



Scuola di Amministrazione Aziendale

Università degli Studi di Torino 



## **“Micro Finance at the University” Project**

**A.B.A.**

**ALEXANDRIA BUSINESS ASSOCIATION**

**A Case Study**

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## chapter 1

### OPERATING CONTEXT: SOCIO-ECONOMIC AND POLITIC COUNTRY PROFILE

Situated in Northeast Africa, Egypt shares borders in the west with Libya, and in the south with Sudan. It is bounded on the east by the Red Sea and on the north by the Mediterranean. The surface area of Egypt is 997,739 square kilometers, of which only 35,190 square km is settled and cultivated. About 95% of the land is uninhabitable desert. Egypt's population of more than 65 million continues to grow at the rate of 1.3 million people per year or 2.17%. 99% of the population live in the narrow strip of the Nile valley, which runs the length of the country, and in the Nile Delta.. Greater Cairo with more than 17 million inhabitants in 2004 has a population density of over 32,000 per sq. km.

Egyptian economy is dominated by the service sector, which including public administration accounts for half of GDP. Within this, tourism and the Suez Canal are important sectors. Agriculture remains an important economic activity, even though less than 3% of Egypt's area is arable land. Most crops are for local consumption but cotton is a major export. Industry and mining account for approximately 17% of GDP and are heavily concentrated in Cairo and the Nile Delta. Petroleum and natural gas are mainstays of the economy accounting for around 10% of GDP. In addition, there is a large informal sector which, although no reliable data exist, may account for as much as 50% of total economic activity. The main urban centers are Cairo, Alexandria, Port Said, and Suez.

UNDP's human development index ranked Egypt 109 out of 173 countries. The GDP per capita was between \$1100 and \$1300 in 2002-2004 period.

Egypt is ranked 120 out of 175 in the UNDP Report, with a net primary school enrollment at 88% and adult illiteracy nearly 35%.

Egypt is an Arab Republic headed by the president, Hosni Mubarak. The majority party in parliament supports the government under the Prime Minister, which is the National Democratic Party. The constitution of 1971 provides for the separation of powers between the executive, the legislature and the judiciary. Officially Islamic law is the principal source of legislation but the Napoleonic code is a more significant progenitor. The head of the state is the president of the republic, nominated by a two-thirds majority of the People's Assembly and elected by referendum. The People's Assembly of 444 directly elected members and ten additional members nominated by the president exercises legislative power. Although formally accountable to parliament, the prime minister is the president's primary lieutenant, responsible for implementing his policies throughout the bureaucracy. The key ministries are Defense, Foreign Affairs, Information and the Interior.

COUNTRY PROFILE	
TOTAL POPULATION	66.372.000
ESTIMATED NUMBER OF PEOPLE BELOW THE POVERTY LINE	28.540.000
ESTIMATED NUMBER OF HOUSEHOLDS BELOW THE POVERTY LINE	4.077.137
ESTIMATED NUMBER OF HOUSEHOLD NEEDING ACCESS TO CREDIT- MARKET POTENTIAL	1.630.855
NUMBER OF ACTIVE BORROWERS	256.159
PERCENTAGE OF PEOPLE HAVING ACCESS OF MARKET POTENTIAL	16%
MARKET GAP IN NUMBERS	1.374.696
MARKET GAP IN PERCENTAGE	84%
UNCDF, MICROFINANCE IN THE ARAB STATES, 2004.	

Egypt had in 2004 over 250.000 clients served by microfinance. More than 80% were served by seven fully sustainable MFIs. Over 55 Millions USD was outstanding in microloans, and Egypt also had increased to women. At the end of 1999 only 25% of the client were women, at the end of 2003 percentage had increased to 46%, reaching more than 50% in 2005. USAID and supported Foundations are working in the Country introducing a real diversification of the products. Loan product diversification through the introduction of group lending (for women) and the revitalization of downscaling programmes through banks, notably through the Banque du Caire are the key factor, sponsored by USAID (UNCDF, Microfinance in Arab States, 2004).

Although the tendency is growing in a right way, market gap is clear: the percentage of people having access of microcredit market potential is only 16%, and more than 1.600.000 are the households needing access to credit and market potential. The market gap of the potential active borrowers (1.374.696 potential active borrowers) could be considered the starting point of the future growth of the market.

A few leading microfinance providers results are growing quickly, and performances are good, but the industry as a whole remains relatively underdeveloped, with the potential demand for microfinance in Egypt largely unmet. In fact rough estimates show that the industry could potentially grow more (reaching 3 million clients). Egypt's market penetration rate as a result is among the lowest in the Arab States. There is a lack of clarity in government policies in the microfinance sector, enlarging subsidies credit schemes and focussing on client targeting.

## LEGAL AND INSTITUTIONAL ENVIRONMENT

“The newly passed Small Enterprise Development Law is an attempt by government to increase clarity of and conformity to policies governing the sector. However, the ambiguous language of the law itself poses concerns for the sector as a whole. Although the law deals mainly with small enterprises and not microfinance, it does explicitly name the Social Fund for Development as the de facto ministry for small enterprise development responsible for the overall coordination and planning of the sector.” (UNCDF, Microfinance in the Arab State, 2004).

In spite of its efforts to adopt internationally accepted good practices through pilot projects, the Social Fund of Development has yet to fully mainstream these practices in all of its programming. Fortunately the law does not go as far as making the Social Fund a regulator or licensor of SME finance. However, it does give the fund the way to develop the executive regulations for the sector (within the confines of the law) and to implement its provisions through the participation and coordination of all parties. This could conceivably include interest rate ceilings in an attempt to “standardize” pricing in the market, which would have the dangerous effect of discouraging further growth as well as private sector participation. Therefore, there is an urgent need to define this coordination role and ensure that the resulting guidelines are facilitating and not restrictive in nature. Finally, the law proposes that Small Business Development Funds be established in each of its Governorates. A parallel small-business financing structure separate from the private sector but providing subsidized credit to the same market (i.e. small and microentrepreneurs) is far from optimal, and may jeopardize the future microfinance sector. “ (UNCDF, Microfinance in the Arab State, 2004).

Supporting the formation of deposit-taking specialized banks, or non-deposit-taking banks, or microfinance companies, to build a network of microfinance operators seems to be now the most important issue to help the growing sector. The downscaling process, that provides microfinance products within banks, needs infrastructure, credit bureaus, rating agencies, accounting or auditing services, or self-regulatory frameworks to promote the commercialization of the activities. Microfinance in Egypt have now to work in a clear direction: to be independent from donor support, and elaborate a clear strategy for the commercialisation of the sector.

The majority of Egyptian MFIs are performing under internationally accepted good practices control, but many others still suffer from lack of a network support, lack of transparency, inability to transform their activities into formal financial institutions. The poor capital and institutional network among microfinance providers is the real reason. At the moment Microfinance Sector is clearly not a mature industry and it does not meet the challenges of commercialisation, and of reaching massive scale, because it is financed by donors and the government through direct institutional investments And probably this support will be not adequate to satisfy the full demand, and it will not ensure sustainability of access to poor and low-income households. In order to cover the outreach gap and ensure sustained access to financing, the downscaling process, and the integration of the microfinance industry into the formal financial sector, has a clear target: reach microenterprises with a diversified range of financial services. A reform of the banking sector as a whole where product diversification beyond simple credit continues to be a challenge could be a way to solve this issue.

“On February 23, 2004 UNDP Cairo and the Egyptian Banking Institute (EBI) of the Central Bank of Egypt signed a project document for the first joint national microfinance policy initiative with UNCDF, KfW, and USAID: Building a National Strategy for Microfinance in Egypt. This project aims to marshal government efforts to date as the basis for a more coordinated dialogue among stakeholders toward the development of a mature microfinance industry. This is based on the belief that permanent access to financial services of poor and low-income households and their microenterprises will only be ensured through the development and gradual integration of the microfinance sector into the formal financial sector. By focusing efforts on developing a strategy for the development of the industry as a whole, the project intends to define a framework for increasing the efficiency and effectiveness of concerted governmental, nongovernmental, and donor actions in this sector” (UNCDF, Microfinance in the Arab State, 2004).

This will be accomplished through the development of a shared vision for the promotion of a self-sustaining commercial microfinance sector, articulation of a national policy and strategy to support necessary policy reforms, legal and regulatory changes, the development of the critical financial infrastructure, and development of an action plan in coordination with the Egyptian Authorities, which will provide a menu of priority activities for the Government of Egypt. Donors might indicate their support based on their interest, mandate, and available resources.

The Foundations in Egypt responded to the risk of the governments law that could be implemented in the future: according with this law, the guarantee checks will no longer be usable. The law has already been postponed three times and its implementation is expected in October 2006. After a consultation with EQI in 2000, some Foundations were able to obtain a memo from the Central Bank that after the implementation of the law, these checks would still be upheld if they were stamped and registered officially. Trust receipts may be a possible alternative which has already been in use by ABA since 2000. (2004, Planet Rating).

## MICROCREDIT SECTOR: THE ROLE OF ACTORS

The microfinance sector started his experience in the early 1990s. Several sources supported the new sector, first of all the Social Fund for Development (SFD) and the US. Development Agency (USAID). Also the Credit Guarantee Corporation (CGC), founded by local banks, promoted the development of micro, small and medium-sized enterprises through loans provided by banks (directly) or NGOs and supported by USAID. Also Ford Foundation, Danida, CIDA, KfW, Egyptian Swiss Development Fund supported the sector.

The majority of microcredit in Egypt is provided by NGOs.

Law 32 prohibits the mobilization of savings by these organizations, restricting their operations to the delivery of credit only. Most microfinance institutions are actually NGOs operating in a legal framework not adapted to microfinance. With some difficulties accessing bank funding, NGOs have also governance structures not well suited to microfinance given the prescribed roles of Board Members. Ministry of Social Affairs supervises NGOs but it does not have special regulations or norms with regards to microfinance (it may for example inspect NGOs and replace the Board of Directors if necessary).

The institutions that are operating as microfinance providers (but as bank providers), Central Bank of Egypt is the official supervisor. There are no CBE-imposed interest rate caps, but there are two major microfinance programs subject to special regulations.

Generally, banking sector is not interested in microfinance sector. Banks are operating with a network of more than 60 operators, and approximately 2000 branches. Egyptian Banks do not typically offer loans below 25,000 EGP (4,000 USD).

The Social Fund of Development (SFD) is a quasi-governmental agency, created to mitigate the negative effects of the IMF and World Bank supported Economic Reform and Structural Adjustment Program (ERSAP) in Egypt. SFD is operating on two programs providing small loans through partner banks and microloans through NGOs. It is financing from Egyptian Government, EU, Arab Fund, Kuwait Fund, UNDP.

The Social Fund of Development (SFD) is operating with the collaboration of the formal banks: loans channelled through banks are sovereign decrees and have lower interest rates than non-SFD loans.

Principal Bank for Development and Agricultural Credit (PBDAC) is offering now micro and small loans focussed on agriculture and rural needs through village banks all over Egypt.

Banque du Caire and National Bank for Development (and Social Fund of Development partners) are actually the first realities that do offer small loans (USAID program) in the country, trying to serve this market sector and considering it an opportunity.

National Bank for Development is one of the working realities operating in Egypt. Operating in the country from 1987, year of Establishment, NBD in the last five years is focussing on microfinance products. It is covering now 16 of the Egypt's governorates. More than 200 employees are working serving more than 25,000 clients in 2004,

In 2004 the balance of outstanding loans was 47.9 millions EGP (more than 7.2 Millions USD), and the average loan value was 2300 EGP (320 USD).

In 2000 public Banque du Caire, with the technical assistance of USAID, that is proposing a microfinance model through several businessmen associations, registered as NGO and received the technical assistance from Environmental Quality International (EQI), the local partner of the National Cooperative Business Association.

With the financial support of USAID and the technical assistance of the well-known consulting firm EQI, Banque du Caire engaged in microfinance. The formula was straightforward: training, incentives and marketing. Underemployed staff working in the 97 branches were invited to join the microlending programme as loan officers. They were trained extensively and received substantial performance bonuses as high as one-third of base salary. More than 660 staff volunteered by year-end 2003. In two and a half years, Banque du Caire has reached over 45,000 active clients and a portfolio outstanding of over 14 USD millions. The client retention rate is low but improving, indicating better responsiveness to client needs. Banque du Caire confirms that the profitability of

its microloan portfolio is more than double that of a normal performing loan portfolio in the best-performing banks. The bank used its own funds for onlending and no external guarantees were used (UNCDF, Microfinance in the Arab States, 2004).

## ABA: HISTORICAL BACKGROUND AND INSTITUTIONAL PRESENTATION

Alexandria Business Association is operating from 1983, as the Economic Committee for Businessmen. The objectives were to provide support to the private sector, promote the interest of the businessmen, represent the sector to the government, consolidate business and social outreach among the business actors.

Alexandria Businessmen's Association was registered with the Ministry of Social Affairs in March 1988 as a private Non-Profit Organization. In 1990 the name changed to Alexandria Business Association, for gender reasons. ABA signed, in April 1989, the Cooperative Agreement with USAID, and disbursed in January 1990 its first individual loan. The first group loan will be disbursed nine years later, in 1999.

Microfinance in Egypt started with ABA in the early 1990s. The ABA / SME Project was launched in January 1990, and after only two years of operation, the credit service generated income to cover all operating costs.

Several sources were involved in the process: SFD (Social Fund for Development), USAID (US Development Agency), CGC (Credit Guarantee Corporation).

The mission of ABA was to provide financial and technical services to small and micro enterprises, developing and promoting existing small and micro enterprises, trying to carry them into the formal sector. ABA and USAID joined a cooperative agreement for the first seven years (from 1989) when USAID provided financial and technical services, while ABA developed a program to offer financing to the existing small and micro business in Alexandria.

In June 1998 the UNDP signed a contract with ABA to act as the International Technical Service Provider for its MicroStart Program in Bahrain (1999) and in Yemen.

In 1999 ABA started a new credit program targeting Female-Headed Households in the poor area: it will be one of the most interesting experiences in the Country, leading a new generation of microfinance services. It was named "Blossoms of Micro Enterprises".

One year later, in March 2000, ABA started a new program: "Towards Self Employment Program". It is a "Grant Activity" aiming at helping unemployed poor people to start business that they plan and manage a conditional grant.

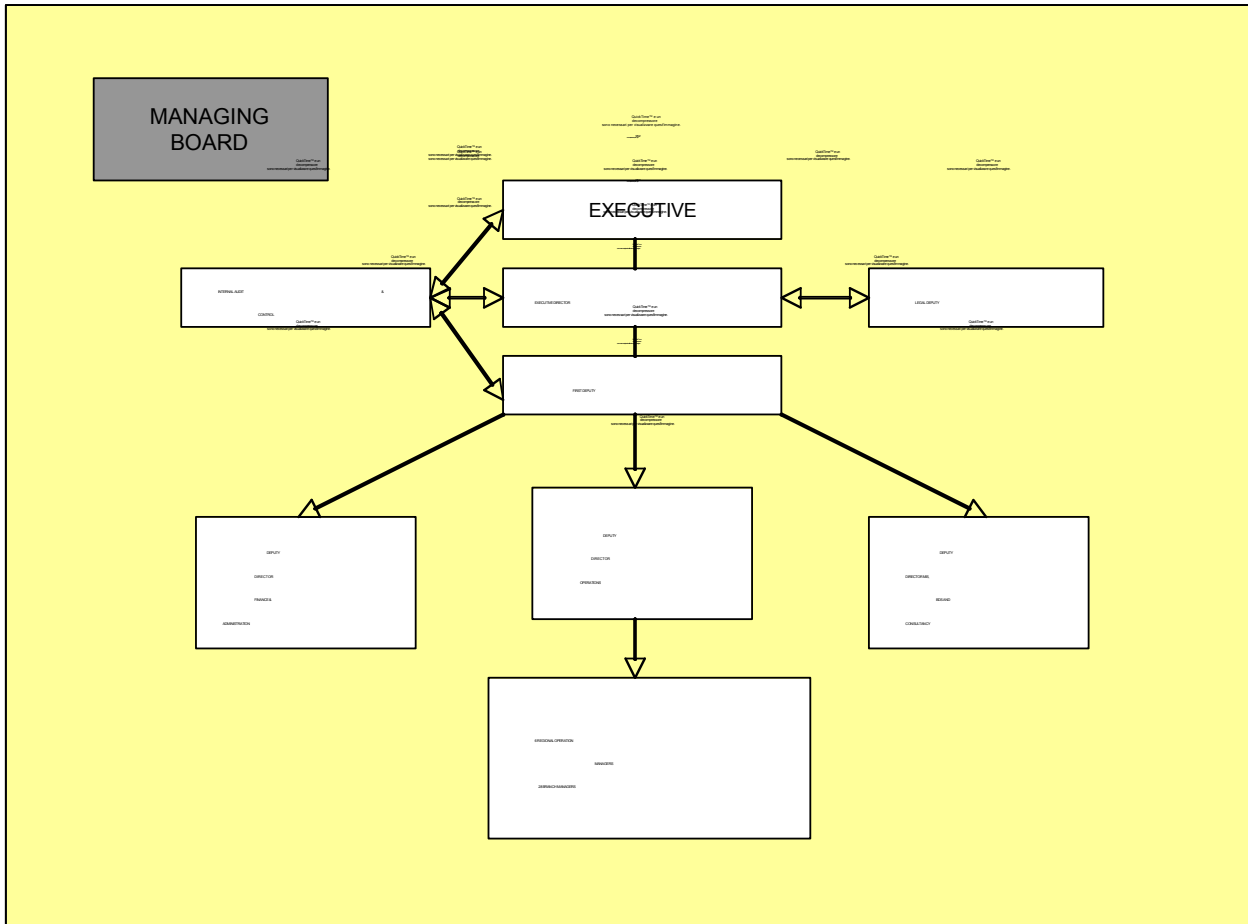
In 2001 ABA's SME Project won the prize of AGFUND on the provision of MicroCredit through NGOs, an international annual prize awarded by the Arab Gulf Program for United Nations Development Organizations (114 Projects from 95 countries applied for the prize).

For ABA one of the goals is to increase employment developing all the other services and training offers to its clients. Through ASBC (Alexandria Small Business Center) it provides business development services (described later in the chapter).

At the moment ABA is leading microfinance institutions in the region with stable profitability, excellent outreach and sufficient funding sources for the next few years. Egypt has one of the most interesting potential markets for micro entrepreneurs in the Arab World. Unfortunately, only a small percentage of this large market is being covered.

The nature of the Association is built on a strong relationship with the leaders of the local governorates of the countries. Based on Egyptian local NGO's law, the governance structure requires a very active role in management, including the signature of all checks and hiring approval. So the presence of the governance members creates a form of assurance. Only some kind of duties could be delegated to an Executive Committee that includes Board Members.

ORGANIZATIONAL STRUCTURE



**EXECUTIVE COMMITTEE** - A five person Executive Committee, appointed by the ABA's Managing Board, directs the SME Project Members of the Committee. The committee includes as members (successful businessmen and active members of the association), the deputy chairman, the Treasurer, three Senior Board Members and the Executive Director of the Project.

**MANAGEMENT** – The organization structure of the SME Project provides for a first deputy. Then the three Deputy Directors are: Deputy Director (Operations), Deputy Director (MIS, BDS and Consultin Services) and Deputy Director (Finance and Administration). The Internal Audit & Control Manager report directly to the Executive Committee and the Executive Director. The legal Department Manager report directly to the Executive Director.

**EXTENSION OFFICERS** – All of the Extension Officers have university degrees, good personal skills, clear handwriting, some experience working with the private sector. The EO training is a continuing issue with the project as the program is always expanding and has an increasing demand for new EOs above and staff turnover. The new EOs spend two weeks in training at head office. During the first week, they receive an awarness and orientation to the SME Project and to the microenterprise sector. During the second week they are introduced to the policies and procedures of the project.

## PRODUCTS AND SERVICES

## OPERATIONAL APPROACH

ABA's approach was initially oriented on an individual basis, without utilizing group lending methodologies. Individual lending began in January 1990, and only in 1999, with the "Blossoms of Micro Enterprises", activities included also group lending.

The Extension Officer is the key figure in developing new clients. He is assigned to a branch office, covering a specific geographic area. He appraises the credit needs and develop the loan application in concert with the potential borrower. Applications are then reviewed and approved by the branch loan committee headed by the branch manager, or in exceptional cases referred to control management, usually exceptional cases arise when the proposed loan size exceeds the norms significantly.

Loan releases are made on scheduled days through the months. A schedule is determined at the beginning of the year, showing the dates of loan disbursement. New client loans are disbursed twice monthly, while repeat loans are disbursed four-five times each month.

The operational approach to lending is both innovative and traditional. An approved borrower receives a check in the amount of the loan and signs promissory notes in the amount of the installments that will come due over the course of the loan.

All borrowers who have repaid on time and in full are usually guaranteed subsequent finance and qualify for larger loans.

For new loans, clients come to the branch office to receive their first disbursement check and attend a 45-minute briefing / orientation session given by Branch Manager. A 15-minute video film is also played to explain the concept of the project. At the end of the session, checks are distributed. The briefing session has the following agenda:

- Clients introduce themselves and state their enterprise activity
- Manager explains history and purpose of ABA
- Manager emphasizes importance of on time repayment
- Manager describes non-financial services of ABA
- Manager explains the contents of a folder, which is prepared for each client and includes the loan check, a record book, and a sticker with the ABA logo
- Folders are disbursed to each client

The Management Information System (MIS) operated by the project is integrated into operational approach. The MIS, along with the status of the current and previous loans guarantees all the informations of the borrower. At the end of each business day, the bank that is receiving the repayments faxes to ABA and the informations are put directly to MIS, with a daily report then generated for the management and the extension officers. The responsible extension officer, along with a letter of collection, immediately follows up any late payers. If the repayment is still not made after one week, the loan is turned over to the Legal Department for formal recourse.

ABA in Egypt has built its success in managing credit risk in part on its clear communication of its "Zero Tolerance for Arrears" policy, to employees and clients. In the past, ABA had a policy in which clients who were even one day late in a payment were considered delinquent and therefore bad credit risks and ineligible for future loans. ABA limited also incentives to employees who managed portfolio with at least 97 percent repayment. In an effort to retain more clients, now ABA is allowing clients up to 10 days late to pay late charges and have a second chance. More than 35 percent have remained clients and continue to successfully repay their loans. ABA includes those who were ten to fifteen days late on repayment, being able, with this gradual implementation, to increase client retention without increasing its portfolio at risk and maintaining its reputation of being strict on repayment.

## TERMS AND CONDITIONS - LENDING METHODOLOGIES

SME Small and Micro Enterprises Credit Program - TERMS AND CONDITIONS	
item	description
LOCATION OF SERVICES	ALEXANDRIA (13) - KAHR EL SHEIKH (3) - BEHERA (2) - MATROUH (1) - MENOUFIA (1)
TARGET GROUP AND ACTIVITIES	MICRO ENTREPRENEURS [1-5 employees] SMALL ENTREPRENEURS [6-15 employees]
LOAN SIZE	micro - min EGP 500 (USD 100) - max EGP 3000 (USD 600) small - min EGP 5000 (USD 1000) - max EGP 25000 (USD 5000)
CRITERIA FOR ELIGIBILITY	Existing enterprises undertaking the following activities: manufacture, services, retail business or trade.
GRACE PERIOD	NO GRACE PERIOD FOR WORKING CAPITAL FINANCING  GRACE PERIOD VARIES BETWEEN 1 AN 2 MONTHS FOR WORKING CAPITAL, AND UP TO 24 MONTHS FOR FIXED INVESTMENT FINANCING
MODE OF REPAYMENT	FROM 4 TO 12 MONTHS FOR WORKING CAPITAL UP TO 24 MONTHS FOR FIXED INVESTMENT FINANCING
GUARANTEE AND COLLATERAL	NONE
INTEREST RATE	MARKET INTEREST RATE (flat) SEE FINANCIAL SUSTAINABILITY (chapter 3)
ADMINISTRATIVE AND OTHER COSTS	NONE
ELEGIBILITY REQUIREMENTS	<ol style="list-style-type: none"> <li>1 - Identity card (up to EGPT 3000 loan size)</li> <li>2 - Proof of Rent / Ownership of the Enterprise (up to EGP 3000 loans)</li> <li>3 - Ability to read &amp; write (above EGP 5000)</li> <li>4 - Social Security Registration (above EGP 5000)</li> <li>5 - Work permit, license (above EGP 5000)</li> <li>6 - Commercial Register (trade business only)</li> <li>7 - Tax Card ( above EGP 7500)</li> <li>8 - Bank Account (above EGP 10000)</li> <li>9 - Financial &amp; Tax statements (above EGP 15000)</li> </ol> <p><i>Loan amount is used as the tool for trasforming the informal sector to formal</i></p>
PROCEDURES	<ol style="list-style-type: none"> <li>1 - Work on the loan application with the loan officer. Review of application by brach management. For large loans, where the size significantly exceeds the norms, review by senior managemnet is required</li> <li>2 - Upon approval, new borrowers meet on specific dates, scheduled throughout the month, to recieve their loans and attend a brief session with other borrowers.</li> <li>3 - The borrower receives a check in the amount of the loan, and sign promissory notes in the amount of the installments.</li> </ol> <p><i>Borrowers applying for the first time receive their loan within 7-10 days, while repeat loans are disbursed within 2-3 days.</i></p>
DELIVERY OFFICES	In addition to the head office, clients are served through twenty SME brach offices. The project extends its credit through the branches of nine banks (38 branches)

BLOSSOMS OF MICRO INTERPRISES PROGRAM	
item	description
BACKGROUND & OBJECTIVES	<p>Extend credit and non-financial services to the poorest of the poor, especially poor women - Female Headed Households (FHH).</p> <p>The program is generally targeting the poorest of the poor with specific emphasis on FHHs. The program focuses on the rural and urban low-income communities. In more specific terms, the program objective is to assist individual in initiating and expanding income generating activities to improve their living standards. The program also aims at improving the social, cultural, and health standards for participating FHHs and their family members.</p>
MODALITIES	<p>The Program adopts "SOLIDARITY GROUP" methodology in loan extension. Each group consist of 5 members from the same neighborhood.</p> <p>Loan Amount ranges from 100 to 500 EGP (16 - 80 USD)                      Loan are repaid on weekly installments                      Loan term ranges from 10 to 40 weeks according to individual cases</p>
ACCOMPLISHMENTS	<p>In its pilot phase and within the first 12 months, the program has reached over 300 groups, including more than 1.500 FHHs.</p>
SOCIAL DIMENSION	<p>The Program blends financial with non-financial services in the same package. Every month a "Friends Meeting" for 3 to 5 groups from the same neighborhood is held. Before the meeting day, a topic is selected and discussed by participants. Examples of those topics include: personal family hygiene, pollution prevention, solid waste handling, first aid, obtaining Identity Card for Women, illiteracy eradication, among others.</p> <p>Whenever possible, ABA recruits individuals or organizations specialized in these services to provide guidance, practical solutions and insight to the "Friend Meeting".</p>
GRADUATION	<p>Clients of this program could graduate to join the Small &amp; Microcredit Program and receive loans according to its regulations and methodology.                      Loans will be disbursed on INDIVIDUAL basis.</p>

TSEP - TOWARDS SELF-EMPLOYMENT PROGRAM	
item	description
BACKGROUND & OBJECTIVES	TSEP mission is to reduce poverty by helping poor people of very low income to start micro business. The program targets the poorest and most vulnerable sectors of the population particularly women and unemployed people. It has been designed to help poor people help themselves. It is mainly dedicated to reducing poverty by assisting unemployed poor people to start businesses that they plan and manage themselves.
MODALITIES	<i>TSEP is not a credit program.</i> It provides seed capital in the form of a EGP 200 (USD 40) conditional grant to be disbursed in 2 equal installments. TSEP is based on the belief that development must begin with people with their own ideas and experience, and build on their skills and unemployed time.
SOURCES AND MANAGEMENT	TSEP is funded from the contributions of the businessmen and the members of ABA. TSEP is managed by the SME Project Staff who volunteered to implement the program. The clients of the SME Project also help in monitoring the beneficiaries of the Program.
CONDITIONS	<i>The grant is disbursed in accordance with the following conditions:</i>  - FIRST INSTALLMENT 1 Recipient should plan & manage the business 2 Recipient should work a minimum of 8 hours per day in 3 months 3 Recipient should work planning to continue & expand the business  - SECOND INSTALLMENT  1 The business is still active after 3 months 2 Proof of working at least 8 hours per day during the 3 months
GRADUATION	All the beneficiaries of TSEP who sustained their business are eligible to join "Blossoms of Micro Enterprise Program" and could receive loans according to the regulations of that program on SOLIDARITY GROUP basis

## OTHER PROJECTS - TECHNICAL AND NON FINANCIAL ASSISTANCE

ABA focused in the last years its activities also on collateral projects, technical and non-financial oriented, here briefly described:

### ALEXANDRIA SMALL BUSINESS CENTER (ASBC)

The Small & Micro Enterprises Project established the ALEXANDRIA SMALL BUSINESS CENTER (ASBC). It is a form of technical support, designed to address the non-financial needs of the Micro entrepreneurs. The objectives of the ASBC are:

- Upgrade the managerial and technical skills of client
- 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
- Provide clients with updated knowledge and technology

ABA is providing four types of services

- Training: Business training in taxation, licensing, social security, book-keeping, and marketing. Technical training in woodworking, garment making and other activities.
- Marketing: Sourcing retails outlets for client products, displaying products in the ASBC's showroom, organizing exhibitions, and obtaining supply contracts on behalf of clients.
- Library: maintaining a library of catalogues allowing clients to be aware of new fashions and production techniques
- Technical Assistance: Cooperating with international organizations such USAID, trough the International Executive Service Corps (IESC) and the German GTZ trough CIM with sourcing of volunteer experts from various sectors to provide technical assistance to clients.

Nothing is provided free of charge. These services are provided against fees (to access the library, for training courses, for technical assistance). Products sold on behalf of clients, either through the showroom or through retail outlets are marked-up by around 10%.

### FEEDING THE POOR PROJECT

This project started in September 1999 where the "Zaka and Charity committee" disburses dry family meals to the poor listed in the social solidarity division where they cover all areas of Alexandria starting from Amreya to Abu Qir. Members of the Charity Committee distribute those meals under the supervision of the Ministry of Social Affairs.

The total meals distributed on monthly basis are 800 meals, twice a week every Sunday and Wednesday.

### ORPHANS SPONSORSHIP PROJECT

The project has been inaugurated during the month of May 2001.

The Alexandria Business Association represented by its Zaka & Charity Committee has undertaken and coordinated an agreement with El-Radwan Islamic welfare Association located in Sidi Bishr Alexandria to cooperate in the orphan's sponsorship project. The social specialists of El-Radwan Association study orphans' cases and report the numbers of orphans' beneficiaries of such a sponsor. El-Radwan Association is sponsoring 113 orphan. The main purpose of this project is to achieve a specific social standard for this orphan by providing a monthly sponsorship fee in addition to other periodical incentives during feasts and special events. They also provide medical care until they successfully end their educational phase or obtain a certificate that can provide a sustainable living condition.

### SCHOOL TO WORK PROJECT

On October 17th, 1999 the Egyptian Ministry of Education and the Alexandria Business Association formed a Partnership that seeks to strengthen vocational education in Alexandria as a model to be replicated in other Governorates in Egypt. The Partnership seeks to strengthen technical secondary education and create entry-level job opportunities for technical secondary school graduates. Technical schools selected for this pilot project to develop their system were: Moharam Bek Hotel and Management School and Roushdy Technical School. Many activities and tasks have been carried out in this project; such as giving orientation sessions to teachers and students by the businessmen, providing training and permanent job opportunities for the students and graduates of these schools, reforming the school syllabi and facilities, providing schools with telephone lines, computers and internet connections for the Job Referral Center located inside each school.

### MUBARAK-KOHL PROJECT

In the framework of the Mubarak-Kohl Initiative of October 1991, expressed in the declaration of intent signed in February 1992, the German Government emphasized the willingness to assist the Egyptian Government in its efforts to restructure its technical education and training system towards a labor market-oriented one, by introducing a cooperative (dual) system of technical education and vocational training. The project partners cooperated in introducing a "Dual System of Training" in Alexandria, beginning with training occupations of mechanics, electronics and ready made garments, are the Egyptian Ministry of Education, German Technical Cooperation (GTZ) and the Alexandria Business Association (ABA).

ABA's role in this project is having the RUDS office (Regional Unit for Dual System) located in its premises, to be responsible for looking after students affairs in the factories, marketing the program and several other tasks.

### GLOBAL LEARNING AND OBSERVATION TO SERVE THE ENVIRONMENT PROJECT (GLOBE)

Globe is a worldwide hands-on, primary and secondary school-based science and education program. This program provides the opportunity for students to learn by taking scientifically valid measurements in the fields of atmosphere, hydrology, soils and land cover depending upon their local curricula; reporting their data through the Internet to the student data archive; creating maps and graphs on the free interactive Web site to analyze data sets; collaborating with scientists and other Globe students around the world. (please visit [www.globe.gov](http://www.globe.gov)). Alexandria Business Association was one of the first Associations that experimented this program in one of Alexandria Secondary schools where the association covered all the costs related to buying computers, printers and preparing computer labs for the students in this school. Nabaweya Moussa school is considered a model to be followed by other schools seeking to implement the Globe program.

### SCHOOL DESKS PROJECT

From the perspective of the social responsibilities of businessmen and social development required, the Alexandria Business Association has succeeded through its members to reach a balance between the economical role of Businessmen and their participation in developing their own community, where they practice their businesses.

The Alexandria business Association and its active role in the city of Alexandria has managed through the collaboration between its Community Service & Foreign Affairs committees in finalizing a contract with the Embassy of Japan in Cairo and obtained a grant of approximately two hundred thousand Egyptian pounds to provide primary public schools in Alexandria with required school desks. The Community Service committee has executed the necessary procedures with the Ministry of Education in Alexandria to provide all primary public schools with the required desks specifically those schools with no financial resources in the outskirts of the city of Alexandria. The total number of desks needed are approximately 12530 desks, for the primary sector.

The first phase of the project includes providing primary public schools with 2300 desks and the rest will be provided after signing the second phase of the above mentioned agreement with the Embassy of Japan in Cairo.

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### 21ST CENTURY INFORMATION TECHNOLOGY CENTERS

Investment in Information and Knowledge is considered the best direct investment in youth. It is also considered a must to be able to react on all the variables that take place around the world. Information now is considered the main product in the whole world and controlling its sources as well as the means of its transfer is considered an important way to improve, develop and compete in the global world.

President Mubarak announced in September 13th, 1999 the initiative of developing Egypt technologically and focused mainly on the Youth. He also announced a national initiative "Investment in Egypt's Future" which evolved in establishing Information Technology Clubs to be located in Youth Centers.

Hence, Alexandria Business Association refurbished and prepared for the Ministry of Information and Communication 7 Youth Centers in Alexandria.

### ALEXANDRIA CENTER FOR INTERNATIONAL ARBITRATION

Established in June, 2001, the Alexandria Center for International Arbitration is an Affiliate of the Cairo Regional Center for International Commercial Arbitration (CRCICA)

The Center aims at settling trade disputes between businessmen through fair operations of expeditious and economical procedures. This constitutes an entirely integral dispute-resolution mechanism which employs various effective processes of arbitration. It includes also Alternative Dispute Resolution techniques (ADR) such as conciliation, mediation and technical expertise. (please visit [www.aba-sme.com](http://www.aba-sme.com)).

## CONSULTING SERVICES

Since the inception in 1990, the SME Project has worked closely with donor agencies, local communities and other NGOs in the development of Small and Micro Enterprises.

Over the years, the project gained experience in all areas of SME development. The project is also sharing its experience with other international MFIs by participating in international conferences, workshops, and networks. The SME project is now providing a variety of consultancy services to National, Regional, and International agencies and institutions involved in SME development. This service was provided to almost all MFIs in Egypt, Jordan, Bahrain, Bosnia, Bulgaria, Albania, Croatia, Kazakhstan, Russia and many African countries.

ABA has been selected by the UNDP as an International Technical Service Provider for his MicroStart Program. The UNDP has contracted with ABA to provide such services in Bahrain and Yemen.

The consulting services: the design of sustainable micro-credit schemes, design of services delivery mechanism, sequencing of actions to begin to begin credit operations, training workshops with comprehensive modules, staff incentives schemes, staff incentive schemes, performance measurement,, and impact tracking.

**STRENGTHNESS**

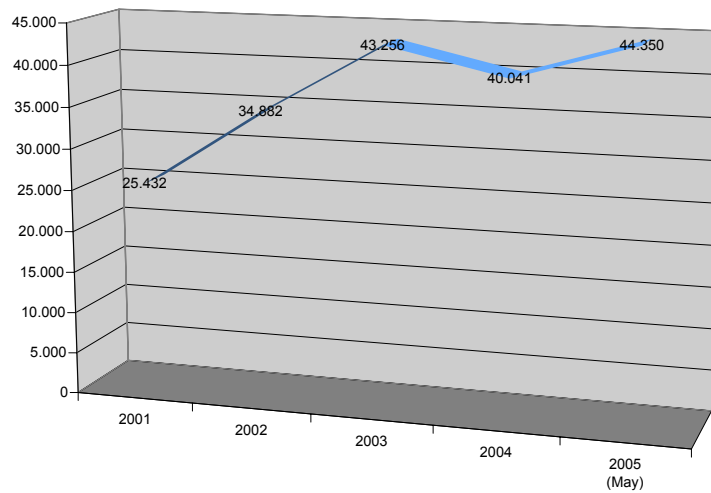
POINTS OF STRENGTH	
item	description
SOLID PRODUCT / MARKET MATCH	The ABA's credit service is filling a need of a large and density populated target market
STRONG CUSTOMER SERVICE	Clients praise the level of service offered by project. They like the fact that extension officers "go to them" and they find the eligibility requirements easy to meet. They are particularly happy with the quick loan procedures.
EXCELLENCE DELIQUENCY MANAGEMENT	The follow-up procedure for delinquent payments is very effective.
EXCELLENT MANAGEMENT INFORMATION SYSTEM (MIS)	ABA produces excellent management reports, such as a client status report, loan status report, and expected repayments report, which facilitate operation and decision making.
AN ELABORATE STAFF INCENTIVE SCHEME	ABA has developed an elaborate Incentive System that has significant effect on staff behavior and project performance.
EFFECTIVE RELATIONSHIP WITH BANKS	The use of commercial banks to disburse the loans results in lower operating costs, better client service (since bank branches are conveniently located) and less losses due to error or fraud.

chapter 2

OUTREACH

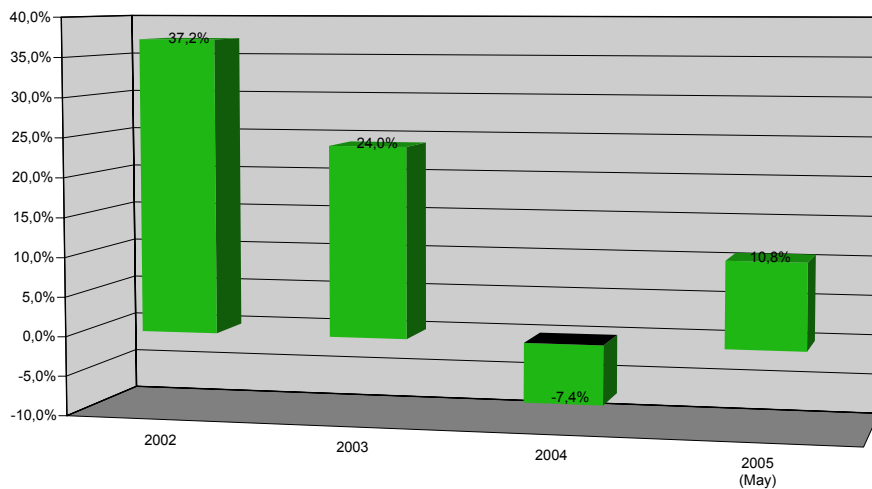
ABA is driving the transformation of the Microfinance Sector in the Country. Actually 31<sup>st</sup> may, 2005) it has a Outstanding Portfolio stood at approximately 893 milion EGP (aproximately 154 million USD), and the average loan outstanding at more than 2000 EGP (355 eur). It represents aproximately the 25% of the GNP per capits in Egypt. But we have to consider the differences between individual lending (2860 EGP, more than 490 USD is the average loan outstanding, more than 35% of GNP per capits) and group lending (very low end of the market at 4% of GNP per capits). The increase of active borrowers is growing during the last year, after a negative result (2004, -7,4%).

NUMBER OF ACTIVE BORROWERS



	2001	2002	2003	2004	2005 (May)
NUMBER OF ACTIVE BORROWERS	25.432	34.882	43.256	40.041	44.350

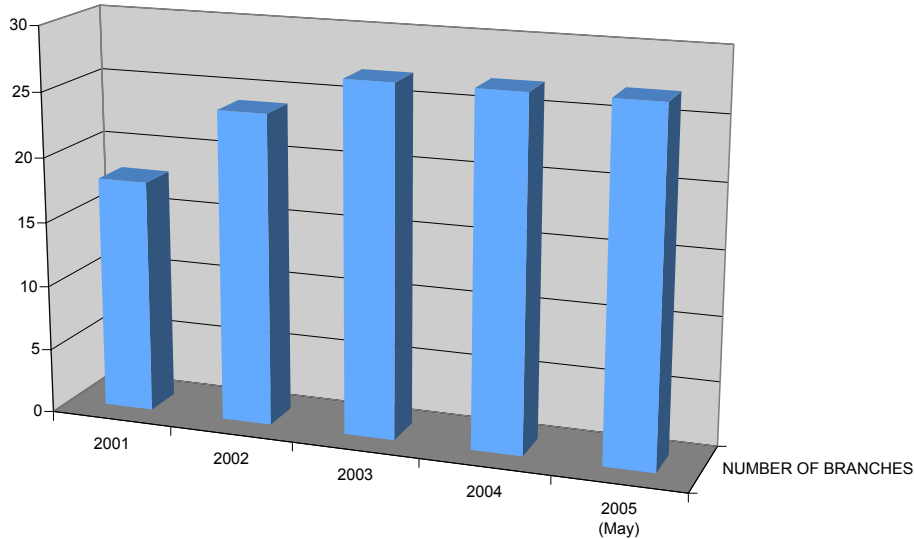
% of INCREASE ACTIVE BORROWES



	2002	2003	2004	2005 (May)
% of INCREASE ACTIVE BORROWES	37,2%	24,0%	-7,4%	10,8%

The network of 27 branches employs actually 736 staff members, dedicated either to SME or Blossoms lending. They attended initial on-the-job training and they have skills for their work. They refresh trainings every 2-3 years.

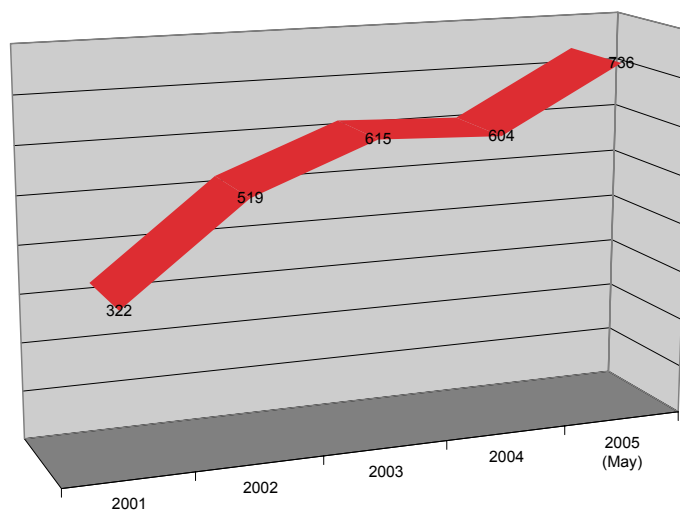
NUMBER OF BRANCHES



	2001	2002	2003	2004	2005 (May)
NUMBER OF BRANCHES	18	24	27	27	27

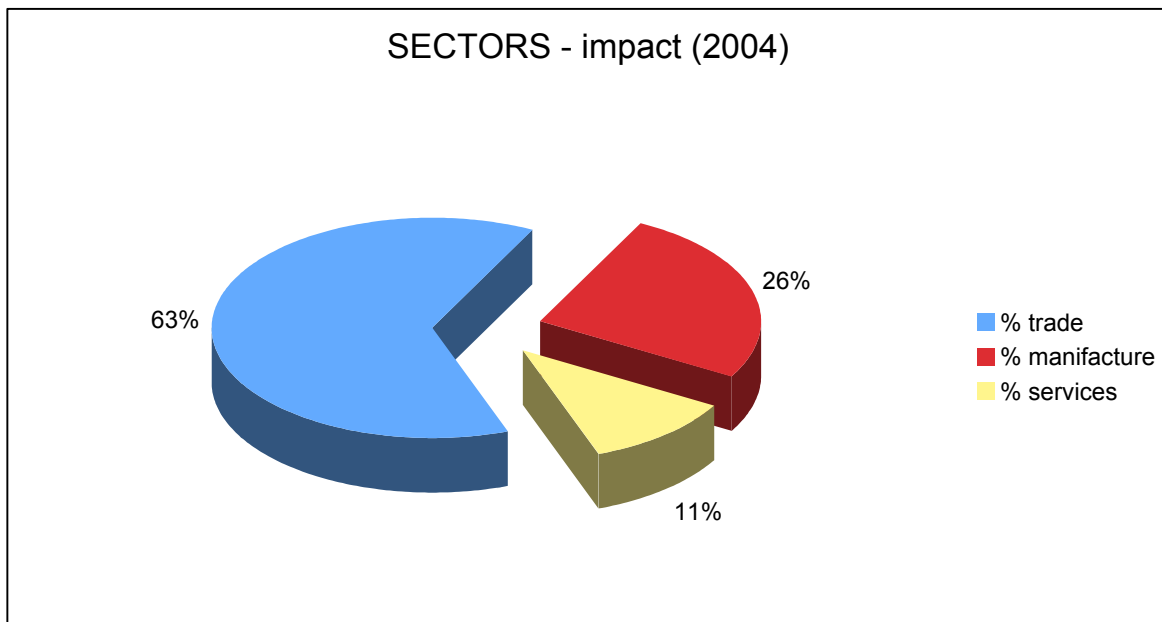
On average, MFIs in the world have 284 active borrowers per loan officer (Micro Banking Bulletin, Issue No. 9, July 2003). The outreach of 27 branch and current market conditions make operations management and internal control increasingly complex. It is clear that ABA needs a formal business planning, to achieve optimal performance, controlling internal and external risks.

STAFF PRODUCTIVITY



	2001	2002	2003	2004	2005 (May)
STAFF MEMBERS	322	519	615	604	736

ABA has developed a quantitative system (ITS - Impact Tracking System)) to measure changes in its clients over time (SME Project – individual lending). A representative sample of clients was identified and has been tracked over the course of 18 months (between 2003 and 2004).



If we consider the impact of the programs on the sector's activity, we have several types of activities: 63% in commerce, 26% in handicraft, and 11% in service (2004).

Over 77% of clients are claiming to use their loans on raw materials. Using SME project loan to purchase raw materials has allowed clients to buy in bulk at lower prices.

The revenues increased during the 18 months for many clients, averaging 25% among the various sectors. The increases were higher (33%) among the service and manufacturing sectors, while trade showed around 16% increases in revenues for the period of the 18 months.

Clients attribute these increases especially in production and quality. Many associated increases in revenue to the addition of new product or service (25%).

During these 18 months, increased income was used in different manners: additional raw materials (53%), new equipment (14%), savings (12%) and increased household expences.

The creation of permanent (259) or temporary (196) job has clearly positive effects, especially in manufacturing sector (39%).

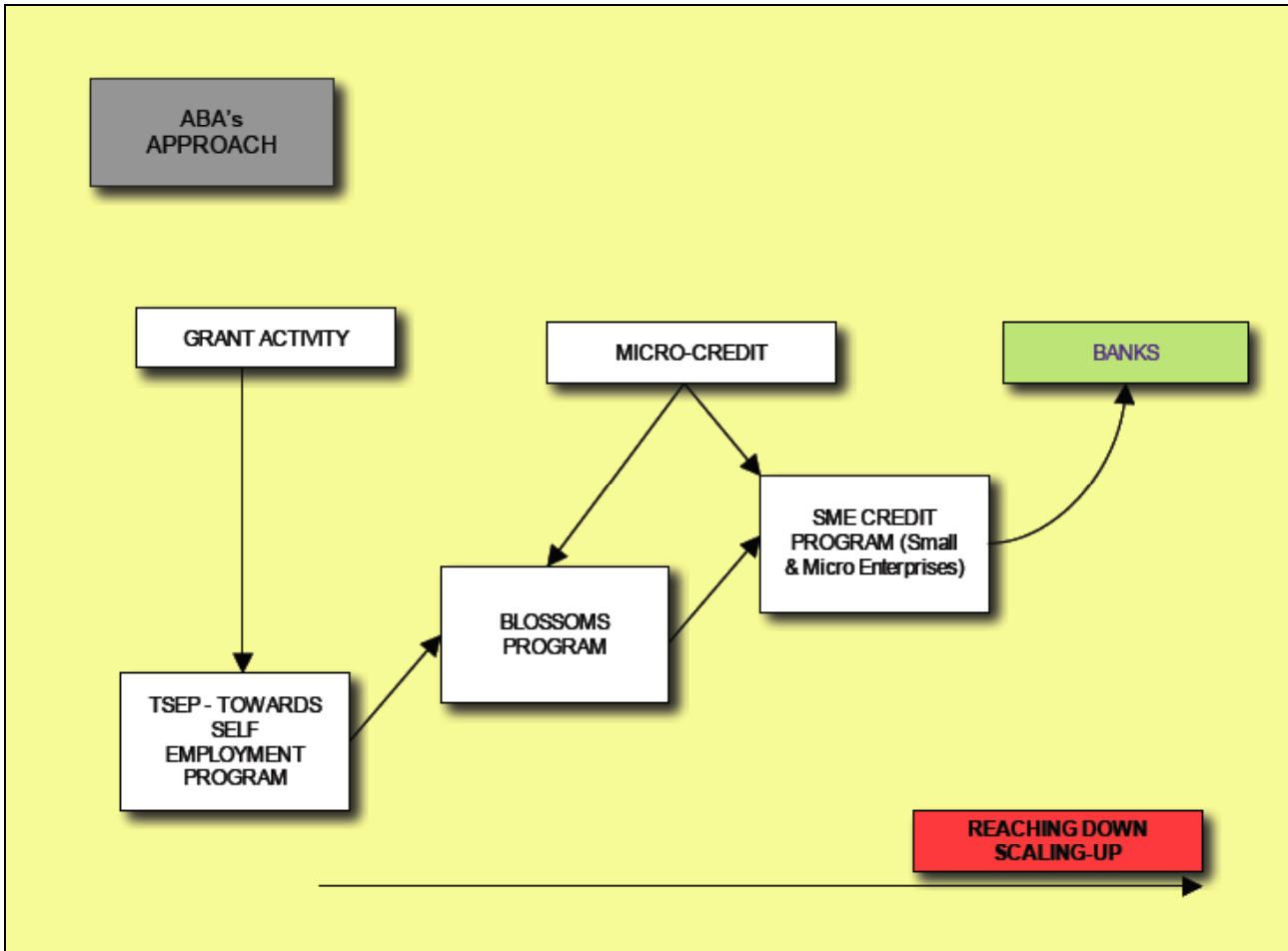
ABA focussed its measuring system also on client problems: although the project's primary assistance is in form of loans, many clients (42%) noted a need for additional working capital. Other client problems are lack of marketing assistance (16%) and lack of government's procedure (19%).

Problems with the loan program included wanting larger loan size (41%), a grace period (39%), longer loan terms (27%).

By the way almost half (41%) of all clients noted no problems with the loan program.

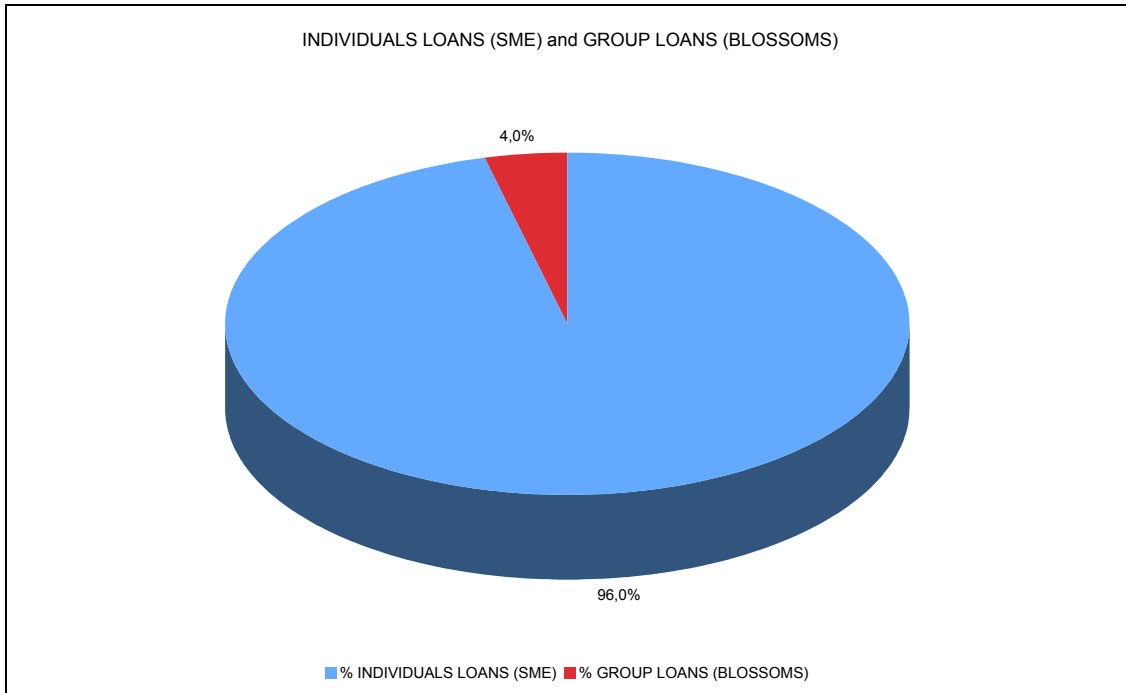
<b>IMPACT</b>	
<b>IMPACT TRACKING SYSTEM (ITS) - QUANTITATIVE SYSTEM TO MEASURE CHANGES IN ITS CLIENTS OVER TIME (18 MONTHS - 2003 TO 2004)</b>	
<b>BUSINESS SUPPORT &amp; EXPANSION</b>	
over 77% of clients claiming to use their loans on raw materials. Using SME project loan to purchase raw materials has allowed clients to buy in bulk at lower prices. other uses of the loans are described:	
RAW MATERIALS	77,0%
HIGHER QUALITY MATERIALS	21,0%
WAGES	9,4%
NEW EQUIPMENT	11,0%
<b>REVENUES</b>	
<u>sectors</u> - The revenues increased during the 18 months for many clients, averaging 25% among the various sectors. The increases were higher (33%) among the service and manufacturing sectors, while trade showed around 16% increases in revenues for the period of the 18 months.	
SERVICES	33,0%
MANUFACTURE	33,0%
TRADE	16,0%
<u>attribution</u> - Clients attribute these increases especially in production and quality. Many associated increases in revenue to the addition of new product or service (25%)	
PRODUCTION	16,0%
QUALITY	21,0%
NEW PRODUCTS OR SERVICES	25,0%
SEASONALLY OF DEMAND	23,0%
<u>use</u> - during the 18 months, increased income was used in the following manner	
ADDITIONAL RAW MATERIAL	53,0%
NEW EQUIPMENT	14,0%
SAVINGS	12,0%
INCREASED HOUSEHOLD EXPENSES	17,0%
<b>EMPLOYEMENT</b>	
<u>job</u> - creation of permanent / temporary job	
PERMANENT (NUMBER)	239
TEMPORARY (NUMBER)	196
<u>relationship between creation of job and sectors</u>	
MANUFACTURING SECTOR	39,0%
SERVICES	25,0%
TRADE	15,0%
<b>CLIENT PROBLEMS</b>	
<u>additional working capital</u> - Although the project's primary assistance is in form of loans, many clients (42% noted a need for additional working capital. Other client problems included:	
MARKETING ASSISTANCE	16,0%
GOVERNMENTS PROCEDURES	19,0%
LACK OF SKILLED WORKERS	6,0%
INADEQUATE LOCATION	6,0%
Problems with the loan program included wanting larger loan size (41%), a grace period (39%); longer loan terms (27%). Almost half (41%) of all clients noted no problems with the loan program.	

In the last years, as we explained in the previous chapter, the dominant lending methodology used by ABA is individual lending (SME is representing not less than 96% of the total loan disbursed). Requirements for group asking for a loan are quite strict and the previous existence on the market is surely an important factor. But the ABA's methodology lending is clear:



The introduction of a diversified offer (TSEP – BLOSSOMS – SME) confirms the design of a concrete governance and lending process methodology.

The strategic plan has a clear goal: reaching down the whole market, serving poors trough Blossoms project and offering them a training. Then carry the same clients to have access to Blossom Project (with small amount lending) and at the end reach the individual SME lending, increasing the amounts.



The ultimate goal is reaching and working with the existing formal bank network. The downscaling process starting now in the country could represent the future, and an interesting model for the whole Arab Microfinance market.

OUTREACH					
INDEX	2001	2002	2003	2004	2005 (May)
<b>TOTAL</b>					
TOTAL AMOUNT LENT (USD)	121.620.000	140.828.778	162.723.578	144.248.707	154.073.621
TOTAL AMOUNT LENT (EGP)	547.290.000	633.729.500	732.256.100	836.642.500	893.627.000
% INDIVIDUALS LOANS (SME)	98,0%	97,0%	96,0%	96,8%	96,0%
% GROUP LOANS (BLOSSOMS)	2,0%	3,0%	4,0%	3,2%	4,0%
AVERAGE LOAN SIZE (USD)	505	382	206	367	355
AVERAGE LOAN SIZE (EGP)	2.929	2.216	1.195	2.129	2.061
NUMBER OF ACTIVE BORROWERS	25.432	34.882	43.256	40.041	44.350
% of INCREASE ACTIVE BORROWES	/	37,2%	24,0%	-7,4%	10,8%
LOANS OUTSTANDING (USD)	7.232.170	8.967.525	8.834.990	9.656.642	11.019.023
LOANS OUTSTANDING (EGP)	41.946.587	52.011.644	51.242.942	56.008.523	63.910.334
% change	-7,1%	24,0%	-1,5%	8,5%	12,4%
REPAYMENT RATE	99,03%	99,13%	98,79%	99,33%	99,29%
<b>SME Small &amp; Micro Enterprises</b>					
TOTAL AMOUNT LENT (USD)	121.202.222	139.608.844	158.947.100	139.272.534	147.902.388
TOTAL AMOUNT LENT (EGP)	545.410.000	628.239.800	715.261.950	807.780.700	857.833.850
NUMBER OF ACTIVE BORROWERS	23.627	27.634	26.999	25.815	44.350
AVERAGE LOAN SIZE (USD)	304	318	312	483	493
AVERAGE LOAN SIZE (EGP)	1.765	1.847	1.809	2.803	2.860
% of GDP per capits	31,8%	27,5	20,8%	22,0%	19,8%
<b>BLOSSOMS of Micro Enterprises</b>					
TOTAL AMOUNT LENT (USD)	417.778	1.219.933	3.752.033	4.976.172	6.171.233
TOTAL AMOUNT LENT (EGP)	1.880.000	5.489.700	16.884.150	28.861.800	35.793.150
NUMBER OF ACTIVE BORROWERS	1.805	7.248	16.257	14.226	n.a.
AVERAGE LOAN SIZE (USD)	34	46	66	44	46
AVERAGE LOAN SIZE (EGP)	155	208	299	255	268
<b>TOTAL N° LOANS - sectors</b>	(% data 2004)				
% trade	63%				
% manufacture	26%				
% services	11%				
NUMBER OF BRANCHES	18	24	27	27	27
STAFF MEMBERS	322	519	615	604	736
% LOAN OFFICER	67.1%	67.1%	67.2%	68.9%	n.a.
NUMBER OF ACTIVE BORROWER	25.432	34.882	43.256	40.041	44.350
% of INCREASE ACTIVE BORROWES		37%	24%	-7%	11%
STAFF PRODUCTIVITY	79	67	70	76	82
LOAN OFFICER PRODUCTIVITY	118	100	105	104	109

## chapter 3

FINANCIAL SUSTAINABILITY
--------------------------

To be financially viable, a savings and credit institution can't rely on donor funding to subsidize its operations. The indicators of financial viability refer to the sustainability of Alexandria Business Association to cover its costs with earned revenue.

## OPERATIONAL and FINANCIAL SELF-SUFFICIENCY - LIABILITIES / EQUITY

Financial self-sufficiency ratio corresponds to the operational self-sufficiency ratio, adjusted by the interest subsidy from concessional loans and in-kind subsidies. In other words, ABA has to get all its loans at market rates and pay all the costs itself, without any external grants. ABA performances (between 116% and 154% in the last years) assure a long term provision of financial services, undermined by the continued necessity to rely on donor funds. Operational self-sufficiency is naturally assured.

We have also to examine the LIABILITIES / EQUITY index: in 2003 index is attested on 16,3%, from a 33,8% of the previous year. It is very important to be noted that the amount of the equity is larger than it would be given that USD deposits exclusively used to be guarantee overdrafts are parts of the part of the balance sheet rather than being off balance sheet items. Without these deposits the leverage ratio remains low but goes up to 47% (Planet Rating, 2004).

## PORTFOLIO OUTSTANDING - OUTSTANDING LOANS

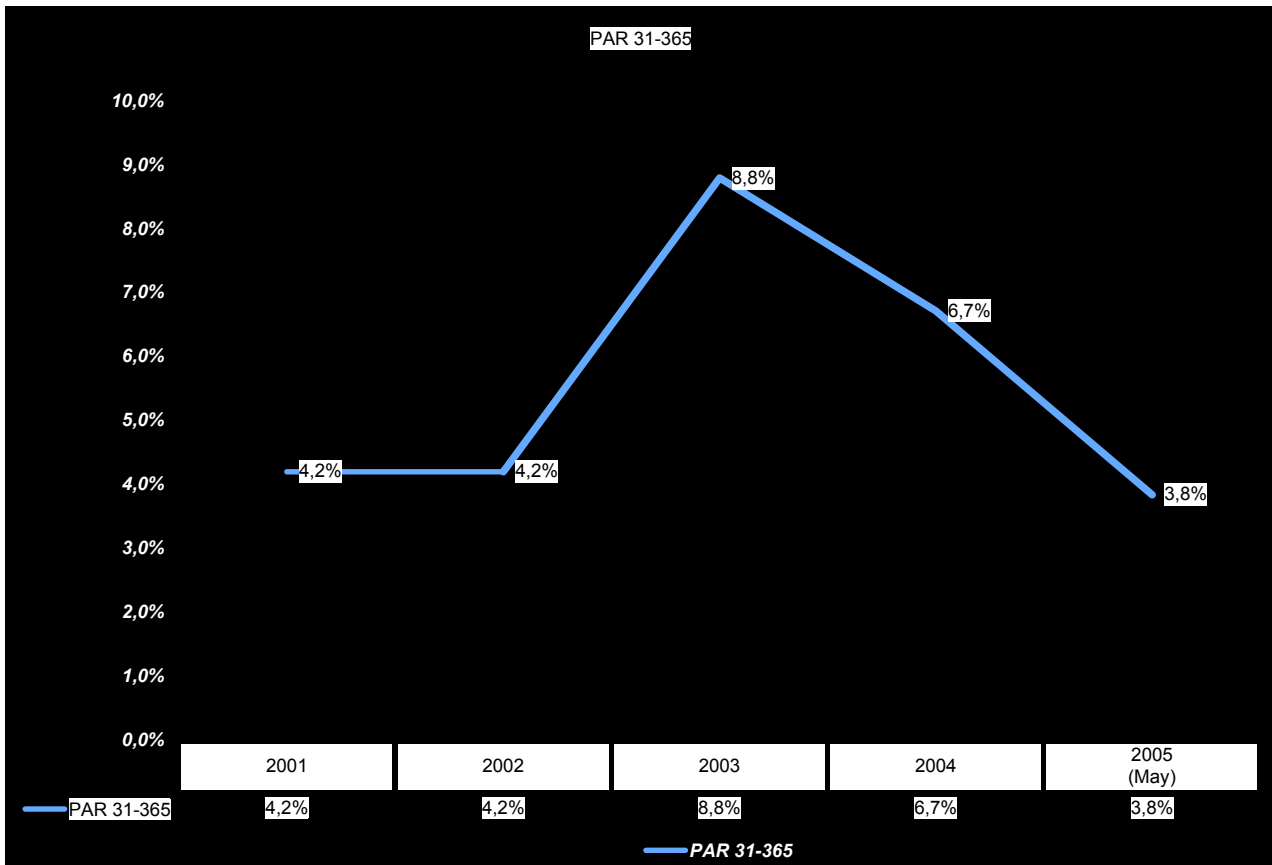
The percentage of increase of new active borrowers is increasing (+10,5% in 2005, only in 2004 it was decreasing, -7,4%). ABA is offering in the last year a diversification of his products (group – individual loans) reaching a diversification of the client types. Risk is for the moment covered by the results.

## PAR - PORTFOLIO AT RISK / REPAYMENT RATE

The PAR 31-365, cause the majority of the portfolio is comprised of individual loans (repayment rate: 95%), was strongly impacted by frauds discovered in 2003 (2.900.000 EGP of fictitious loans, representing 5% of the Dec.2003 Portfolio disbursed). So ABA PAR rapidly increased in 2003 (8,8%, after 4,2% of 2002).

For this reason portfolio at risk could be high. The portfolio at risk ratio is for ABA pegged 30 days degree of lateness. A low level of delinquency is for the future a strategic issue to control this result. Repayment rate is linked with the previous indicator. It represents the first operational result for any MFI.

ABA demonstrates a great performance and his average rate of reimbursement in the last two years with percentage over 99% (see also OUTREACH) confirming during the time its sustainability.



### Return on equity (ROE - AROE)

ROE ratio is an important tool for Alexandria Business Association members and shareholders to determine how much income their investment is generating, relative to the risk involved, and how it compares with alternative investments.

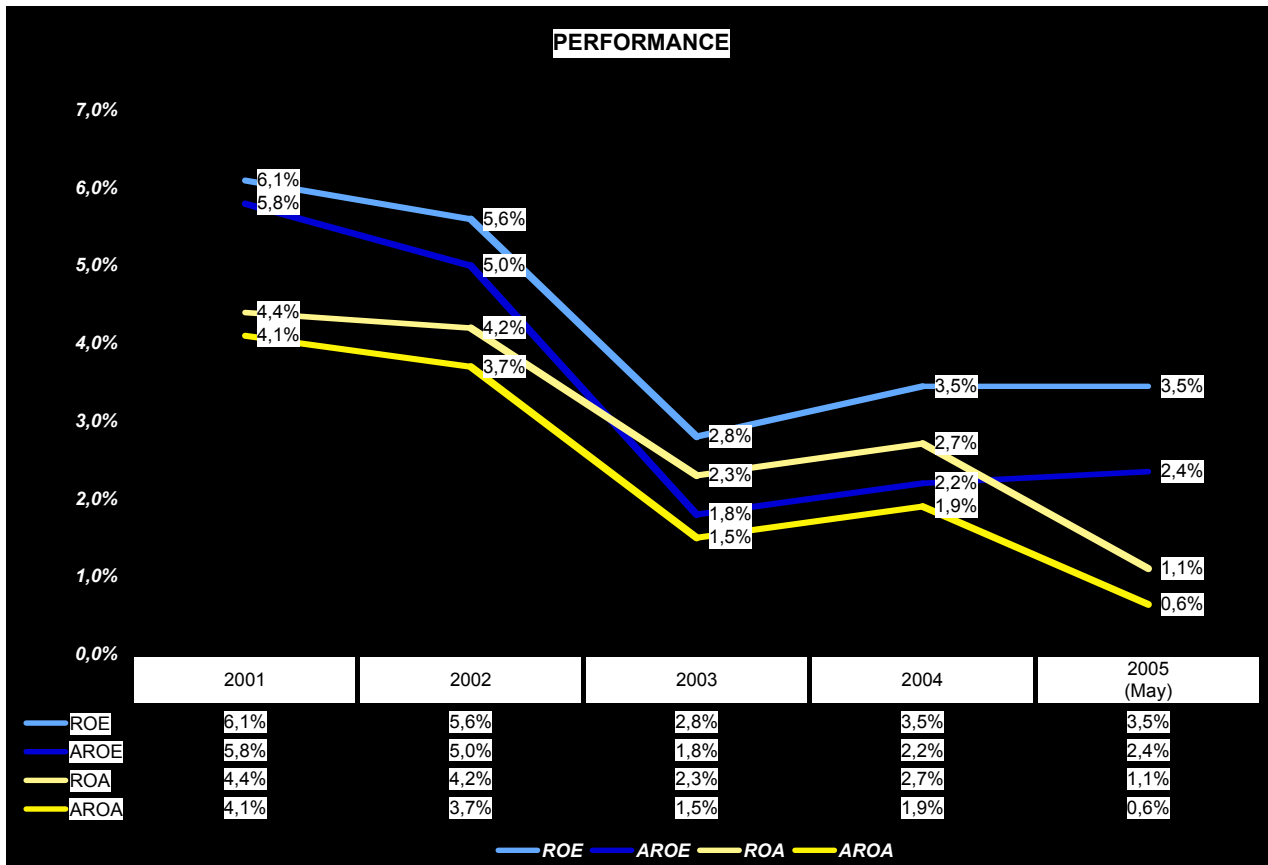
ROE ratio in ABA case study presents values between 2.8% and 6.1% in the last years. On average, financially self-sufficient MFIs in the world have a ROE of about 15%, while the non financially self-sufficient ones have an average ROE of 2.3%.

We know that these numbers vary a lot between continents and type of institutions (Micro Banking Bulletin, Issue No. 9, July 2003). We can also consider this ratio not be used to compare the overall profitability between programs, because the structure of capital (donations relative to shareholder's capital) varies considerably from case to case (Bartel et.al. 1995: no.1).

### Return on assets (ROA - AROA)

ROA is positive during these years, and decreasing in the last years (from 4.4%, 2001 to 2.3 %, 2003). ABA values are changing during the years: it's very difficult to give an answer to this decreasing tendency, because average amount of total assets are used rather than performing assets, and because it's possible that the organization is being measured on its total financial performance (including decisions made to purchase fixed assets or invest in land and buildings). It is also possible that ABA used funds that could be used for revenue-generating investments of for securities (Ledgerwood, 1999). We also attribute this value to the internal fraud of 2003.

ROA measures the net income earned on the assets of the MFI (it differs from the ROE ratio in that it measures the return on all funds used to finance the institution -equity and liabilities-, not only own funds).



## PORTFOLIO YIELD

From 2001 to the end of 2003, Portfolio Yield was ranging between 30,4% to 28,3%. This is consequence of two successive decreases on the effective interest rates in 2003 and 2004 (SME Project). This value is enough to permit a wide margin for sustainability. We could confirm the positive results of ABA referring to the indications of the Micro Banking Bulletin (MBB) who indicate values for the Portfolio Yield by scale of operation: for a Large MFI correct values could be around 30% (CGAP, 2002). The competition could definitely increase in the next period (with the downscaling process from the formal market, and the increasing results by other NGOs), and we have to consider a high level of operational sustainability.

## INTEREST RATES

The individual loan product (SME Project) has a nominal flat 16% annual rate, or 28,3 annual effective interest rate (see OUTREACH results). The individual loan is a product covering approximately 95% of the portfolio. The rate was lowered in January 2004 to 15% flat per annum, or 26,6 effective. It could be considered a good result.

The group loan product (Blossoms Project) has remained the same at a nominal flat 26% annual rate or 46% annual effective interest rate.

## SDI - Subsidy Dependence Index

The MFI did never change his offers increasing interest rate, to increase the income (in order of this reason, in January 2004 ABA decreased, for SME Project, interest rates).

The percentage by which interest rates charged to clients would have to be increased hypothetically in order to cover program costs and eliminate subsidies corresponds to 0%.

FINANCIAL SUSTAINABILITY						
INDEX		2001	2002	2003	2004	2005 (May)
<b>ACTIVITY</b>						
INTEREST RATE	THE INDIVIDUAL LOAN PRODUCT (SME) HAS A NOMINAL FLAT 16% ANNUAL RATE OR 28.3% ANNUAL EFFECTIVE INTEREST RATE AND THE PRODUCT COVERS APPROXIMATELY 95% OF THE PORTFOLIO. THE RATE WAS LOWERED IN JANUARY 2004 TO 15% FLAT PER ANNUM OR 26,6% EFFECTIVE. THE GROUP LOAN PRODUCT (BLOSSOMS) HAS REMAINED THE SAME AT A NOMINAL FLAT 26% ANNUAL RATE OR 46% ANNUAL EFFECTIVE INTEREST RATE.					
SUBSIDY DEPENDENCE INDEX (SDI)	PERCENTAGE BY WHICH INTEREST RATES CHARGED TO CLIENTS WOULD HAVE TO BE INCREASED HYPOTHETICALLY IN ORDER TO COVER PROGRAM COSTS AND ELIMINATE SUBSIDIES (YARON, 1992)	0,0%	0,0%	0,0%	0,0%	0,0%
PAR 31-365	TOTAL OUTSTANDING LOAN BALANCE WITH AT LEAST AN INSTALMENT PAST DUE / GROSS PORTFOLIO OUTSTANDING (31-365) - (> 365)	4,2%	4,2%	8,8%	6,7%	3,8%
PAR >365		4,6%	4,5%	6,3%	4,9%	3,2%
WRITE-OFF RATIO	LOANS WRITTEN OFF / 13-MONTH AVERAGE GROSS OUTSTANDING PORTFOLIO	0,4%	0,2%	0,1%	0,1%	0,0%
RISK COVERAGE RATIO	LOAN LOSS REVERVES / PORTFOLIO AT RISK (31-365 DAYS)	119,5%	206,3%	167,7%	169,0%	172,0%
<b>ASSET MANAGEMENT</b>						
OUTSTANDING LOAN PORTFOLIO / ASSETS		29,3%	30,0%	24,7%	27,2%	29,4%
<b>PERFORMANCE</b>						
ROE	NET OPERATING INCOME BEFORE DONATIONS / AVERAGE EQUITY	6,1%	5,6%	2,8%	3,5%	3,5%
AROE	AVERAGE NET OPERATING INCOME BEFORE DONATIONS / AVERAGE EQUITY	5,8%	5,0%	1,8%	2,2%	2,4%
ROA	NET OPERATING INCOME BEFORE DONATIONS / AVERAGE ASSETS	4,4%	4,2%	2,3%	2,7%	1,1%
AROA	AVERAGE NET OPERATING INCOME BEFORE DONATIONS / AVERAGE ASSETS	4,1%	3,7%	1,5%	1,9%	0,6%
LIABILITIES / EQUITY *	SEE NOTE *	31,3%	33,8%	16,3%	23,0%	26,0%
OPERATIONAL SELF-SUFFICIENCY	OPERATING INCOME / OPERATING EXPENSES	159,5%	166,6%	127,7%	184,0%	197,0%
FINANCIAL SELF-SUFFICIENCY	ADJUSTED OPERATING INCOME / ADJUSTED OPERATING EXPENSES	154,5%	154,3%	116,8%	127,0%	132,0%

ABA - Alexandria Business Association Case Study

PORTFOLIO YIELD	PORTFOLIO REVENUE / 13-MONTHS AVERAGE GROSS OUTSTANDING PORTFOLIO	30,4%	29,4%	28,3%	28,6%	27,6%
OPERATING EXPENSE RATIO	OPERATING EXPENSE / 13-MONTHS AVERAGE GROSS OUTSTANDING PORTFOLIO	8,7%	10,0%	11,5%	13,2%	14,6%
FUNDING EXPENSE RATIO	INTEREST AND FEES PAID ON FUNDING LIABILITIES / 13-MONTHS AVERAGE GROSS OUTSTANDING PORTFOLIO	9,4%	8,8%	8,2%	7,7%	7,7%
<b>GROWTH</b>						
LOAN PORTFOLIO GROWTH		-7,1%	24,0%	-1,5%	23,0%	26,0%
ASSET GROWTH		20,1%	16,6%	11,9%	17,3%	15,8%
NOTE (*) - LIABILITIES / EQUITY	IT IS IMPORTANT TO BE NOTED THAT THE AMOUNT OF EQUITY IS LARGER THAT IT WOULD ORDINARILY BE GIVEN THAT USD DEPOSITS EXCLUSIVELY USED TO GUARANTEE OVERDRAFTS ARE PART OF THE BALANCE SHEET RATHER THAN BEING OFF BALANCE SHEET ITEMS. WITHOUT THESE DEPOSITS THE LEVERAGE RATIO REMAINS LOW BUT GOES UP TO 47%.					

## chapter 4

FUNDING STRUCTURE AND LEGAL FRAMEWORK
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ABA has been funded mainly by donated equity, in the form of USAID subsidies for operating expenses and collateral deposits, and bank overdraft facilities obtained using these collateral deposits. Retained earnings represent 28,8% of equity and have long been a source of portfolio funding for ABA. USAID funds were received through Cooperative Agreements (10 million USD in 1988 and 9,3 million USD in 2001) of which only 0,7 million has been received to date). Today these amount total represent 66 million EGP. Interest earnings on the collateral deposits are only between 1% and 2% and per agreement must be capitalized on these deposits.

The amount of equity and thus the amount of total assets is larger than it would ordinarily be given that USD deposits are part of the balance sheet rather than off balance sheet items. Without these deposit, total asset for ABA would be 76 million EGP (instead of 177 million EGP) and the capital structure of ABA 53% retained earnings, 15% donations, 32% bank overdrafts (instead of 23% retained earnings, 63% donations, 14% bank overdraft).

ABA covered its operating costs for the last 15 years (see operational self-sufficiency, Financial Sustainability Chapter). The profit margin decreased after 2001, reaching in 2003 bad results for the internal fraud.

ABA finances its portfolio with equity and overdraft facilities from local banks backed by USD deposits. The funding expense ratio declined from 9.4% in 2001 to 8.2 in 2003, as the accumulation of the retained earnings over the years allowed ABA to decrease the share of its portfolio that is financed by overdraft from 77% in 2001 to 47% in 2003. The effect of the 2003 reduction of overdraft interest rates will be observed starting in 2004. (2004, Planet Rating).

Risks are related to the general macroeconomic environment, fluctuation in the EGP/USD exchange rate (although this exposure is minimized given the overwhelming excess capacity on the USD-backed overdrafts) and risk of political interference. ABA has now more than sufficient funding available through its own retained earnings and local bank overdrafts backed by USAID provided USD fixed deposits. Those facilities are only at 30% of their capacity.

## chapter 5

**BENCHMARKING – AL TADAMUN NGO: results, methodologies and differences**

Al Tadamun is one of the most important NGOs operating in Egypt. Established in 1996, its mission is to increase the income of women micro-entrepreneurs of the poor neighborhoods of Greater Cairo and Egypt through providing sustained appropriate financial services, Provide poor women micro entrepreneurs with access to credit as means of empowerment and increased household income, and build an institutional capacity to deliver poverty alleviating credit services in a sustainable and efficient manner.

With the growing population and the impact of the current structural adjustment program, the socio-economic conditions of the poor in Egypt are increasingly deteriorating. As in most developing countries, the impact of poverty is greatest on women and girls, with discrimination in access to nutrition, health, education, employment opportunities and access to credit.

In response to the need for a source of credit for poor women, Save the Children/USA – Egypt Field Office (SC) began a Group Guaranteed Lending and Savings (GGLS) pilot program in September 1996, in conjunction with the Women's Health Improvement Association (WHIA), in the disadvantaged Cairo neighborhood of Abdeen. Using private sources of funding, Save the Children has found out that the Group Guaranteed Lending and Savings Program has developed well beyond the pilot phase in WHIA's Abdeen Branch; the fact that has encouraged SC to expand in Imbaba and lately in Dar El Salam as well.

In July 2003, the three branches were merged as a partnership between SC and WHIA into a fully autonomous and Program under the umbrella of WHIA, AL TADAMUN MICROFINANCE PROGRAM.

The Program's vision is to become the largest Microfinance institution serving women's small and micro enterprises in Egypt. The Program's mission is to increase the income of women micro-entrepreneurs of the poor neighborhoods in Egypt through providing sustainable appropriate financial services.

From late November 1996 to end of January 2005, AL TADAMUN Microfinance program has disbursed loans at a value of 33.791.900 LE (more than 5.500.000 USD) to 45,043 women, with a cumulative repayment rate since its beginning of 100% (as of end of October 2004, the Program has 9.290 active clients).

These are the products offered:

- Group Loans
- Seasonal Loans (being introduced)
- Consultancy
- Loans
- Training and Consulting

CURRENT PROGRAM STATUS	
TOTAL VALUE DISBURSED	LE 33.791.900 USD 5.511.276
TOTAL CLIENTS	45.043
GROUP SERVED	5.237
NUM. ACTIVE CLIENTS	9.290
NUM. GROUPS	1.307
OUTSTANDING PORTFOLIO	USD 847.754
REPAYMENT RATE	100,0%
OPRATIONAL SUSTAINABILITY	126,0%
FINANCIAL SUSTAINABILITY	104,0%
PROJECTIONS 2004-2008	
TOTAL VALUE DISBURSED	LE 96.343.619 USD 13.530.000
TOTAL CLIENTS	109.593
GROUP SERVED	15.656
NUM. ACTIVE CLIENTS	16.301
NUM. GROUPS	2.329
OUTSTANDING PORTFOLIO	USD 1.320.339
REPAYMENT RATE	97,0%
SOURCE: AL TADAMUN, FEB 15TH 2005	

Al Tadamun - Loan Terms	
INITIAL LOAN SIZE / CLIENT	LE 500 (USD 90)
OPTIONAL INITIAL LOAN SIZE / CLIENT	LE 250 (USD 45)
GROUP SIZE	5-15 WOMEN
LOAN TERM	24-40 WEEKS
REPAYMENT FREQUENCY	BI-WEEKLY
LOAN INCREASES	STEPPED 25 - 50%
AVERAGE INTEREST RATE	2.3% FLATH / MONTH

AL TADAMUN Current Donors	
GRANTS	LOANS
SC / USA EGYPT FIELD OFFICE (transfer of assets)	INTERNATIONAL DEVELOPMENT FOUNDATION (IDF - KUWAIT) - (Paid Back)
ROCKDALE FOUNDATION (TRAINING)	Grameen Foundation / USA (Loan Capital)
GRAMEEN FOUNDATION / USA (TRAINING)	Social Fund for Development (Loan Capital)
LOCAL DONORS / LOCAL BUSINESSMAN (LOAN CAPITAL)	

**BOX 1 –SME PROJECT – Balance Sheet 2004**

Alexandria Business Association (ABA)  
Small & Micro Enterprise Project (SME)  
Balance Sheet @ DECEMBER 31,2004



ITEM	REF#	2004		2003
		Sub Total	Total	
<b>Current Assets</b>				
<b>Cash in Banks</b>				
Cash in Banks L.E. - Current Accounts	1	67.021,12		197.523,78
Cash in Banks U.S.\$ - Current Accounts	2	6.662,57		88.102,33
Bank Overdraft - LE	12	2.314,17		-
Cash in Banks - L.E. Time Deposit	3	3.008.175,00		4.176.729,00
Cash in Banks - U.S.\$ Time Deposit	4	80.356.244,72		105.702.301,67
Saving Scheme - L.E.( 3 Years )	5	11.404.000,00		11.404.000,00
Saving Scheme - US.\$ ( 3 Years )	6	26.972.000,00		-
			121.816.417,58	121.568.656,78
Borrowers Outstanding Balance	7	67.889.375,25		67.227.707,00
<b>Less:</b>				
Provision for Doubtful Debts	7	(4.760.846,80)		(7.533.716,00)
Fees Under Collection	8	(8.146.561,75)		(8.003.396,75)
Fees Under Collection (MEDICAL PROGRAM)	9	(1.440.223,00)		(2.473.394,50)
ASBC Revenue Under Collection	10	(22.268,00)		(80.300,00)
Net Borrowers			53.519.475,70	49.136.899,75
Inventory			50.228,01	47.582,11
Prepayments, Advances & Others	11		430.406,75	522.323,42
<b>Total Current Assets</b>			<b>175.816.528,04</b>	<b>171.275.462,06</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Donation		13.428,00		51.643,00
Bank Overdraft - LE	12	27.195.891,28		28.292.232,19
Others ( Creditors )	13	24.890,75		23.761,25
Accounts Payable & Accruals	14	624.910,43		507.059,17
Provision For Future Claims		42.145,25		0,00
<b>Total Liabilities</b>			<b>27.901.265,71</b>	<b>28.874.695,61</b>
<b>Working Capital</b>			<b>147.915.262,33</b>	<b>142.400.766,45</b>
<b>Long term Assets</b>				
<b>Fixed Assets -Net</b>				
Premises	15	10.311.290,35		9.141.055,92
Vehicles		67.351,73		107.241,95
Motorcycle		825,00		3.300,00
Fixtures		523.532,96		369.776,16
Furniturest		954.883,08		753.415,39
Photocopier		16.986,00		770,65
Office Equipment		1.026.023,26		721.346,60
Renovation		88.807,47		131.904,90
<b>Total Fixed Assets -Net</b>			<b>12.989.699,85</b>	<b>11.228.811,57</b>
<b>Other Assets</b>				
Deffered Expenses (NBV)				94.757,69
<b>Total Long term Assets</b>			<b>12.989.699,85</b>	<b>11.323.569,26</b>
<b>Investment Capital</b>			<b>160.904.962,18</b>	<b>153.724.335,71</b>
<b>Equity</b>				
Funds for Activities	16		148.235.002,02	140.932.345,07
Accumulated Credit Guarantee			12.056.841,95	12.056.841,95
Excess/(Deficit) - Current Year			613.118,21	735.148,69
<b>Total Equity</b>			<b>160.904.962,18</b>	<b>153.724.335,71</b>
Memo For Borrowers Financial Written off				4.087.845,00
Memo For Written off From Provision				4.087.845,00

BOX 2 –SME PROJECT – SME Project – Income Statement 2004

**Alexandria Business Association (ABA)**

**Small & Micro Enterprise Project (SME)**

**Income Statement**



**Period Ended DECEMBER 31,2004**

ITEM	2004		2003
	Sub Total	Total	
<b>Operation Income</b>			
SME Alexandria	9.909.920,10		11.416.282,13
SME Kafr El-Sheikh	1.644.379,00		1.911.914,53
SME Al Behira	863.727,75		617.044,88
SME Marsa Matrouh	172.659,50		128.557,51
SME Al Mnofia	251.634,00		84.351,83
Blossoms Alexandria	846.719,50		763.868,41
Blossoms Kafr El-Sheikh	337.761,25		196.169,90
Blossoms Al Behira	155.813,25		48.013,55
Blossoms Al Mnofia	2.921,25		-
Medical Project	789.798,76		1.570.479,06
Consulting Center	422.950,92		739.986,55
ASBC	188.078,95		144.454,73
<b>TOTAL Operation Income</b>		15.586.364,23	17.621.123,08
<b>Operating Costs</b>			
SME Alexandria	5.134.438,24		8.609.198,30
SME Kafr El-Sheikh	1.168.598,85		1.215.195,44
SME Al Behira	648.898,74		591.405,43
SME Marsa Matrouh	222.867,23		218.910,73
SME Al Mnofia	242.349,83		206.027,67
Blossoms Alexandria	592.815,29		585.417,00
Blossoms Kafr El-Sheikh	326.154,94		216.438,92
Blossoms Al Behira	184.047,13		64.232,53
Blossoms Al Mnofia	20.485,23		-
Medical Project	789.798,76		883.622,84
Consulting Center	63.367,23		121.712,21
ASBC	94.830,66		93.026,35
<b>Total Operating Costs</b>		9.488.652,13	12.805.187,42
<b>GROSS Income</b>		6.097.712,10	4.815.935,66

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