- Carry out a preliminary survey of the impact of RSSE on randomly selected communities and individual recipients. This survey should focus on the impact of RSSE in increasing employment opportunities for low-income households, including a special assessment of the impact on women, and increasing productivity and profitability of off-farm micro-enterprises.
- Prepare recommendations and a suggested timetable for specific steps required to improve project performance.

- 24'