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The Social Fund for Development

An Independent, Forward-Looking Review

Final Report

November 2011

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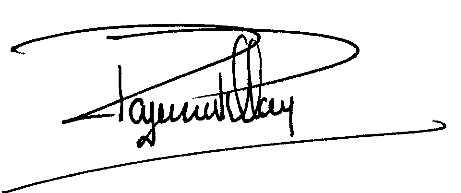
## ACKNOWLEDGEMENTS

This review comes at a critical time when a new phase of UNDP assistance to the SFD is under consideration, when a new Managing Director of SFD has just been appointed and when the SFD has been placed in the limelight as a result of widespread economic and political dissatisfaction that has placed added pressure on the government to generate employment and economic opportunities for the population at large. Bearing this in mind, the Review Team is grateful to Ms. Ghada Waly, the newly appointed Managing Director of SFD, to Mr. James Rawley, Resident Coordinator of the United Nations in Egypt and to Mr. Mounir Tabet, Country Director of UNDP in Egypt for the free rein that they provided in order to do as in-depth an analysis of the current state of the SFD as possible in the limited time available. All three encouraged the review team to dig as deep as possible and to be frank in its assessment. Ms. Waly also took the time to check In with the Review Team on a regular basis to ensure that it was receiving sufficient support despite her full schedule so soon after her appointment.

We are hugely appreciative of all who took the time to interact with our Review Team and provide us with their opinions and substantive inputs – from both within the SFD and outside. Thanks are due to the Task Force of senior managers that was appointed at SFD to serve as an interface with the Review Team to brief it, to provide it with data, documents and information as rapidly and fully as possible. All of the Task Force members, coordinated by Ms. Hanaa El Hilaly, Director General of the Planning and International Cooperation Group, were extremely responsive to the Review Team’s requests.

Very special thanks are owed to Mr. Heshem El Azouny, Sector Head, Planning and International Cooperation, Ms. Amany Hanafy, Senior Manager, Planning and International Cooperation Group and Ms. Sarah Sabry, Programme Assistant of UNDP who worked tirelessly to ensure that the review took place without any hitches, that the Review Team had access to the information that it needed and that requests for appointments were honoured. Mr. El Azouny also provided substantive support and clarifications as necessary to ensure that the Review Team received a complete picture of SFD’s performance. Ms. Noha Rifaat, Results-Based Management Officer, briefed the mission on UNDP’s results-based monitoring and evaluation methodology and played an important part in preparations for the review.

It is important to stress that our Review Team was allowed full independence and operated without interference or any changes being imposed on our major findings or recommendations. For this we are particularly appreciative.



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Rajeev Pillay

Team Leader

November 2011

## LIST OF ACRONYMS

|  |  |
| --- | --- |
| **Acronym** | **Extended Version** |
| ABA | Alexandria Business Association |
| ADB | African Development Bank |
| ARE | Arab Republic of Egypt |
| CBE | Central Bank of Egypt |
| CDHD | Community Development and Human Development (SFD) |
| CDP | Community Development Progamme (SFD) |
| CIB | Commercial International Bank |
| CIDA | Canadian International Development Agency |
| CIS | Cooperative Insurance Society |
| CSO | Civil Society Organisation |
| DANIDA | Danish Assistance |
| DL | Direct Lending |
| EAHRD | Egyptian Association for Human Resource Development |
| ERSAP | Economic Reform and Structural Adjustment Programme |
| FO | Field Officer |
| FX | Foreign Exchange |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| JICA | Japanese International Cooperation |
| KfW | Kreditanstalt für Wiederaufbau Bankengruppe |
| LO | Loan Officer |
| LT | Loan Tracker |
| M&E | Monitoring and Evaluation |
| MIS | Management Information Systems |
| MOA | Ministry of Agriculture |
| MOF | Ministry of Finance |
| MOPIC | Ministry of Planning and International Cooperation |
| MoU | Memorandum of Understanding |
| MSE | Micro and Small Enterprises |
| MSME | Micro, Small and Medium Enterprises |
| MSS | Ministry of Social Solidarity |
| NBD | National Bank for Development |
| NBE | National Bank of Egypt |
| NDP | National Democratic Party |
| NFS | Non-Financial Services |
| PAR | Portfolio at Risk |
| PBDAC | Principle Bank for Development and Agricultural Credit |
| RO | Regional Office (SFD) |
| SAIB | Societé Arabe Internationale de Banque |
| SCAF | Supreme Council of the Armed Forces |
| SFD | Social Fund for Development |
| SME | Small and Medium Enterprises |
| UAE | United Arab Emirates |
| UAE | United Arab Emirates |
| UNDP | United Nations Development Programme |
| UNIDO | United Nations Industrial Development Organisation |
| USAID | United States Agency for International Development |
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## EXECUTIVE SUMMARY

This independent review recommends that in the post-January 25 period, the SFD must urgently reassert its independence from political pressures, reinforce its role in promoting greater equity through access to jobs and higher incomes and while doing so, operate through the private sector or public-private partnerships without promoting entitlement programmes or market distortions through overt subsidies so closely associated with it during the 1990s. The SFD must be seen to be effective in the public eye in fulfilling its mandate and needs to reorient itself to ensure that it is clear to all that the SFD’s primary clients are not the Government, not the donors, not the intermediaries, but the ultimate beneficiaries of its programmes.

The Board of the SFD should continue to broaden its base by adding a senior investment or commercial banker from a private bank or financial institution, a CEO or COO of a large manufacturing company who is familiar with the needs of the private sector, a serving President or head of a large NGO, and one or more representatives of poor Governorates. It is recommended that all four additions be Egyptian nationals or expatriate Egyptians of impeccable and vetted standing. The Board should also have more formal rules of procedure and a terms of reference that specifies the scope as well as the limits of its authority and should meet on a more regular basis. Consideration could be given to appointing subsidiary working groups to report to the Board on key issues. Appointment of the new Board should be widely publicized in the press to ensure that the public is aware of steps that are being taken to reinforce the independence of the SFD from political influence.

The SFD should reassert its position as the ***Apex institution*** for expansion and development of the MSME sector for employment generation, poverty reduction and an improvement in living standards. As an Apex institution, its role should be to facilitate and promote access to financing for MSME establishment and creation for the poorer segments of the population that were previously excluded because of institutionalised obstacles such as collateral and capitalisation requirements. Its role should also be one of encouraging the sustainable entry of an ever-wider array of lending institutions, raising competition in the MSME financing sector and a broadening of the array of products available to small and micro entrepreneurs. The SFD should, as Apex institution for the sector, take on the lead coordination role for both international and national institutions and agencies involved in the sector. This coordination, to be effective, needs to be substantive and policy-driven while at the same time being informed by the practical experience gained through implementation on the ground.

The SFD, building on its role as an institution that straddles the public and private sectors, should position itself as an agency that brings together both practical experience “on the ground” through its ***decentralised*** operations and puts this together with its strong capacity to develop policies. To do this, it must show that it is prepared to ***innovate***, to ***take risks*** and spearhead new modalities and approaches in the sector. This is an area in which partnerships with multilateral agencies that continue to provide grant assistance to the SFD becomes particularly important as a means of offsetting the risks inherent in innovation and the application of new modalities that have not yet proven themselves and therefore cannot yet be expected to recover costs incurred.

SEDO and the microfinance sector should, with UNDP support, ***conduct a study to identify key non-financial services*** that are required by MSMEs – particularly those wishing to either move into the formal sector or significantly expand – and build capacity to deliver them. Such non-financial services should be provided in conjunction with loans issued by banks or NGOs with the objective of reducing perceptions of credit risk to the lending institution. SFD should work with intermediaries to convince them to relax collateral requirements if valuable non-financial services are provided in conjunction with loans. While such non-financial services may need to be piloted on a grant basis to demonstrate their value, within a period of 4-5 years, they should be sold to borrowers, recovering costs incurred and becoming a new stream of revenue for SFD.

There is scope to better tailor and differentiate financial products for the specific needs of different types of micro-enterprises and economic ventures. Such an approach would reduce the likelihood of delays in repayment and positively impact the sustainability of ventures. Financial products for both SMEs and micro borrowers can both be usefully diversified in this respect. Regional Offices must provide advice to borrowers on the range of financial and non-financial products available to them so that optimum choices are made and borrowers do not end up in financial difficulty.

The SFD appears to have found a niche for itself in direct lending to start ups and high-risk sectors. In view of the concerns about a lack of CBE regulation, it is recommended that Direct Lending be retained as a modality to innovate and pilot loans to new sub-sectors and categories of borrowers maintaining the volume within present limit of about 15% of SEDO's outstanding portfolio. In the case of micro-borrowers that require loans that exceeded the capacity of intermediary NGOs but are too small to appeal to banks, Direct Lending could serve as a platform for graduating them to reach a size that is eligible for bank-loans either with SFD involvement or without. As experience is gained under what is essentially a young programme, success of the programme should be publicised and banks encouraged to enter the venture capital market for start-ups. To encourage entry, the SFD should look into the possibility of delivering non-financial products or partially financing loans through the intermediaries to demonstrate financial viability.

Community and human development programmes that are identified and prioritised by the communities themselves need to be seen as a priority in light of recent events. Ways need to be explored on how to ensure that essential community infrastructure such as water, power and even clinics, pharmacies and schools may be owned and managed by the private sector. The Community and Human Development sector should recruit consultants to devise a strategy to promote public/private partnerships in the sector, encouraging private individuals or groups to manage essential facilities as private ventures. Synergies with SEDO may be sought in this respect.

Some multilateral donors such as the EU have indicated that grant funding can be made available for the SFD’s Community and Human Development activities based on past success. Obviously such options should be vigorously pursued in the ***short term***, particularly with a view to responding to the growing demands of the population. However, with a pragmatic eye focused on the ***longer-term***, the Community and Human Development Sector should also explore avenues for using debt (in the form of bonds) as a means of financing essential infrastructure as part of larger national or zonal schemes. In all such instances, cost-recovery should be an integral part of the projects. The experience gained in developed countries such as the United States and middle-income countries such as Singapore and Malaysia in this respect should be studied. An ambitious approach of this type would require a concerted, coordinated approach involving banks, ministries, utility companies, the stock exchange, donors and private entrepreneurs.

The changes proposed in this report appear incremental, but in practice involve a major shift in direction and strategic positioning of the SFD and call on the staff of the SFD to be bold, take risks and innovate. The current staff of the SFD is, for the most part, highly capable and professional, but change always requires a concerted shift in corporate culture. To drive through the reforms, it is recommended that a ***Reform Team*** be appointed under the Managing Director and a ***Reform Team Leader*** to drive the reforms through the system. The Reform Team should be composed of at least one person from each of the key sectors and groups of the organisation, both at headquarters and in the field. Ideally many of these Reform Team members should be at the level of head or deputy head of the unit involved, but should be selected for their dynamism and willingness to innovate and institute change. The Reform Team should also include mid-level staff who possess the requisite qualities or special skills and are keen to demonstrate their value in the organisation. Each should be empowered as a result of their membership of the Reform Team with the authority to speak on behalf of senior management in the implementation of the reforms irrespective of their own rank. The Reform Team should be of limited duration – 3 to 5 years – but long enough to ensure that reforms are fully institutionalised into the fabric of the SFD. Appointment to the Reform Team should be seen to be prestigious, and those appointed should expect to, subject to their performance on the Reform Team, be fast tracked for promotion to more senior positions. The Board should endorse the full team, once selected, in order to add to its credibility and authority.

In order to assert its mandated role of coordination, particularly at a time when the number of stakeholders in the sector is increasing, the SFD needs to strengthen its strategic planning and policy development capacity. The strategic planning and policy sector should serve as the principal secretariat under the Managing Director for the coordination function and support to the SFD Board. It needs to build or recruit additional capacity to analyse the sector, develop policies, track the activities of all key stakeholders and recommend ways in which the sector could be made more dynamic, drawing on the Monitoring and Evaluation Department and feedback obtained through the SFD’s network of Regional Offices on practical issues arising from implementation at the sub-national level.

The full strength inherent in the SFD can only be fully exploited if the full value of its network of Regional Offices is exploited and key functions are decentralised. A detailed study will need to be undertaken to review internal processes and functions that can be incrementally decentralised. It is essential that some core control functions be retained at headquarters, but thresholds can be restructured so that far greater authority can be accorded to managers in the Regional Offices.

For decentralisation to be successful, the capacity of staff at the Regional Office level needs to be brought into line with that at SFD headquarters. Career development incentives and incentive schedules should be revised with a view to providing greater incentive for staff to serve in the Regional Offices.

The staffing complement of Regional Offices is determined by the current workload. However, expanding operations in a poor governorate consistent with the SHD’s mandate to access the poor is more labour intensive than it is in a governorate with potential borrowers with sufficient assets and expertise to qualify for loans from intermediary institutions. It is recommended that staffing of Regional Offices be determined based on the expected level of work required to boost business and to provide access to sections of the population that would normally be excluded from loans. SFD should assign one third more staff for business development at the 7 governorates with the highest poverty levels in Egypt.

In order to focus on the sustainability of the loans to the ultimate borrowers, there is a need to boost the ratio of loan officers to number of borrowers, particularly with respect to micro lending. This should be done either in the intermediary NGOs or by boosting the number of Loan Officers at the Regional Office level. Bearing in mind the need to control core operational costs, the number of Loan Officers should probably be boosted in intermediary NGOs rather than in the Regional Office. They should, however, be required to collect essential monitoring data pertaining to the outcome and impact level results. SFD should consider hiring an additional 60 Field Officers in addition to the existing 140 or to boost their numbers so as to allow for at least one annual visit to 100% of the micro-borrowers to boost loan performance and to better understand the needs of customers. Some female Field Officers should be hired to ensure access to the many female borrowers especially among beneficiaries of micro credit. In order to support the expansion of businesses, Loan Officers should be trained to provide information to micro borrowers on the full array of business and non financial services that can be provided to them by SFD with a view to helping viable businesses graduate from micro- to small business status with access to appropriate services and financial products better tailored to their needs. SFD should consider providing transportation allowances to Field Officers, strengthening their follow up and morale. Under Direct Lending, the time-monitoring system designed by SFD should be institutionalised and a similar system developed in conjunction with banks for lending through bank intermediaries More staff should be recruited for Direct Lending to enable more stringent monitoring and backstopping of borrowers with appropriate advice and technical support. .

The capacity of the Community and Human Development Sector should be urgently boosted with the recruitment of one or more international consultants who can advise on new and innovative means of financing the sector. Such consultants should be recruited initially for a period of 2-3 months, followed by periodic return visits. Implementation of the new programme should remain in the hands of the current staff who should work closely with the international consultants throughout. Current staff should receive exposure to the model being proposed including through visits abroad as recommended and organised by the international consultant(s).

While it is notoriously difficult to institute systematic procedures for staff appraisal that can be reliably linked to career development, the efforts currently underway by Human Resources should be strengthened. Customer satisfaction should become an important performance criterion. Customers at the Regional Office level should be issued customer satisfaction questionnaires in the form of cards that request them to score their satisfaction with respect to the services and support received. This feedback should be reviewed with a view to improving customer service and should be taken into account in the appraisal of the performance of staff interfacing directly with clients.

Additional priority needs to be given to the development of SFD’s information systems for: The management of results-based monitoring data; Extending the enterprise management systems and integrating all operational units of the SFD within it; and Creating a platform for offering non-financial services and information or other services.

The systems should prioritize the inclusion of a database of core outcome and impact indicators for monitoring programme results. Priority should also be given to ensuring full integration between the Project Implementation Units, Regional and Zonal offices and headquarters. Server-based information systems should be established as a key platform for offering non-financial services to clients and providing essential information regarding financial services to them. This should be done as part of the development of the new SFD portal that is currently underway. Consideration should be given to finding innovative ways of generating income to support costs associated with the information system. For example, the use of advertisements for some of SFDs private partners may be considered. Also, if the content level of the systems is boosted, consideration may be given to demanding a subscription, for example for access to the online support services.

The SFD needs to develop a clear set of screening criteria that would provide added depth to the factors considered in the selection of potential borrowers. Among other factors, the targeting tool developed should include considerations of income level, gender and age with a view to targeting the poor, women and youth. Access to non-financial services that can positively improve quality, production and productivity of enterprises or improve design and general competitiveness should be used to reduce the stringency of lending requirements. This will need to be negotiated between SFD and the intermediary banks involved once the non-financial products have been developed. Consultants/experts may need to be recruited to help develop key non-financial products of relevance.

A strategy should be developed for organising similar small enterpries to support supply chains for larger manufacturers either domestically or internationally. For this the SFD should serve as a catalyst, sponsoring a study based on the range of businesses that have been supported by SFD to date, the scope for organising their production and marketing functions and linking them to larger companies of national or multinational stature. A feasibility study should be undertaken for the purpose.

There should be greater focus on integrated local area development both in rural areas and in urban slum pockets, as is already being considered by SFD. In fact, many of the social and economic benefits inherent in PWP’s menu of infrastructure services (and in HCD’s wider menu of social and human development services) are more cost-effective in very dense and deprived urban slums, where levels of poverty is equal those in rural areas and where there are definite geographic concentrations of poverty. Greater emphasis should be placed on integrating PWP, CDP and HRD projects seeking synergies. There is the need for better choice of labour-generating interventions, rather than mechanistic requirements for labour that can lead to inefficiencies. There should also be better geographic targeting, down to the small village and slum pocket level, in the selection of interventions, using practical indicators and simple mapping.

Monitoring and evaluation systems need to be reoriented to support the management of programmes rather than almost solely a means of reporting to donors and providing public information to the media and the press. As such, in addition to monitoring outputs as is required by the SFD’s donors, monitoring systems need to identify key dimensions of performance at the programme level based on the broad mandate of the SFD (e.g. jobs created, income generated, etc.). Sufficient funding needs to be allocated to identifying readily collected and measurable indicators of each performance dimension and establishing systems to collect such data on a continuous basis. It is recommended that a percentage of all project budgets be set aside to fund a standalone M&E project for the purpose. The M&E project would need to establish a baseline as rapidly as possible with a view to measuring trends resulting at least in part from SFD’s support. The data should be inputted in the enterprise management system and be available to all staff of the SFD for reports and for decision-making. The purpose of monitoring the data should be to identify shortcomings and room for improvement as much as it is to demonstrate positive results.

In order to boost the efficiency of key decision making processes and to separate audit from management decision-making, it is strongly suggested that the frequency of internal audits be reduced and that key management decisions such as the approval of contracts not be made contingent on their advice. It is also recommended that consideration be given to conducting internal management audits with a view to assessing the efficiency and effectiveness of workflows and processes, analysing and assessing systems and recommending management reforms on a biennial basis (once every two years). The primary objective would be to proactively identify shortcomings or areas for improvement with a view to making corrections. As such, management audits would serve as a tool for senior management of the SFD rather than merely yet another mechanism for checks and controls.

To reduce delays in the implementation of sub-projects in donor funded programmes, framework agreements should specify as many sub-projects as possible so that each sub-project does not have to be submitted to Parliament for approval on a case-by-case basis. Decentralisation to the Regional Office level of more project activities should also result in increased efficiency, cutting out delays in processing at Headquarters.

The time-monitoring system designed by SFD' Headquarters for tracking bottlenecks in loan disbursement under Direct Lending ought to be implemented and institutionalised, and the possibility of extending use of the system to intermediary banks explored.

CDP should consider the adoption of broad-based citizen representation, influence, and governance in development as a full-fledged objective of its programmes. CDP should also minimize its assistance to public programmes owned and designed by ministries and public agencies, and increase assistance and support to NGO-led community development interventions. CDP should develop a participatory, sustainable and innovative strategy focusing more on the SFD’s comparative advantages as incubator, facilitator, advocate, and disseminator of models and best practices for wider application.

The CDP should pilot the privatization of some social infrastructure projects at the village level in connection with partial government subsidies, particularly for projects of social value enabling private individuals, local NGOs / CDA or CSOs to build and operate essential social infrastructure. Loans and business development services can be provided where economically viable by the relevant sectors under SEDO. Once a model is successful, the CDP could promote such models supporting a franchising scheme for the replication of these privatised facilities in other parts of the country. Utilities that can in large part recover costs such as power, water, health clinics and some schools could be considered for piloting on this basis.

The SFD is at present fully self-financing its core operational costs because non-cost recoverable products and lines of business have been pared down to a minimum. The SFD should focus on those products that in the long term may be cost recoverable. In the meantime, it should seek external funding for their development and piloting. Each product or group of products – both financial and non-financial – should have a business plan for their market analysis, development, marketing, performance monitoring and assessment, pricing and eventual sale to clients. The principle of being self-sustaining in the long run should continue to be the guiding principle.

The long-term sustainability of the SFD itself is dependent on its ability to continue to pay salaries and benefits packages to its staff that are competitive with those paid by private banks. In order to wean the SFD off UNDP support and make it a fully independent institution, a concerted effort should be made to develop a strategy for changing the status of the SFD to that of an independent parastatal organisation with its own salary scale and benefits. A full study needs to be undertaken, drawing on the few precedents that may exist in the petroleum sector as well as those in other countries such as India, Malaysia, Indonesia and the Gulf countries. The study also should systematically assess current pay scales in private sector banks in Egypt before making comprehensive recommendations on how to move forward. The transition should take place over the coming 4 year phase of UNDP support to SFD with the SFD fully weaned off UNDP support by the end.

Institutions such as the Credit Insurance Guarantee and the Human Development Association that were created with SFD involvement are now mature and functioning largely on their own with varying degrees of success. To avoid accusations of conflict of interest, the SFD should look to the severing its direct ties with these institutions over the next two years with a view to ensuring that they are independent of the SFD in their operation. If advisory services are required to reform them, the SFD could work with other stakeholders to secure the necessary advisory services.

While credit risk of the SFD itself is relatively negligible as intermediary institutions (banks and NGOs) are contractually obligated to repay the SFD even before repayments are received from borrowers, in the interest of developing the private sector in Egypt, it is important for the SFD to better understand the effectiveness of its loans in establishing successful MSMEs. It should therefore systematically monitor the death rate and the growth of MSMEs funded with SFD loans with a view to adjusting its lending policies if necessary. The health of the loans in SFDs portfolio raise some questions and a thorough study of the credit risk of intermediary institutions should be conducted as soon as possible in order to fully understand the level of risk involved for management purposes. In the case of Direct Lending, the concern with portfolio quality is a more pressing concern. Direct Lending revenues and expenses need to be calculated separately in order to assess financial sustainability. The complex situation of the current level of credit risk needs to be analysed in depth and it is recommended that a specific study be commissioned to dig deeper into the data and understand the level of risk and sustainability at each level.

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HCD should develop a sustainability strategy for each of its programmes. This strategy should focus on how to sustain the results of each programme and should include financial and institutional sustainability of the participating NGOs and intermediaries.

As the SFD repositions itself more firmly as the pre-eminent, quasi-governmental agency for poverty alleviation through development of the private sector and the creation of private sector job opportunities, the Media Department of the SFD should be very much at the core of its effort to rebrand itself as a quasi-governmental agency. Indeed, along with the strategic planning unit, the media department should spearhead the effort to cast a clear image in the SFD along the above lines in the eyes of the Egyptian Public.

The UNDP’s role in the next ***and final phase*** of its assistance to the SFD needs to be drafted and should be that of supporting the SFD in the final stages of its basic strategic positioning and institution building before allowing it to operate fully independently. The report recommends a number of the key initiatives that relate to capacity development and reform for grant funding from the UNDP, including key strategic studies, support to the reform process, the introduction of results-based monitoring systems, support to policy development and the development of the automated enterprise management system, among others.

## I. RATIONALE AND METHODOLOGY FOR THE REVIEW

### Objectives and Methodology

#### Objectives

This review was requested by the UNDP at the end of its fourth phase of support to the SFD and as Egypt as a whole is facing a new economic environment in the wake of the Egyptian Revolution of January 2011. The purpose and rationale for the review are presented in the terms of reference (see Annex I) as follows: “UNDP and SFD have agreed to conduct an evaluation of the Social Fund project in order to capture and validate the SFD results, identify lessons learned and identify areas that require further support or strengthening.”

More specifically, the intention is to:

* Assess and validate the achievement of the UNDP/SFD project as well as the achievements of the SFD and the strategic, policy and institutional factors that have led to the achievement (or impediment) of results.
* Conduct a capacity assessment of the Social Fund (including regional offices) to identify existing capacities of the SFD and identify needs that can benefit from additional support
* Validate the relevance, efficiency, effectiveness, and sustainability of the SFD programmes. More specifically, the evaluation should:
* Validate the efficiency and effectiveness of the credit providers of SMEs through the SEDO programme and the micro finance programme.
* Validate the efficiency and effectiveness of the non-financial services provided to SFD beneficiaries.
* Evaluate the development results of the human resources and community development group, including the public works project and recommend future direction.
* Provide recommendations for the future of SFD in relation to developing its role in developing the MSMEs sector and job creation.
* Assess how the SFD sought to mainstream gender in development efforts**.**
* Assess thestrengths and weaknesses of the M&E systems/tools in SFD and the capacity of the M&E Team and review the project’s M&E framework and the establishment of the appropriate indicators and quality criteria to measure future implementation with assigned roles and responsibilities.
* Assess SFD’s Communication plans and how effective they are in reaching their stakeholders
* Assess SFD partnership strategy: Examine SFD’s partnerships (including the UNDP-SFD partnership) during the evaluation’s timeframe and assess the value and relevance of these partnerships in supporting SFD’s mandate.
* Evaluate the decision making process for fund allocation and use,

The evaluation timeframe is from 2004 to date (2004 was the year the second multi donor review was finalized).

#### Methodology

#### Slide1.jpg

Figure : Main Phases of the Review

The overall exercise was implemented in four inter-related and overlapping phases (Figure 1):

* ***Phase I - Preparation:*** involved drafting and the internal review of terms of reference for the exercise as a whole as well as for each individual consultant followed by advertisement for and selection of consultants for the exercise. ***(1 September – 1 October 2011).***
* ***Phase II - Design*:** involving a review of documentation at the consultants’ home bases and preparation of an inception report to further inform all parties involved and firm up preparations for subsequent phases. **(1-21 October 2011).**
* ***Phase III: In-Country Activities:*** or the main phase of the exercise, involved further document and data collection in-country by the Review Team and intensive individual and group interviews as well as focus group discussions with partners, stakeholders and beneficiaries. It also involved a field visits to review a sample of the SFD’s activities. At the end of the phase the Review Team debriefed with the entire senior management of the SFD and senior management of UNDP Egypt presenting its preliminary findings and draft recommendations. **(22 October – 6 November 2011).**
* ***Phase IV - Report Preparation:*** This phase involved data verification as necessary and intensive report-writing, review of the draft by the SFD and UNDP and incorporation of comments and suggestions received while ensuring the independence of the report, followed by submission of the final report to both SFD and UNDP. ***(7 November – 15 December 2011)***.

Given the limited time available, in addition to the collection of its own data, the Review Team used *meta-evaluation* techniques, drawing on the findings of past evaluations conducted of the SFD and supplementing them with *triangulation* for verification purposes.



Sample field visits included one relatively poor Governorate (Beni Suef) and one Governorate that is relatively well off (Dakahlya)[[1]](#footnote--1). Both have benefited from SFD support for the entire period covered by the review. In each Governorate, the Review Team visited community and human development projects that were either completed or currently underway. The team met in focus group discussions with both borrowers of microloans as well as owners of small enterprises that had received small loans from SFD. The premises of a pre-selected sample of small enterprises were also visited. This was supplemented with individual interviews of some of the owners of the small enterprises concerned. Team members also visited a selection of community and human development project sites including sewage treatment plants, reticulated water systems, schools and other infrastructure projects. Meetings were held with community leaders to assess their solid waste treatment perceptions of SFD’s programme of support as well as NGOs, private contractors and line departments and the Governorate level.

Figure : Breakdown of Phase III – In Country Activities

During the in-country phase of the review, the Review Team met with the following categories of stakeholders (for a full list of persons met, please see Annex II):

* Community leaders involved in the prioritisation of community and human development activities;
* Beneficiaries of microfinance;
* Beneficiaries of small loans;
* Staff of departments of line ministries at the Governorate level;
* The Governors of the Governorates and their staff where possible;
* Senior staff of ministries on the Board of SFD;
* Bilateral donors that fund the SFD and bilateral donors that are involved in the promotion of MSMEs, but do not provide support to the SFD;
* Multilateral donors including the African Development Bank, the EU, and the World Bank;
* International NGOs with an interest in MSMEs in Egypt;
* Intermediary banks that administer loans in conjunction with the SFD;
* Intermediary NGOs that administer microfinance in conjunction with the SFD;
* SFD senior management and staff from all sectors, groups, offices and bureaux;
* UNDP senior management and staff directly involved with the backstopping of UNDP’s support to the SFD and monitoring and evaluation;
* Academics and other observers of the economic and political developments in the country with views on the SFD and other institutions engaged in poverty alleviation, employment generation and the improvement of living standards; and
* Former senior government officials who have an in-depth knowledge of the SFD and its work.

A Task Force, consisting of senior managers at the SFD was established and assigned to work with the Review Team along with a Coordinator/Focal Point with a view to ensuring that information was provided on a prompt basis and so that arrangements could be changed and fine-tuned as necessary, based on the request of the Review Team.

#### Limitations of the Methodology

The main and obvious limitations of the methodology were constraints on the sample size for the field visits, security restrictions that precluded overnight visits in outlying governorates as well as the short time available for the exercise as a whole. These were partially offset by:

* Utilising the findings of previous evaluations;
* Triangulation to verify findings; and
* Consultations with independent observers of the sector.

## II. CONTEXT

### Social Economic and Political Trends of Relevance

***Political Developments:*** In the wake of January 25, 2011, the “revolution” that swept the President and the NDP from power, expectations for change have reached unprecedented heights. All institutions that were in the past associated with Government have come under close public scrutiny and it is generally assumed that any such association is synonymous with a lack of efficiency and effectiveness as well as pervasive corruption. Institutions of Government are, in the eyes of the public, “guilty until proven innocent”. Sections of the population that have been excluded from the mainstream economy, those that have remained unemployed for extended periods of time, now see it as their right to have past wrongs rectified without delay. Protests continue almost on a daily basis and even the SFD has witnessed peaceful protesters at its doorsteps on repeated occasions. With the loss of public trust in the police and occasional retribution against them, the police force too is demoralised and there are frequent incidents throughout the country where laws are flouted and the police have failed to intervene. Indeed the police have, on occasion, become protesters themselves, demanding better pay and benefits. This has had a negative effect on private enterprises and investor confidence. It has also fuelled public expectations of their entitlement to loans and grants. It is said by some that the latter has come with an attendant expectation that, in the current environment of loosening controls, repayments are not required. As discussed in later sections, there is some evidence that repayment rates in both micro and small enterprise lending have been affected, but it would appear from interviews as well as from the numbers that this is due more to economic weakness and a contraction of demand than to any wholesale evasion of repayment responsibilities on the part of borrowers.

There is growing scepticism concerning the commitment of the Supreme Council of the Armed Forces (SCAF) to incisive democratic reform and current cabinet members are reluctant to take decisions with lasting implications, aware of a public perceptions that they lack a democratic mandate. SCAF has dissolved Parliament, suspended the Constitution and appointed civilian governments that have been shuffled twice to date[[2]](#footnote-0). On August 7, Field Marshal Tantawi, the Chairman of SCAF, swore in 15 new Governors, 11 of whom are new to their posts. Many are military figures and most are associated with earlier governments. SCAF has committed to hold parliamentary elections before year-end (the campaigns have begun) and Presidential elections during the first quarter of 2012. With each day that passes, there are signs that public cynicism of the process in place and SCAF’s intentions are growing, and with it the continued potential for instability. No appointed civilian government, as indicated to the Review Team by one senior official in a ministry, will be willing to take difficult political decisions pending the advent of an elected government. This includes decisions pertaining to the clearance and approval of international loans and of major programmes and has resulted in delays in the approval of a number of contributions to SFD.

***Public Perceptions of the SFD:*** Perceptions of Government and Governmental institutions have been severely damaged and frustration with the Government is no longer hidden. As a quasi-governmental institution, SFD has been tarred with the same brush as the Government. There are a few incidents in the past where the SFD has succumbed to Government pressures to reorient the targeting of its programmes to fulfil the political priorities and this has resulted in the association of the SFD with the NDP Government in the eyes of many in the general public and the intelligentsia. There are -- largely non-empirical, but widely held -- perceptions that the SFD is bloated, that it is filled with staff associated with past Governments and that it is both ineffective and inefficient. It is a view that some staff of donor institutions are prepared to adopt on the premise that it is better to take a conservative view than to be proven wrong under the current circumstances. The results of this review would suggest that this is an unfair assessment that is not based on fact, but it is equally clear that the SFD is going to have to work twice as hard to change its image in the public eye as current events are driven as much by perception as by fact.

***Need to Assert its Independence:*** In the post-January 25 period, the SFD must therefore urgently reassert its independence from political pressures, reinforce its role in promoting greater equity through access to jobs and higher incomes and while doing so, operate through the private sector or public-private partnerships without expanding entitlement programmes or market distortions through overt subsidies so closely associated with it during the 1990s. At the same time, the growing expectations for the creation of economic opportunities and jobs would suggest that the SFD as an organisation central to national initiatives for the alleviation of poverty is, and will, come under increasing pressure to provide access to members of the population with a wider range of income levels to credit, to community services, utilities and job opportunities than ever before. In short, there is a massive and growing demand for the SFD to re-emphasise the broader, developmental aspects of its mandate. The SFD must be seen to be effective in the public eye in fulfilling its mandate and needs to reorient itself to ensure that it is clear to all that the SFD’s primary clients are not the Government, not the donors, not the intermediaries, but the ultimate beneficiaries of its programmes, be they communities at the grass roots level, private entrepreneurs at the micro level or entrepreneurs in, or with aspirations to move into, the formal sector.

***Economic Developments:*** Regional and domestic political instability and uncertainty has, perhaps inevitably, bred economic instability. The return of Egyptian expatriate workers from the region has resulted in declining remittances. News of political instability and insecurity has led to a dramatic decline in tourism. Foreign direct investment has also declined as skittishness on the part of investors has grown. Reduced commitment on the part of the police in Egypt has also resulted in a rise in crime levels, which coupled with the inevitable decline in consumption on the part of the Egyptian public, have all negatively affected the growth of micro and small enterprises at least in the short term. Year-on-year, the growth of MSEs has declined.

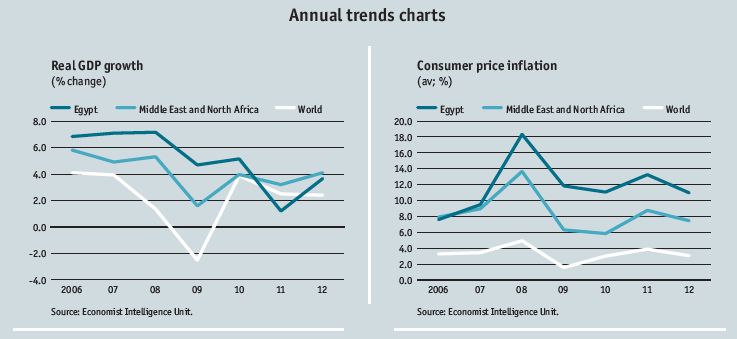
The Egyptian economy as a whole contracted by 4.2 per cent in the third quarter of 2011 alone[[3]](#footnote-1). The success of projects launched by the SFD is likely to in turn be negatively affected by the contraction in demand. Further instability leading up to the elections is likely to further depress the economy. There are also, perhaps paradoxically, strong inflationary pressures at play and this is likely to further negatively affect domestic demand, affecting the majority of micro and small enterprises that target the local market. Having peaked at an average of 18.3% in 2008, the year-on-year rate of inflation fell steadily thereafter, averaging 11.1% in 2010 (see Figure 1). However, rising food and fuel prices created further inflationary pressures towards the end of 2010, and these factors will be exacerbated by the depreciation of the Egyptian pound as a result of the political crisis. 

Figure : Key Macroeconomic Trends

The 2011/2012 budget envisages a fiscal deficit of 8.6% of GDP based on revenue of US$58.4 billion, marking a 19% increase in expenditure over the previous budget. It is likely that the actual deficit will be even higher. The Central Bank has been reluctant to raise interest rates in the wake of the revolution despite inflationary pressures and is unlikely to do so in the near future. However, if the Central Bank were to take measures to raise interest rates, the move would negatively affect the borrowing capacity of enterprises. Existing loans, however, should not be affected as most existing loans – for micro borrowers as well as small enterprises – have fixed rates. Steps are being taken to facilitate inter-bank lending through regular seven-day repurchase agreements with a fixed rate decided by the Central Bank’s Monetary Policy Committee that will inject liquidity into the market -- another factor that should have the negative side effect of fuelling both demand and consequently inflation.

The Government has announced plans to introducing wage reforms in 2012 including the establishment of a minimum wage and the capping of public sector salaries at 34 times the minimum wage, the effects of which on demand, on prices and on employment – particularly in small and micro enterprises -- have yet to be established. The National Council for Wages, part of the Ministry of Planning and International Co-operation, will be tasked with setting a minimum wage for the private sector.

Although it is recognised that the economy and jobs are critical for a return to stability and attention is being paid to the political crisis and governance reforms of a political nature, it is unlikely that any Government – at least in the near future -- will have the political will to introduce significant economic reforms of a structural nature.

### The Micro- and Small Enterprise Sector

Egypt boasts approximately one third of the microfinance borrowers in the Middle East Region, as well as 20 percent of the overall outstanding portfolio. Micro and small enterprises together make up over 99% of private enterprises and account for 85% of non-agricultural private sector employment (up from a total of 73.5% in 1996) and almost 40% of total employment[[4]](#footnote-2). Medium and large enterprises witnessed a decline in their share of employment by almost half in the period since then. The stock of micro and small enterprises has grown at an annual rate of 4% over the decade ending in 2009, and micro and small enterprise employment grew at an average rate of over 5% during the same period[[5]](#footnote-3). Medium and large enterprises witnessed a decline in their share of employment by almost half in the same period.

High rates of unemployment, it is said, have driven young people to set up new businesses especially in the retail trade. The average Egyptian micro and small enterprise has just 2.3 workers, and almost three quarters have fewer than three. Although the definition of the formal sector in Egypt is unclear, it has been stated that over 80% of micro and small enterprises operate in the informal sector and it is generally acknowledged that they create limited value-added, have poor production quality and poor export performance. Over 75% of enterprises are capitalised below LE10,000[[6]](#footnote-4).

The major constraints faced by MSEs include limited access to financing, business development services, markets, information, technology, skilled labour and competitively priced inputs. A drop in poverty levels has not accompanied the growth of the SME sector; indeed the poverty rate has risen in recent years.

Start-ups are usually financed from personal resources and as a result tend to be small. Sixty per cent of start-ups are financed with less than LE50,000, but the amount ranges form LE100 to LE10 million[[7]](#footnote-5).

The Small Enterprise Law 141/2004 defines micro-enterprises as companies or partnerships with paid up capital of less than LE50,000 and small enterprises as companies or partnerships with paid up capital between LE50,000 and LE1,000,000 and with 6-50 employees. According to CAPMAS, 92.5% of enterprises are micro-, 7.3% are small, and less than 1% (only 0.2%) is medium or large. Only about 1.5% of private sector enterprises have more than ten employees. Around 59% of enterprises with 1-4 workers have capital of less than LE5,000 and only 6% of all enterprises have invested capital of more than LE50,00, according to Labour Market Panel Survey Data for 2010. MSEs are heavily concentrated in the trade and service sectors; some 59% are in wholesale and retail trade, 27% are in services and 14% in manufacturing. MSEs contributed just 4% to total exports in 2008.

According to current literature, women-owned micro and small enterprises make up 18% of the total number of micro and small enterprises. As size grows, levels of female ownership have decreased even further. Women-owned enterprises have lower levels of capitalisation, are less likely to employ other workers, more likely to be in retail trade, less likely to export and less likely to be registered. The presence of women in entrepreneurial and micro- and small enterprises mirrors their low participation in the labour force in general. There are over one million women in the labour force who would like to work, but cannot find employment. Socio-cultural constraints aside, there may therefore be greater potential for women’s participation in MSEs than for men.

Women, on the other hand, make up 57% of the active clients of SFD-supported MFIs. There is, therefore, significant untapped potential to encourage more women to enter the labour market and to consider entrepreneurship and MSEs as an option. Barriers to their entry include social and cultural resistance in the home and outside; low education and literacy levels; the lack of essential business training; the absent of business development services and markets; low property ownership rights; and difficulties dealing with regulatory authorities.

According to the recent National Impact Survey of Microfinance in Egypt, demand for microfinance and small enterprise loans remains high. Of existing borrowers, 72% used their loans primarily of business purposes, and 82% of those surveyed expressed a wish to renew their loans in order to improve their businesses and/or expand. 82% said that their first use of the loan would be to expand their existing microenterprise, while 10% the loan would be used for working capital.

Microfinance in Egypt is provide through public and private banks which are regulated by the Central Bank of Egypt (CBE) and through NGOs which are regulated by the Ministry of Social Solidarity (MSS). Since 2002, all NGOs have had to register with the MSS before providing services.

In 2006, a National Strategy for Microfinance” was launched[[8]](#footnote-6) and aims to develop a microfinance industry that provides sustainable financial services to small businesses. The UNDP, USAID and KfW funded the strategy. The SFD and the Egyptian Banking Institute (EBI), an affiliate of the CBE, were both on the Steering Committee overseeing the preparation of the strategy which established the following objectives:

* ***Micro Level:*** The development of a diverse range of sustainable MFI’s that compete to offer financial services to microenterprises and the poor and that cater to evolving market demand;
* ***Meso Level:*** To support the functioning of existing apex institutions and national guarantee mechanisms.
* ***Macro Level:*** The development of a policy and regulatory environment conducing to an inclusive financial system that encourages the growth and development of microfinance.

## III. RELEVANCE AND STRATEGIC POSITIONING OF THE SOCIAL FUND FOR DEVELOPMENT

**Overall Finding:** Pressures to make the SFD self-sustaining and the advent of Law 141/2004 have resulted in mission drift away from the organisation’s broader developmental mandate to one of operating as a financial institution lending to MSMEs. There is considerable demand for an institution to fulfil SFD’s original mandate and the challenge is for SFD to do this in a manner that encourages and creates conditions for an expanded role of the private sector in the development of Egypt including through what may appear to be higher risk ventures, while also ensuring the sustainability of its own operations.

The Social Fund for Development has, since its founding as a UNDP project in 1991, become widely recognised as the premiere Egyptian institution for the creation of employment in the domestic private sector, for economic and social development and for the improvement of living standards. The period under review (2004-present) has seen a significant focusing of the SFD’s attention, reducing the emphasis placed on important components of its mandate.

Originally envisaged along the lines of a social safety net, the SFD received a major reorientation when it was named the lead institution for the development of small enterprises under a new law passed in 2004[[9]](#footnote-7). As a result, during the period under review, the SFD has seen a marked shift in its emphasis and structure, towards creating an institutional and economic environment conducive to employment creation through micro and small enterprises (MSMEs) growth to the detriment of its work on broader community and human development programmes. The former has emphasised increasing MSME access to financial and non-financial services, particularly through an array of intermediary banks and NGOs. Renewed pressure on the SFD to become financially independent through revenue raised from lending operations has also reduced the emphasis on targeting the poor and on services that cannot in the short term recover their costs.

The new law also gave the social fund the authority to establish one-stop-shops at the local level for registration, issuing of licenses, approvals and other authorisations within the purview of multiple ministries with a view to simplifying and increasing the efficiency of the processes required for the start-up of private businesses (Article III). These authorisations are being issued in close collaboration with the relevant ministries with the SFD serving as a venue for personnel on secondment from each of the relevant ministries providing readier access to potential clients. The SFD’s role is that of facilitator and coordinator; not a substitute for line ministries.

The SFD was required to make allocations in its annual budget for the provision of the following services to small and micro enterprises (Article XIV):

* Identification of investment opportunities in each governorate;
* Preparation of “feasibility studies” (business plans) for viable enterprises;
* Consultancy services on the best places and sources for the purchase of machinery, equipment and other essential inputs;
* Guidance on accounting and advice on interaction with public agencies;
* Guidance on potential risks;
* Assistance for participation in exhibitions and other marketing events;
* Knowhow for accessing current production technologies and marketing mechanisms.

The Law gave the SFD the lead role in the coordination of local, foreign and international entities in the sector (Article IV) and gave it a lead role in the development of policy, requiring it to develop competence in the following:

* Preparation of national annual plans for the promotion of enterprises;
* The review and critical analysis of draft laws and decrees pertaining to enterprises;
* Coordination among entities involved in the small enterprise development sector and the facilitation of their work;
* Fostering marketing companies capable of identifying market needs;
* Fostering incubators;
* Contracting with real estate development companies to establish exhibitions and workshops near urban communities and potential markets;
* Establishing training centres for prospective enterprise owners in basic management skills.

Law 141/2004 required the establishment of one or more funds to “finance the small and micro-enterprises through the nongovernmental establishments (sic) and organisations in accordance with the rules and procedures” (Article V) and that the resources of such funds provided by the SFD should be in conjunction with resources allocated by local popular councils and grants and donations from “financial institutions”. The Law also authorised the SFD to use investments in financial markets to refinance the funds for the development of small and micro enterprises (Article VIII). Each ministry concerned with enterprises at the national and governorate level were to establish a unit or person responsible for interfacing with the SFD.

The advent of the above law, which provided a clear and central role for the SFD, covers only a part of the SFD’s mandate, but has led to a major shift in the SFD’s attention away from other aspects of its mandate, such as community and human development including labour-based construction of essential productive and “social” infrastructure. This trend was further amplified as a result of Egypt’s transition to Middle Income status and its exclusion from many sources of concessional loans and the decision on the part of the Government not to use loans received at market rates for the projects unable or unlikely to recover their costs. Disbursement figures between 2005 and 2011 clearly illustrate the rapid rise in both small enterprise and micro lending and a dramatic decline in community and human development with disbursement in 2011 expected to amount to between 10-15% of disbursement in 2005 (see Figure 4).

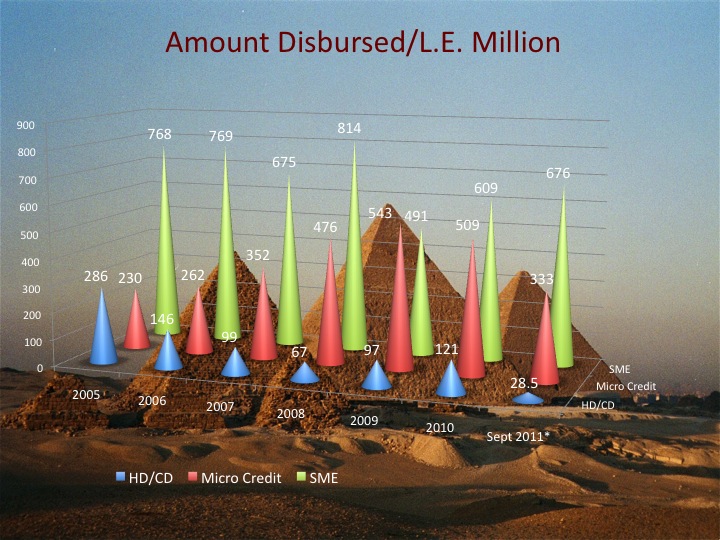


Figure : Trends in Disbursement Among the SFD's Principal Lines of Business

It is worth noting that while the figures for the SME sector in Figure 4 only reflect disbursement until September 2011, disbursement for the whole of 2011 is certain to exceed a record LE1 billion, reflecting both a rapid rise in demand and intensive effort on the part of SFD to boost lending.

Over time, the emphasis, strongly encouraged by key donors, has been to position the SFD as an autonomous, self sustaining, “Apex” institution that has, as its principal objective, the generation of employment and opportunities for employment as well as increased incomes and standards of living through the promotion of private enterprises at the micro and small enterprise (MSME) level. Although the concept of an Apex institution has not been clearly spelled out, it is generally understood to mean that the SFD is to operate as a coordination and oversight body at the higher reaches of Government focusing on the policy development, normative issues such as the setting of standards, substantive coordination and monitoring and evaluation of the performance of the sector as a whole. Actual programme implementation is to be through intermediary institutions rather than directly. In practice, the SFD has been positioned primarily as:

* ***A Source of Small and Micro Finance:*** A source of financing for microcredit implemented through NGO intermediaries to mostly individual borrowers operating in the informal sector and small business loans to small enterprises. The SFD’s involvement is intended to broaden access to business loans by rendering a wider array of potential borrowers eligible than would normally be the case if limited to existing bank lending practices and criteria and to create both short- and long-term jobs either under sole proprietorship or in the form of informal or formally registered companies and private contractors associated with them. In this respect, it is also intended to encourage enterprises to be registered and enter the formal sector where they are more able to access financing and non-financial services.
* ***A direct source of credit:*** The SFD has recently experimented with Direct Lending (i.e. where no intermediary is used and where SFD lends directly to small enterprises. The Direct Lending programme has so far been used not to compete with existing intermediaries, but to spearhead and demonstrate the viability of lending in segments of the market such as start-ups that are considered unacceptably high risk and off limits for banks and most NGO intermediaries at the present time.
* ***A Non-Substantive Coordinator:*** As the Secretariat to its own Board that is chaired by the Prime Minister, the SFD role in coordination has been primarily of an administrative nature despite the growth of its outreach capacity (through its Zonal and Regional Offices), its cumulative experience with bottlenecks and problems in the sector and its latent institutional capacity to strengthen and propagate policies for the sector that would encourage its healthy growth.
* ***Creator of an Environment Conducive to MSME Growth:*** On the other hand, the SFD has effectively lent its support to the creation of essential institutional infrastructure in the sector that serves to mitigate the risk taken on by lending institutions and creates conditions that facilitate the entry of a wider range of financial institutions into the MSME sector.

By demonstrating the financial and economic viability of entrepreneurship and lending to MSMEs, the SFD has served to attract more actors to the sector, many of which both provide loans and services in conjunction with the SFD or independently.

The role of the SFD has also been to foster the development of institutions that are essential if micro- and small-lending to MSMEs is to grow in Egypt; it has variously funded, provided advice to, and/or taken positions on the boards of insurance agencies providing loan guarantees, NGOs that provide loan monitoring and extension services and credit monitoring institutions. These institutions operate increasingly independently of the SFD although several still maintain close ties (see section on “Support to the Institutional Environment for MSME Growth” in Chapter III - Effectiveness).

With respect to Community and Human Development, on the other hand, the SFD’s role has declined dramatically due to a lack of resources, but, particularly with recent EU funding, the SFD has begun a transition from an institution that emphasizes Government supervised and managed implementation, to one that focuses on working with community leaders to help them identify and prioritise essential productive and “social” infrastructure needs. These are then implemented with the normative, technical involvement of line departments at the Governorate level of the relevant line ministries under SFD supervision, applying “labour-based” modalities that attempt maximise the number of temporary jobs created and projects that lay an overall human development foundation so essential for encouraging participation in the private sector. In this respect, mobilisation of community leaders for decision-making sets the SFD apart from line departments as does the relatively small size of the public works undertaken and the direct involvement of communities in the work.

The SFD’s effectiveness in each of the above areas is discussed in more depth In Section III.

## III. EFFECTIVENESS

### Introduction

The SFD’s ultimate mandate in all relevant programme documents is spelt out in terms of the creation of employment, the raising of incomes and improvement of standards of living through the promotion of private MSME growth.

When assessing the effectiveness of SFD’s activities, one has to assess the results achieved under its three principle lines of business:

* ***Microfinance:*** Micro-credit provided mostly to individual borrowers usually up to LE10,000 at a time with a repayment period of one year with no grace period.
* ***Loans to Small Enterprises:*** Loans that are provided up to LE 2 million to small enterprises
* ***Community and Human Development:*** Labour based public works, small community-based infrastructure construction, water and sanitation, schools and village clinics, constructed with grant money by private contractors supervised by SFD staff in conjunction with the relevant line ministry departments at the Governorate level.

In this regard, the SFD’s mission is to target the poorer sections of the population, women and youth. Effectiveness must therefore also be assessed in terms of the effectiveness of its targeting and its effects on key dimensions of poverty among the targeted segments of the population. The SFD’s mission is to develop the sector as a whole including the establishment of essential institutional infrastructure to facilitate growth of the sector and its performance in this regard must also be assessed.

### Microfinance

**Overall Finding:** The period 2005-2011 has witnessed a significant increase in SFD's micro-credit disbursements through a growing network of intermediary NGOs mostly in the relatively low-income governorates. Women have been successfully targeted (57%) as have start-up businesses (35%). The structure of the products offered has not always been appropriately tailored to the needs of the borrower and has posed problems as a result. Although the way in which jobs created are tracked is problematic, there is no doubt that a large number of jobs and livelihoods have been sustained through this modality,

In the past, micro lending on the part of commercial banks (private and public) has been constrained by[[10]](#footnote-8):

* The perceived high risk associated with micro lending;
* Inadequacy of the methodologies used to assess the creditworthiness of clients;
* The banks’ lack of marketing, appraisal and supervision capacity that specifically target micro borrowers;
* The inadequacy of lending terms and conditions for small business lending;
* The inadequacy of collateral-based lending practices for the MSME market.

SFD's micro-credit has been delivered mainly through intermediary NGOs. Table 1 indicates the achievements under this programme since SFD's establishment in 1992, on a cumulative basis. The Table also separately highlights the achievements since 2005 to-date in view of the significant achievement in that period.

| Table 1: SFD Achievements in Micro-credit (1992 to-date and 2005 to-date)[[11]](#footnote-9) | | |
| --- | --- | --- |
|  | **1992-to date** | **2005-to date** |
| Number of contracts signed with Intermediary NGOs | 695 | 491 |
| Total contracted amount | LE 892,356,908 | LE 544,414,680 |
| Amounts transferred to NGOs | LE 806,969,606 | LE 596,702,370 |
| Amounts disbursed to end beneficiaries | LE 2,686,418,826 | LE 2,499,365,914 |
| Total Number of Beneficiaries | 1,028,262 | 908,261 |
| Total number of jobs created \* | 1,212,464 | 1,068,478 |
| *\* The method of estimating jobs created is critiqued in the main text of this section* | | |

Women constitute 57% of the total number of beneficiaries (1992-2011) of SFD’s microfinance, and start-ups constitute 35% (cumulative 2005-2011)[[12]](#footnote-10). An artificial loan ceiling of LE10,000 has been established per borrower; but under special circumstances the NGO is, with SFD authorization, allowed to lend up to L.E.25,000. Criteria for raising the ceiling include the NGOs' past performance and the borrower's repayment history.

About 36% of the borrowers received repeat loans, suggesting that the business was sustainable and that the borrower perceived value in the loan. The trends since 2005, and related job-creation estimates, are provided in Table 2.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Table 2: Micro-credit and the related Job Creation estimate since 2005 to-date[[13]](#footnote-11) | | | | | | | |
|  | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011  (9 months) |
| Disbursements to end beneficiaries  (LE million) | 202 | 228 | 319 | 444 | 504 | 469 | 333 |
| Number of beneficiaries (‘000) | 98 | 122 | 140 | 164 | 169 | 133 | 82 |
| Female beneficiaries (% of total) | 62% | 71% | 63% | 58% | 57% | 47% | 43% |
| Jobs created (‘000) \* | 118 | 146 | 168 | 197 | 203 | 146 | 90 |
| *\* The method of estimating jobs created is critiqued in the main text of this section* | | | | | | | |

As of end of Sept. 2011, the total outstanding micro-credit portfolio amounted to LE484 million with 241 million active loans.[[14]](#footnote-12) The micro loans were issued for trade, livestock and services, receiving 48%, 32% and 16% of total disbursements respectively in 2011. Just 2% of total loans were for manufacturing[[15]](#footnote-13) (Figure 5).

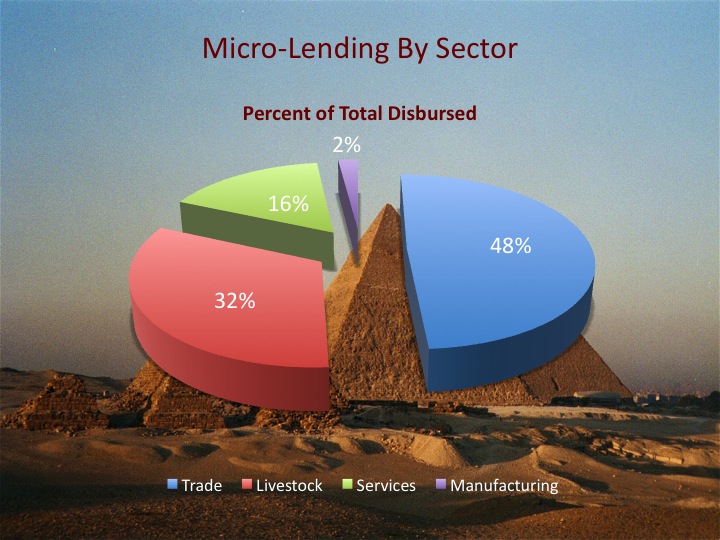


Figure : Percentage of Micro-lending by Sector (2005-2011)

The normal loan ceiling per borrower is set by SFD at LE 10,000. Based on a case-by-case justification and a request by the intermediary NGO, the limit may be raised to LE 25,000 if the NGO meets the following criteria:[[16]](#footnote-14)

1. The NGO has a minimum of three-years’ prior experience in micro-credit.
2. The NGO has prior experience of lending LE 10,000 or above under its own portfolio for at least one year.
3. Enterprises authorised to receive loans in excess of LE 10,000 should be an existing enterprise previously financed by two successive stepped loans, with no payment delays more than 20 days.
4. Total value of all loans to be disbursed to end-borrowers at amounts exceeding LE 10,000 and up-to LE 25,000 should not exceed 50% of the total fund availed to the NGO through the SFD.
5. Repayments overdue by 30 days should not exceed 5% of the value of current loans outstanding.

Loan repayments that are more than 30 days late constitute 4.9% of the value of current loans outstanding. The geographical distribution of disbursements (Table 3) suggests a degree of targeting of micro-credit at a macro-level based on the average income of governorates. Relatively poor governorates such as Fayoum, Sohag and Beni Suef received 9%, 7% and 5% respectively of total loans disbursed during the period 2004–2011. By contrast, Daqahlia and Damietta, considered among the wealthier governorates, received only 2.7% and 1% respectively. However the relatively high allocation to Aswan, Qalubia, Cairo and Giza and low allocation to Suez, South Sinai and Port Said put in question the extent of targeting and makes the picture ambiguous at best.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 3: Micro-credit in LE million by Governorate in 2010, 2011 and Cumulative[[17]](#footnote-15) | | | | |
|  | **2010**  **(12 months)** | **2011**  **(9 months)** | **Cumulative**  **2004– Sept. 2011** | **Poverty**  **Ranking[[18]](#footnote-16)** |
| Beheira | 88.8 | 71.2 | 369.1 | 9 |
| Fayoum | 51.4 | 23.9 | 233.1 | 3 |
| Assiut | 40 | 21.5 | 231.2 | 2 |
| Minia | 28.3 | 30.2 | 183.4 | 8 |
| Qena | 18.1 | 14.4 | 182.6 | 6 |
| Sohag | 33 | 18.2 | 176.8 | 1 |
| Sharqia | 34.3 | 25.2 | 131 | 5 |
| Beni Suef | 27.5 | 16.7 | 125 | 4 |
| Aswan | 25 | 16.7 | 123.6 | 12 |
| Qalubia | 20.3 | 3.6 | 122.2 | 17 |
| Cairo | 11.4 | 6 | 110.9 | 24 |
| Giza | 14.6 | 9.9 | 106.8 | 18 |
| Kafr El Sheikh | 14 | 18.5 | 80.3 | 16 |
| Daqahlia | 11.9 | 10.9 | 70.4 | 10 |
| Gharbia | 11.4 | 9 | 50.2 | 15 |
| Menoufia | 9.6 | 8 | 43.3 | 7 |
| Luxor | 10.9 | 8.9 | 40.9 | 11 |
| Damietta | 6.9 | 6.4 | 29.5 | 21 |
| Alexandria | 1.4 | 4.3 | 27.3 | 23 |
| North Sinai | 3.2 | 4.8 | 20.8 | 13 |
| New Valley | 2 | 1.5 | 20.2 | 19 |
| Red Sea | 1.8 | 1.4 | 16.6 | 22 |
| Suez | 0.8 | 0.1 | 13.4 | 25 |
| Ismailia | .04 | 0.2 | 7.3 | 20 |
| South Sinai | 0.6 | 0.7 | 6.8 | 27 |
| Matruh | 0.3 | 0.5 | 5.9 | 14 |
| Port Said | .04 | 0.2 | 4.6 | 26 |
| Sixth of October | 2.2 | 0.7 | 3.5 |  |
| **Total** | **470** | **334** | **2537** |  |

According to a National Impact Survey[[19]](#footnote-17) that covered the entire microfinance sector including non-SFD loans and entailed a sample of about 2,500 microfinance clients, classified as new (under 6 months), medium (6-36 months) and old clients (over 36 months) according to the time they have been receiving loans. Old clients were found to have higher monthly profits realized by their enterprises (i.e. better performance) and a higher level of re-investment in their economic activities. A positive impact on employment was also observed: average number of full-time employees was 1.3, 1.1 and 0.9 for the old, medium and new clients respectively; businesses that have been receiving micro loans for longer, tend to employ additional people, boosting the intended impact of the loans.

Another evaluation of SFD's Community Development projects, including micro-finance, found that micro-credit interventions reduced the incidence of poverty (World Bank, 2006)[[20]](#footnote-18), although the study was based on a comparison with neighbouring communities that did not receive loans as no baseline was available. About 36% of the borrowers got more than one loan (cumulative 1992-2011)[[21]](#footnote-19); repeat borrowing reflects borrower's perception of a positive impact of the loan and to a degree demonstrates the continued functioning of the business concerned (sustainability).

Although dedicated impact surveys have calculated actual employment, the figures provided on job creation to the Review Team are based on an estimate of jobs expected to be created. The actual results of the impact survey on microfinance were used to adjust the formula used by the SFD in its calculations of jobs expected under SFD-funded projects. The survey found that only 10% of micro-enterprises have employees. The SFD therefore now estimates 1.1 full-time employees per micro-enterprise per loan, including the entrepreneur his/herself[[22]](#footnote-20); microloans provide gainful employment for the micro borrower her/himself, but only creates one tenth of an additional job per loan. The key to successful employment generation with micro credit therefore lies in sustaining the business created and perhaps graduating the business to small enterprise status. Although the majority of the borrowers participating in the focus group were repeat borrowers, relatively little was apparently being done by way of business advice from the SFD to encourage graduation to a higher level. Borrowers who wished to grow their businesses were forced to seek micro loans from multiple sources on unfavourable terms conducive more to operational loans for retail trade ventures than for manufacturing or other small enterprises.

Even this employment figure is, in practice rather deceptive in that in the case of already operating enterprises (not start-ups) the entrepreneur's job existed prior to the loan. The job of the existing entrepreneur should then be said to be 'sustained' by the loan and not 'created' by it. It is worth noting that existing enterprises constitute 65% of the total number of enterprises financed, and that the number of jobs created as reported, as being created should be significantly reduced.

### Small Enterprises

**Overall Finding:** SFD has had great achievements in terms of the volume of disbursements to small enterprises and associated job-creation. The number of jobs created has been estimated on the basis of a formula. But starting March 2011, the actual number of employees has been counted, resulting in an increase in the estimated cost per job from LE 11,000 to LE 30,000.

The Small Enterprise Development Organization (SEDO) of SFD implements its activities through two main programmes, the SME Lending programme and the Non-Financial and Business Development Services (BDS) programme.

SME lending is mainly through bank intermediaries. Table 4 highlights cumulative achievements under the SME Lending programme since the SFD’s establishment in 1992.

|  |  |
| --- | --- |
| Table 4: SFD Achievements in SME Lending (1992 – June 30th, 2011)[[23]](#footnote-21) | |
| Total disbursements to small enterprises | LE 8.9 billion |
| Number of small enterprises | 306,572 enterprises |
| Number of jobs created | 1.3 million jobs\* |
| Gender distribution | 72% males  28% females |
| Sector distribution | 41% trade  21.5% agri-business  21% services  14.5% industrial  2% others |
| *\* The issue of jobs estimation is addressed in other sections of this report* | |

Trends in SME lending since 2004 and in job creation (jobs expected) are highlighted in Table 5. A total of 567,989 jobs have been created, including 436,913 permanent jobs and 131,075 temporary jobs in some 109,029 companies. It is unclear whether repeat loans to the same enterprise were calculated as loans to different business entities.

| Table 5: SME Lending and Job Creation since 2004[[24]](#footnote-22) | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011**  **(9 months)** | **TOTAL** |
| Disbursements (LE million) | 368 | 768 | 766 | 654 | 738 | 396 | 442 | 676 | **4,808** |
| Number of enterprises | 11,566 | 23,881 | 20,873 | 14,368 | 13,847 | 7,778 | 7,324 | 9,392 | **109,029** |
| Permanent jobs | 33,426 | 69,835 | 69,604 | 59,465 | 67,048 | 35,955 | 40,162 | 61,418 | **436,913** |
| Temporary jobs | 10,028 | 20,951 | 20,881 | 17,839 | 20,114 | 10,787 | 12,049 | 18,426 | **131,075** |
| **Total jobs** | **43,454** | **90,786** | **90,485** | **77,304** | **87,163** | **46,742** | **52,211** | **79,844** | **567,989** |

Data from Table 5, and extracts from the corresponding information on micro-credit (Table 2 in the Section on Microfinance) is summarized in Table 6 below. By comparison, SFD’s Five Year Plan (2011-2016)[[25]](#footnote-23) targets a disbursement total of LE 6 billion and a total of 1,200,000 jobs.

|  |  |  |
| --- | --- | --- |
| Table 6: SFD's Five-Year Actual Achievements for 2006 – 2010 | | |
| **Sector** | **SFD's Achievements 2006-2010** | |
| **LE billion** | **Job opportunities** |
| Small enterprises | 2.996 | 353,905 |
| Micro-enterprises | 1.964 | 860,000 |
| **Total** | **4.960** | **1,213,905** |

The drop in volume of disbursement experienced in 2009 (Table 5), is attributed to the fact that the SFD concentrated on just two intermediary banks, both of which were internally restructured in 2009[[26]](#footnote-24), affecting their rate of disbursement (approvals were then centralized and lengthy). Furthermore, SFD considered the interest rate on SFD-loans charged to end-borrowers was too high (6.5% flat i.e. about 12.5% if computed on a simple or declining basis). SFD accordingly reduced the rate of interest charged to banks' SFD borrowers to 10% on a declining basis (with the exception of poultry loans 6% + 2% fees). Also noting the market edge that this gives to SFD.

Table 7 shows disbursements by governorate and is sorted in terms of the cumulative total disbursed.

| **TABLE 7: SME Loan Disbursement by Governorate/LE million** | | | | |
| --- | --- | --- | --- | --- |
|  | **2010**  **(12 months)** | **2011**  **(9 months)** | **Cumulative**  **2004 – Sept. 2011** | **Poverty**  **Ranking[[27]](#footnote-25)** |
| Minia | 27.8 | 35.3 | 449.5 | 8 |
| Assiut | 30.4 | 50.6 | 383 | 2 |
| Daqahlia | 37.4 | 58.3 | 369.5 | 10 |
| Qena | 24.2 | 38.1 | 340.7 | 6 |
| Sohag | 26.5 | 46.3 | 287.1 | 1 |
| Menoufia | 33 | 41.3 | 287 | 7 |
| Sharqia | 37.4 | 38.7 | 284.4 | 5 |
| Gharbia | 23 | 48 | 283 | 15 |
| Kafr El Sheikh | 16 | 32.7 | 261.3 | 16 |
| Fayoum | 20.6 | 25.8 | 214.8 | 3 |
| Beni Suef | 19 | 36.4 | 210.8 | 4 |
| Qalubia | 18.5 | 32 | 207.6 | 17 |
| Cairo | 22 | 44.8 | 181.8 | 24 |
| Aswan | 14.2 | 20.2 | 171.7 | 12 |
| Alexandria | 14.2 | 25.1 | 128.7 | 23 |
| Beheira | 8.7 | 16.2 | 124.6 | 9 |
| Giza | 4.5 | 15.1 | 107.4 | 18 |
| Damietta | 15.2 | 18.3 | 99.6 | 21 |
| Red Sea | 18.2 | 16.4 | 85.9 | 22 |
| Ismailia | 4.9 | 8.1 | 77.2 | 20 |
| Suez | 4.3 | 5.6 | 54.6 | 25 |
| Luxor | 7.1 | 6.4 | 49.9 | 11 |
| Port Said | 7 | 6.2 | 43.7 | 26 |
| South Sinai | 3.7 | 4.8 | 42.6 | 27 |
| North Sinai | 2.2 | 2.9 | 33.1 | 13 |
| New Valley | 1.3 | 1 | 21.4 | 19 |
| Matruh | 0.245 | 0.9 | 4.6 | 14 |
| **Total** | **441.8** | **675.6** | **4,806** |  |

Cumulative disbursements (Table 7) suggest that the correlation with poverty ranking in this instance is even weaker than in the case of micro loans and the claimed targeting of SME lending to relatively low-income governorates is once again less ambiguous at best. In fact, based on the poverty map, none of the 10 poorest Governorates are covered. Furthermore, prior to 2011, there was no evidence of targeting criteria or tools being applied during the screening of individual entities – either in terms of the selection of the income level of borrowers (except that borrowers with sufficient assets are preferred), gender or age of the business owners, or a minimum number of jobs that are to be created.

***Job Creation:*** SFD until recently had been estimating the number of jobs created in connection with its lending to small enterprises so that every LE 11,000 disbursed in loans is estimated to result in the creation of one permanent job (defined a employees who are covered by social insurance)[[28]](#footnote-26). The cost per temporary job has been estimated at LE 3,300, or 30% of the cost per permanent job. It is worth noting that under the microfinance component, no distinction was made between permanent and temporary jobs as most of the borrowers operate in the informal sector).

Starting in March 2011, however, the actual number of employees has been counted[[29]](#footnote-27) based on questions inserted in the client's initial loan application form (on existing labour and expected additions after the loan, if any) and on Field Officer visit reports verifying the jobs created after 3 months of disbursement. Interestingly, this change in methodology this year has led to a significant change in the estimated cost per job from LE 11,000 to about LE 30,000.

### Direct Lending

**Overall Findings:** Direct lending has enabled the SFD to address higher-risk areas such as star-ups that do not receive loans from banks in Egypt. In less than 6 years, loans for LE 587 million have been disbursed to over 10,000 borrowers. Female borrowers and start-ups constituted 20% and 22% respectively. A sound automated credit scoring system is applied. Loan performance, however, is of some concern with the arrears ratio and PAR standing at 3.3% and 21% respectively by mid-June 2011. The challenge facing SFD now is to effectively manage the risk involved and to encourage the entry of other lenders into the sub-sector with appropriate provisions to offset or compensate for the additional risk involved.

SFD's Direct Lending (DL) programme was initiated in 2006 and has seen a rapid rise in the number of loans. Total disbursements have risen over ten-fold, from LE21 million in 2007 to LE223 million for just the first 9 months of 2011. The success of direct lending reflects its targeting of categories of businesses that would otherwise not have access to bank financing. This includes start-up businesses and high-risk sectors (e.g. the poultry sector at the time of the avian flu). Table 9 shows loan disbursement trends since the programme’s inception.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Table 9: Direct Lending Disbursed loans by value, gender and number of loans [[30]](#footnote-28) | | | | | | | |
|  | **2006** | **2007** | **2008** | **2009** | **2010** | **2011**  **(9 months)** | **Total** |
| LE million | 3 | 21 | 77 | 96 | 167 | 223 | 587 |
| Males | 67% | 81% | 79% | 82% | 84% | 79% | 81% |
| Females | 33% | 19% | 21% | 18% | 16% | 21% | 19% |
| Number of Loans | 163 | 813 | 2,116 | 1,844 | 2,097 | 3,329 | 10,362 |

Loan duration is 2-5 years, with a maximum one-year grace period. The interest rate is 10% (7% interest + 3% management fee), with the exception of the poultry sector that is charged only 8% in total, a decision that was probably influenced by Government. (About 10 large loans were disbursed to finance slaughterhouses at the time of the avian flu, for about LE 10 million each and is held up as an example of one of the projects influenced by political considerations)[[31]](#footnote-29).

Start-ups constitute 22% of the loan portfolio.[[32]](#footnote-30) All loans are covered by credit insurance guarantee, as well as third party personal guarantees, eliminating some of the poorer potential borrowers who cannot demonstrate sufficient collateral. The borrower has also to formalize the legal status of her/his enterprise prior to loan disbursement.[[33]](#footnote-31) The outstanding portfolio at end -October 2011 was LE 513 million, with 8,488 active borrowers.[[34]](#footnote-32) Average loan size can therefore be imputed to be LE 52,000.

There are at least two Direct Lending Loan Officers in each RO; this increases to 4-5 depending on the number of borrowers.[[35]](#footnote-33) As in indirect lending, loans up-to LE 50,000 can be approved at RO level with no need to refer to Cairo. Even with this local lending authority, some borrowers complained of delays in disbursement. Very recently, SEDO designed a time-monitoring system for DL, (See the Template presented as Table 10), whereby all loan-disbursement procedures are expected to be completed in 33 days or 38 days in the case of loans that exceed the threshold of LE 300,000 requiring Higher Committee approval:[[36]](#footnote-34)

| TABLE 10: Time Monitoring Template for Direct Lending | | |
| --- | --- | --- |
| The Regional Office (RO) | | 12 days |
| Head Office  (Credit Dept) | Date received ………………. | 3 days |
| Name of Officer ……………. |
| Reason for delay if any …….. |
| Head Office  (Credit Risk Assessment Sector) | Received by the Sector ……... | 7 days (if within authority of Credit & Risk Committee)  12 days if Higher Committee approval needed |
| Committee ……………….…. |
| Date of the Committee ..…….. |
| Decision No. ………………… |
| Preparation of the Decisions. . |
| Head Office  (Credit Dept) | Notify Decisions to RO | 1 day |
| Regional Office | Completion of loan documents and delivering the applications | 3 days |
| Head Office  (Credit Risk Assessment Sector) | Final review of the documents | 2 days |
| Finance Dept. | Issuing of cheque | 2 days |
| Regional Office | Receipt of cheque | 2 days |
| Regional Office | Delivering the cheque | 1 day |
|  | Total: | 33 days (or 38 in case of Higher Committee) |

DL loans are implemented by the Credit Monitoring Department (6 staff members) that is a part of the Credit Risk Assessment Central Sector of SFD. Then the Credit Follow Up Department for DL, that is part of SEDO, follows up with RO’s on the repayment of instalments, on a monthly basis.[[37]](#footnote-35) The latter Department also follows up on the renewal of credit insurance policies.[[38]](#footnote-36)

|  |  |
| --- | --- |
| Table 11: Portfolio-quality ratios for Direct Lending (June 30, 2011) [[39]](#footnote-37) | |
|  | **Direct Lending/ LE’000** |
| Outstanding loans | 313,550 |
| Overdue loan repayments:  Below 90 days  90-180 days  180-360 days  Over 360 days  Total overdue | 3,697  1,189  4,200  1,329  10,415 |
| **Arrears ratio** | **3.3%** |
| Total debt of borrowers with delays | 66,079 |
| **PAR** | **21%** |

Credit checks make use of the automated credit scoring system, Credit IQ, and appear to adequately undertake credit analysis as mentioned in other parts of the report. The portfolio is, however, not of very high quality, especially for such a relatively new programme; it has an arrears' ratio of 3.3% and a PAR of 21% (Table 11). Two thirds of late payments are overdue by 90 days or more. Arrears increased following the events of January 2011, having stood at 2.5% at the end of 2010[[40]](#footnote-38).

Certain other apparent anomalies were detected[[41]](#footnote-39). Reinforcing the need for a study of the current and future exposure of the SFD and its intermediary institutions to credit risk under direct lending and the indirect lending programmes that it undertakes.

A UNDP-sponsored Direct Lending Study[[42]](#footnote-40) praised the DL programme's business processes, its information systems, and the calibre of its staff. It also praised to the system of points of control whereby the Credit Risk Assessment Central Sector acts as a preventive control and the Credit Follow-Up Department for DL acts as a corrective control. Yet the study identified the following shortcomings:

1. A need to upgrade the IT equipment;
2. Insufficient number of employees in DL to permit a separation of specializations (e.g. marketing loans, loan technical activities and following up on loan repayment[[43]](#footnote-41));
3. The need for a process to analyze reasons for non-payment and its impact for future planning of products, activities, beneficiaries;
4. The need for SFD to calculate the share of DL in revenues and expenses, separately, in order to assess sustainability;
5. The need for specialists to formulate, promote and manage the different DL products; and
6. A need to develop other means of customer service and handling complaints.

The DL Study also recommended:

* Publicizing the programme's projects and services in all modern media especially the internet; marketing/ promotion through social networks as Facebook and LinkedIn, and linking the SFD portal to these networks;
* Studying the financial and non-financial services of other organizations to ensure complementarity and to avoid competition;
* Upgrading of the job description form to include key performance indicators;
* Designing/applying a mechanism to regularly update the procedures manual;
* Re-engineering the repayment process to enable payment at the bank;
* Administering a numerical, cumulative grading system for all customers to help grade the portfolio at all times and facilitate risk management.

There are mixed views on SFD's DL lending modality. On the one hand, the Assessment Study provided optimistic projections for loan disbursements, numbers of borrowers and new staff needs. On the other hand, some donors have concerns on 'whether this window may be abused', 'whether there is an exit strategy',[[44]](#footnote-42) also noting that unlike lending through bank intermediaries, DL is not subject to CBE regulation or anti-money laundering procedures required by the Basel Committee on Banking Supervision[[45]](#footnote-43). With respect to the latter, there is no indication that special measures are being taken to verify the identity or source of funds of potential borrowers. Implementation of such procedures will no doubt increase transaction costs and perhaps even staffing costs that will need to be covered by the SFD. However, if the SFD is to continue the Direct Lending modality, it should institute appropriate procedures to bring it into compliance with anti money laundering provisions for loans above, say, LE50,000 – even if direct lending remains relatively small as a proportion of SFD’s total loan portfolio.

It is clear, however, that in the spirit of SFD’s role as an Apex institution and its role in encouraging access to private lending on the part of an ever-wider array of borrowers, Direct Lending can serve as a spearhead. It should encourage banks to enter into new sub-sectors, a) encouraging all banks to establish SME specialized units under CBE-supervision, and b) maximizing cooperation with banks to whom allocations are due for SME-finance as intermediaries for SFD loans.[[46]](#footnote-44)

Meanwhile, it is also important to point out DL's role in accommodating the needs of segments of borrowers that otherwise would have no access to finance. It is therefore convenient to retain the programme but within present limits i.e. about 15% of SEDO's outstanding portfolio.[[47]](#footnote-45) Focus group discussions with micro-borrowers indicated that many needed loan-sizes that exceeded the capacity of the NGO but were still too small to appeal to banks. DL could in such cases serve as a platform for graduating micro-borrowers, ideally on a temporary basis until they graduate again to reach a size that is eligible to SFD bank-loans. DL can also serve to demonstrate the feasibility of certain types of loans or borrowers until a track record is established for the borrower under DL.

### Non-Financial Services To MSMEs

SFD currently provides the following services through its regional offices:

**Overall Findings:** SFD's NFS Sector does not provide a sufficiently broad range of products; they are not tailored to the needs of businesses and are not sufficiently exploited to widen access of the poor to financial services. They also lack the budget necessary for adequate service provision. Some loan beneficiaries complain of a lack of access to NFSs. Cost-recovery is not pursued, affecting financial sustainability and reducing the emphasis placed on them as SFD pursues its own strategy for sustainability. The rationale for organisationally separating NFSs and BDSs into two sectors is not clear. There is staff shortage at headquarters and in ROs in a number of specializations and capacity development is needed.

* Preparation of “feasibility studies” (more correctly described as business plans);
* The clustering of businesses in incubators;
* Marketing;
* Local and international exhibitions;
* Training and technical support (primarily in financial and management issues);
* Information services on export opportunities;
* Seminars and conference facilities.

With respect to business plans, it is understood that some business plans are pre-prepared and available to potential entrepreneurs based on their areas of interest, but ROs also have a staff member available to work with potential borrowers to help them prepare a business plan before approaching an intermediary bank working with the SFD.

Through its one-stop-shop facility in some 11 regional offices, the SFD facilitates the following bureaucratic and licensing requirements by locating all of them in one place:

* The issuance of tax cards;
* Issuance of commercial registration;
* Issuance of temporary licenses for small enterprises;
* Issuance of national card numbers for small enterprises

Regional Offices with One-Stop-Shops located in them generally have full-time or part-time staff on secondment from the relevant line ministries who are available to issue the permits and licenses. While the One Stop Shops visited by the review team were up and running, it was not clear how frequently they were being used. During the time the review team visited the facility, it appeared that no borrowers were using the facility or had actually made use of the OSS facility that day.

It is worth noting that some bank intermediaries have co-located representatives in the One-Stop-Shops as a form of outreach to potential MSME clients. These representatives are often part-time, but keep regular hours that are posted for the information of potential clients.

NFSs are considered essential for supporting the small enterprise sector. They are not beneficial to the small enterprises only but to the lending organization as well. Offering NFSs increases the attractiveness of the credit programme to prospective borrowers, including those that are new borrowers. Secondly, the provision of NFSs helps borrowers enhance their business performance in a way that they are more likely to be regular in loan repayment, the latter being the main constituent of a high quality loan portfolio. The latter should also be used to argue for terms and prerequisites that are more advantageous to the borrower, facilitating access to those with fewer assets available as collateral, improving the targeting of poor segments of the community.

|  |  |  |
| --- | --- | --- |
| Table 8: SFD Achievements in NFSs (2005-Sept. 30, 2011) | | |
|  | Number of  Delivered Services | Number of  Jobs Created |
| Footwear & Leather Industry Service Centre | 3,000 | 1,200 |
| Incubators Development Department | 300 incubated SMEs | 1,500 |
| Technical Support Centre | 6,881 | 13,762 |
| Marketing Department | 2,150  (LE 50 million increase in sales) |  |

SFD's achievements in NFSs is listed in Table 8 by type of service, number of delivered services under each type, and number of jobs created. [[48]](#footnote-46)

Four aspects are addressed below: NFS budget and resources, cost recovery/ financial sustainability, impact /customer satisfaction and the staff /organization.

1. No clear budget seems to be available for NFSs in spite of the importance of this sector to SFD's role in supporting its borrowers as well as the SME sector by-and-large. The decrease in donor-grants received by SFD combined with a lack of clear resource strategy for NFSs are negatively impacting this sector.[[49]](#footnote-47) Rather, there have been some ad hoc attempts to obtain discounts from some service-providing bodies on behalf of SFD clients.
2. Meanwhile, no cost-recovery seems to be taking place. (Note that the Chapter on SFD's sustainability indicated no revenues under this sector)[[50]](#footnote-48). Beneficiaries do not pay (fully or partially) for the service they acquire[[51]](#footnote-49). This negatively affects the financial sustainability of the sector.
3. Focus groups conducted in the field with a number of SFD borrowers showed that there were some complaints from the lack /inadequacy of NFSs. Main complaints on the part of the clients were from in-access to exhibitions and in-access to technological support[[52]](#footnote-50). Technical skills are also extremely lacking in certain governorates.[[53]](#footnote-51) Some economists suggest using the public training centres for providing technical-training services.[[54]](#footnote-52) Clients also reported some difficulties in issuing licenses and/or solving license-related problems at the One Stop Shop 'OSS'[[55]](#footnote-53). In fact, the NFS Sector is now putting in place a department for OSS development.
4. From an organizational point of view, it is not clear why NFSs and Business Development Services (BDSs) are divided into two separate Sectors under SEDO. At the Head Office, there is a shortage in staff specialized in technical support, technical assistance and exports.[[56]](#footnote-54) It is noted that a new department for matchmaking among SFD clients is being created, but has no specialized staff yet. At the regional level, capacity enhancement is needed, aiming to provide the officers with the skills to diagnose clients' needs.[[57]](#footnote-55)

The Small Enterprise Development Organization (SEDO) implements its activities through two main programmes, the SME Lending programme and the Non-Financial and Business Development Services (BDS) programme.

Although the Review Team was not in a position to undertake a systematic assessment of SFD’s experience with incubators, there is a general feeling that incubators have not been particularly successful and this is to do with the two factors: i) Business incubators are premised on the idea that it is easier and more cost-effective to deliver non-financial and financial services to businesses that are co-located in the same area. Yet in the case of the SFD, not enough NFSs or diverse financial products are being offered to make a marked difference; ii) Business incubators enable the greater cost-efficiencies not normally found when businesses are relatively small because facilities are shared and because the products that are produced are bought by larger manufacturers as part of a supply chain. There is no evidence that such arrangements are being made or contemplated.

### Issues Pertaining to Newly Introduced Modalities

**Overall Findings:** One of SFD’s important functions is the piloting of new modalities. The success rate of such ventures is likely to be lower, but donors should accept this as an acceptable cost of transacting in new areas. Startups are clearly subject to higher risk, but with appropriate risk management their upside is also greater. SFD's franchise project has developed business with about 25 franchisors under SFD’s Direct Lending Programme since it started last year. Loans for about LE 16 million have been disbursed with 651 franchisees as of November 2011. Portfolio performance is not tracked separately for the franchise programme in terms of rate of repayment. SFD will face increasing demands for Islamic Banking. SFD's Direct Lending programme will be introducing Islamic finance for the first time, under a new contract that will apply 'morabha' Islamic mechanism.

#### FInancing STARTUPS

At present, established banks in Egypt do not lend to start ups; angel financiers are also extremely hard to come by. Financing is therefore one of the most significant barriers to entry that prevent new entrants who wish to establish small enterprises for the first time. The SFD has therefore entered the market for the financing of start-ups through direct lending – i.e. without the involvement of intermediary financial institutions This has come under attack from banks as well as donors who argue that it is undermining the SFD’s role as an “Apex” institution, that as a semi-governmental institution it is competing unfairly with private banks and that direct lending is opening up the SFD to a level of risk not otherwise experienced through the rest of its programmes. Some donors have also pointed out that the SFD is not a signatory to certain international protocols such as the one for the prevention of money laundering and is therefore to all intents and purposes a loophole that can be misused.

#### Franchising

SFD's Franchise Support project aims to promote the franchise system in Egypt as an effective strategy for the development of the MSE sector.[[58]](#footnote-56) The project positively contributes to spreading the entrepreneurship culture and to the generation of employment opportunities. The programme is funded under an agreement with the African Development Bank (ADB) whereby ADB provided a US$ 40 million credit. This is supplemented with a grant of US$ 950,000 from the Japanese government through FAPA, and managed by ADB.[[59]](#footnote-57) The grant is for technical support for the parties involved i.e. for both the franchisees and the franchisors.

The franchise modality is perceived as having the advantage of reducing business and credit risk for start-up enterprises as the franchisee benefits from the franchisor's support in establishing standards, marketing, pricing policy and product specifications. The products have been market-tested and the projected number of jobs per outlet is ensured as it is generally based on a standardised model. Franchisors under the programme have partnered with the franchisee to contribute a portion of the investment costs, either in cash or in kind in return for a portion of the revenue.

In terms of employment generation, franchise outlets are not remarkably different from other small enterprises in Egypt in the projected number of jobs per outlet. In view of the fact that franchises involve the replication of a standard model, however, the projected number of jobs is closer to the actual number of jobs created. Most franchises are in the food and catering service sector and generate just two jobs on the average for all types of outlets (the entrepreneur included) and rises to four jobs in case of pharmacies (as this includes delivery staff). It is therefore not a more effective generator of employment than other small enterprises, but the jobs generated are likely to relatively stable if market demand permits.

SFD’s franchise business development component began implementation in mid-2010, with seven staff members located within SEDO[[60]](#footnote-58) and has targeted franchisors that have been in the market for at least three years. SFD reviews the potential franchisor’s business plan, including the plan for expansion, operational manuals, and the draft franchise agreement. Financials are forwarded to SEDO management and the Credit Risk Assessment Sector for review and clearance with particular emphasis on the company's financial statements and the feasibility/financial projections per outlet.[[61]](#footnote-59) Based on this review, a limit is determined for dealing with the company as well as the loan size per individual franchisee.

SFD has signed agreements with a number of private national and international firms that have achieved substantial success in the local market. SFD has capitalised on this success for the purpose of creating numerous franchise-based small enterprises. About 15 cooperation protocols have been signed; examples include the following (Table 9): [[62]](#footnote-60)

| Table 9 : FRANCHISE PROTOCOLS SIGNED | | | | | |
| --- | --- | --- | --- | --- | --- |
| Company | Goods  and/or services | Fund in LE million | Number of Outlets | Investment  cost per outlet | Loan Size |
| G.B.Auto | Hyundai vehicle spare parts | 5 | 60 | LE 132,000 | LE 80,000 |
| Al Ahram Poultry Co | Poultry | 2 | 50 | LE 60,000 | LE 38,250 |
| National Co. for Poultry | Poultry | 5 | 75 | LE 120,000 | LE 72,000 |
| Bernasos Stationery | Stationery | 1.2 | 15 | LE 152,000 for 30 sq. and  LE 255,000 for 50 sq.m | LE 80,000  LE 100,000 |
| Seif Pharmacies | Pharmaceuticals | 4.5 | 40 | LE 225,000 | LE 112,500 |
| Smart Pharmacies | Pharmaceuticals | 5 | 50 | To be determined case by case | |
| Nile Tel Engineering Vodafone | Telecommunications | 15 | 500 | LE 55,000 | LE 35,750 |
| Mobinil | Mobile phone services  (in villages & small towns) | 5 | 335 | LE 19,000 | LE 15,000 |
| Ettessalat Egypt | Mobile phone services (in villages & small towns) | 5 | 500 | LE 12,000 | LE 10,000 |
| Sixth of October kitchenware factories | Kitchenware for hotels | 2.5 | 25 | LE 160,000 | LE 100,000 |
| ABC | Shop equipping (shelves/ stands) | 4 | 25 | LE 99,000  LE 245,000  LE 465,000 | LE 60,000  LE 120,000  LE 240,000 |
| Safety Tech | Tyre repair (under certain specifications) | 1.75 | 25 | LE 50,000 | LE 35,000 |
| Khadamaty | Mail services, issuing legal documents (e.g. birth certificates) and mobile phone services | 0.81 | 60 | LE 20,000 | LE 13,500 |
| Lotus (sole distributor of Quick & Bell Bong) | Sportswear | 9 | 28 | Contract cancelled | |
| TOTAL | | 65.76 | 1788 |  | |

According to SFD's Franchise Sector, SFD follows up on the implementation of the franchise agreements with the aim of speeding up the procedures. Meanwhile, some agreements were ended by SFD due to franchisor's non-fulfilment of sales' plan, promotion plan, pricing, technical support to franchisee, etc.[[63]](#footnote-61)

All franchise loans are at present under SFD's Direct Lending programme.[[64]](#footnote-62) Total loan disbursements amounted to about LE 15.5 million, for 447 franchisees.[[65]](#footnote-63) Unfortunately, the quality of the portfolio under this programme is not reported separately i.e. the arrears' ratio and/or rate of repayment by its borrowers is not distinguished from the overall repayment under Direct Lending. But it is said to be doing well insofar as repayment is concerned.[[66]](#footnote-64)

#### Islamic Banking

SFD has dealt with Islamic finance institutions since 2004; first through the Saudi Finance Bank (now Al Baraka bank) and more recently the Faisal Islamic bank.[[67]](#footnote-65) Under the agreement with Al Baraka, SFD received a fixed rate of interest and hence was exempted from applying the terms and conditions of Islamic banking.[[68]](#footnote-66) This contract has ended. Nevertheless, Faisal Islamic bank is now negotiating a shift to the Islamic finance "sharing" mechanism rather than fixed rate of interest. This is currently being studied by SFD. The National Bank for Development has recently opened a window for Islamic banking and will have a contract with SFD for LE 100 million.[[69]](#footnote-67)

The total amount transferred to-date by SFD to banks from Islamic institutions was LE 35.8 million, and the banks in turn have lent LE 36.8 million to the end-borrowers (with the difference in totals being due to the use of fund revolving). [[70]](#footnote-68) Trends in volume of disbursements involving the two banks mentioned above show a net decline since 2007 (Table 10). Although the trend appears to be declining, it is expected that demand for this modality is likely to rise in the future.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table 10: Trends in Lending Through Islamic Banking Intermediaries (in LE million)[[71]](#footnote-69) | | | | | | | | |
|  | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011**  **(9 months)** |
| Saudi Finance/Al Baraka | 3.2 | 12 | 8.4 | 8.6 | 1.3 | 0 | 0 | 0 |
| Faisal Islamic Bank | 0 | 0 | 0 | 0 | 0 | 1.9 | 1.4 | 0.2 |
| TOTAL | 3.2 | 12 | 8.4 | 8.6 | 1.3 | 1.9 | 1.4 | 0.2 |

Total repayments under Islamic finance amounted to LE 31.9 million, representing 94% of amounts due.[[72]](#footnote-70) SFD' Direct Lending programme will be for the first time introducing Islamic finance and under the current circumstances, demand for SFD to deal in Islamic Finance will almost certainly grow rapidly. RO officers have recently been trained on the Islamic profit-sharing mechanism "morabha".[[73]](#footnote-71) The Islamic Development Bank signed a contract with SFD in this respect, for US$ 10 million.[[74]](#footnote-72) Disbursement is expected to start in 2012.

The study proposed to analyse the SFD’s credit profile and that of its intermediaries in depth should examine the risk implications of the various possible permutations of Islamic banking, including those that may require the SFD to equity positions in borrowing enterprises or base its returns on the sharing of production with a view to identifying possible risk management options before SFD’s exposure in this area grows too much.

#### OTHER ISSUES PERTAINING TO NEW MODALITIES

As is the case in most countries at the outset, certain modalities that have proven to be effective and examples of best practice in other countries have been rejected out of hand in the case of Egypt on the grounds that they “do not fit the Egyptian culture” or that the population is “not ready” to accept the new modalities. These are, in most instances, fallacies that the SFD should not espouse and should work actively to dispel. Indeed, it is incumbent on an institution like the SFD, that is mandated to spearhead change, to think “out of the box” and to experiment and to take risks that other institutions – both in government and the private sector – will be hesitant to undertake. The SFD has already demonstrated to banks that their long-held belief that microfinance in Egypt would not be profitable was wrong, leading to a proliferation of private banks in the sector. The following are additional examples of constraining misperceptions that the SFD’s programmes can serve to dispel:

* ***Egyptians do not have an entrepreneurial culture:*** A statement often made by the intelligentsia in urban Egypt about the population in smaller towns and villages, the range of enterprises already being supported by the SFD’s programmes and the entrepreneurial verve of the borrowers met during focus groups must surely already dispel this notion. The challenge is to provide the population with exposure to new ideas, necessary tools and access to the means for them to build livelihoods in the private sector.
* ***Egyptians will not accept group lending:*** In virtually all of the countries in which it has been tested, group lending for microfinance has proved itself to be one of the most effective ways of ensuring high repayment rates and acceptance of the need to repay loans in environments in which government-derived funds have tended to come in the form of grants. Yet in Egypt microfinance has opted for individual loans on the notion that “individuals do not trust each other” and would not like to work in cooperation with others. This is an argument that has been made at the outset in virtually every country that the modality has been introduced in. In light of the growing problems with repayment, this may be a modality that SFD may wish to experiment with in order to improve portfolio performance. Social acceptance by one’s community has been as strong a motivator in Egypt as anywhere else in the world and it is difficult to see why group lending will be any less effective in Egypt.
* ***Services in the social sector need to be provided by government:*** In many developed economies, key utilities (water, power, gas) and social services (schools and clinics) have been either privatised or been implemented through public-private partnerships, raising both quality and efficiency. There is no reason why the SFD should not experiment with a similar approach in Egypt with a view to improving sustainability, efficiency, and creating jobs in the process. A social entrepreneurial approach would also potentially justify access to loans for the Community and Human Development Sector’s work.

### Support to the Institutional Environment for MSME Growth

***Overall Finding:*** The SFD has played an important role in the development of a number of institutions and tools that are essential for efficient functioning and growth of the MSME lending sector of the banking industry. The performance of these institutions, as may be expected, varies. SFD can have little control over their performance. SFD ties to these institutions remain and should be severed to enable the to function independently as soon as they reach maturity.

#### The Cooperative Insurance Society

SFD established the Cooperative Insurance Society (CIS) in 1998. Until 2004 it only guaranteed SFD loans, and was subsequently authorized to guarantee non-SFD small loans. The ceiling per loan was initially LE 1 million and was gradually raised to reach LE 5 million; over 50% of the guaranteed loans have been in retail banking [[75]](#footnote-73).

CIS covers its risk through agreements with about 10 international reinsurance firms, mostly in Europe. The re-insurer bears about 70% of the risk while 30% is CIS's retention[[76]](#footnote-74). CIS has a network of seven branches and 30 sub-branches. About 240 staff members are employed, in addition to 163 outsourced field officers hired by a private firm set up by an ex-officer of CIS[[77]](#footnote-75).

CIS's present guarantee-portfolio is at LE 15 billion. Results of operation indicated a deficit of LE 162 million in 2009 that turned into a surplus of LE 6 million in mid-2011[[78]](#footnote-76). Total revenues decreased from LE 60 million to about LE 27 million between mid-2010 and mid 2011. Shareholders' equity stood at a negative LE (55 million)[[79]](#footnote-77).

Based on interviews with PBDAC and Banque Misr officials in the Governorates, the perception of their clients is that CIS cannot be relied upon to honour claims in a timely manner. As a result, PBDAC charges borrowers with CIS's 2% premium but also requires its own regular collateral. PBDAC prefers to be allowed to charge to SFD-borrowers 2% administrative charges similar to its non-SFD loans. Arrears on SFD-loans at PBDAC Beni Suef are 5.5%. The periodic field follow-up visits in the case of PBDAC target delinquent borrowers only and cannot be said to be in line with best practice for small business loans.

According to CIS, they honor claims within a month on condition that the claim is associated with a delay in borrower's repayment to the bank for at least three months, the bank has informed CIS and has also initiated legal procedures (to be later pursued by CIS)[[80]](#footnote-78). However, a number of banks consulted by the review team reported problems, delays and difficult procedures in collecting claims from the CIS, and even a failure on the part of CIS to honour claims.[[81]](#footnote-79) Perhaps as a result, SFD is considering contracting with 3-4 other credit guarantee firms in addition to CIS, whereby the intermediary bank would have options to choose from.

The standing arrangement for SFD is that 80% of the risk is borne by CIS, 10% by SFD and 10% by the intermediary bank. The standard premium paid by the end-borrower is 2%. SFD's Direct Lending loans are covered by CIS guarantees. Reinsurance in European markets may take place, but the Review Team was not able, in the short time available, to obtain information on this. Table 11 outlines the extent of CIS on guarantees for SFD loans:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 11: Cumulative and Outstanding Insurance Policies for SFD Loans (L.E. thousand) | | | | |
|  | **Cumulative Liabilities** | | **Present Outstanding Liabilities** | |
| **Number** | **Value** | **Number** | **Value** |
| National Bank of Egypt | 363,395 | 1,614,676 | 181,697 | 807,338 |
| Al Baraka (Ex-Egypt Saudi) | 6,840 | 249,786 | 4,104 | 149,781 |
| PBDAC | 6,839 | 249,786 | 3,285 | 130,701 |
| Banque Misr | 5,155 | 148,864 | 2,577 | 74,432 |
| Bank of Alexandria | 1,660 | 72,856 | 664 | 29,143 |
| SAIB | 33 | 7,340 | 20 | 4,404 |
| Incolease Best | 29 | 3,086 | 13 | 1,194 |
| Micro Credit | 34,898 | 114,655 | 8,215 | 24,017 |
| **TOTALS** | **418,849** | **2,461,049** | **200,575** | **1,221,010** |

SFD's Direct Lending loans are all guaranteed by CIS. SFD's experience with CIS can be summarised as follows:

1. CIS paid to SFD claims valued at LE 4.7 million, covering 237 borrowers (cumulative data up-until Oct. 25, 2011).[[82]](#footnote-80)
2. Pending claims by SFD not yet honored by CIS are LE 3.4 million, (including about LE 1.2 million expected to be honored in a few days), covering 188 borrowers.[[83]](#footnote-81)

#### The Egyptian Association for Human Resource Development[[84]](#footnote-82)

The Egyptian Association for Human Resource Development (EAHRD) was established in 2006 under the Ministry of Social Solidarity. It was not fully activated until 2011, when SFD's Human and Community Development Sector Head of SFD was appointed as the Association's Managing Director.

EAHRD has a Board of Trustees with at least three members. The current Board includes the Managing Director, SFD's Human Resource Director, SFD's Technical Office Deputy General Manager, and others. It is officially located at SFD's main office, though it has another nearby office as well.

EAHRD is implementing a project entitled "Youth Employment in Field Follow Up", a project that initially existed at SFD, aiming to create jobs as well as to implement follow up services. The Association is now envisaging a new project where youth would obtain special training to qualify them to become "Business Counselors" who can diagnose the borrower's status, problems and needs, then relay the situation to the loan officer in charge.

EAHRD's activities are financed by SFD using residuals of grants from Acore (EU) and others. The current on-going contract between SFD and EAHRD has a value of LE 4.5 million. Both the grant and the contract end in May 2012; SFD would then be expected to allocate other funding sources. The new "Business Councilors" project, that is being planned for, is estimated to require funds in the range of LE 300,000 (about LE 2,000 per field officer for a present number of 140 officers). EAHRD also applied to SFD for two other new projects aiming to provide youth with training that improves their employability. These projects would target youth in the market by-and-large i.e. would not be confined to SFD-borrowers.

EAHRD's existing manpower, 140 field officers (FOs) as noted above, were originally employed by CIS whereby the latter was in charge of the follow up activity (in addition to its main activity which is credit guarantee). This was starting 1998, (and even before that date, follow-up services were still provided, but by a charity association). FOs are mostly university graduates; their working experience is the range of five years and above. They have annual contracts and social insurance. They get a monthly fixed salary of LE 700-800 plus a variable monthly incentive that is a function of the number of field visits done during the month. Number of visits is 100 per month on the average. The incentive is LE 200 for the first 50 visits (i.e. LE 4 per visit), then LE 250 for the second 50 visits then LE 50 for extra 25 visits if any. This gives a total of LE 500 i.e. together with the fixed salary adds up to LE 1,200-1,300. But no transportation allowances are made.

FOs report to the Follow Up and Coordination Unit at SFD's Regional Office (RO). The Unit determines the list of names of borrowers to be visited by each FO, while also taking into account securing a suitable geographic route for the FO. They visit 30% of the micro-borrowers and all small borrowers[[85]](#footnote-83). Their performance is evaluated on a quarterly basis by the RO.

#### REEFY

"Reefy", a joint stock company with Egyptian shareholders and SFD, was established in 2007. It cooperates with CIB in the micro-credit sector whereby CIB is the lending agency while Reefy provides loan follow up services. SFD aimed to support the company at start-up, but now that it is doing well (and has already achieved break-even) SFD is considering withdrawal. In Dec. 2010 SFD made the decision to withdraw, but postponed action in the wake of the events in 2011.

#### OTHER

The SFD was involved with the establishment of the I-Score Credit Bureau, which is now almost universally utilised by banks in Egypt as the principal source of credit information on all potential borrowers in the country. The reports identify all individuals by a nationally used identity number, keeps track of all loans and repayment information including the number of days beyond the repayment due date; it provides a more detailed report on individuals than similar systems in developed countries although the sources of information may not always be up to scratch. SFD continues to serve on the Board of I-Score. It is worth noting that in the case of SFD's direct loans, the SFD itself has established an automated Credit Scoring System.[[86]](#footnote-84) The SFD provided training to 600 NBE officers, free of charge, on this Scoring System.[[87]](#footnote-85) The I-Score Credit Bureau suggested disseminating the system to all banks; representatives from five banks have formed a committee to review the possibility of formally introducing it to all banks.[[88]](#footnote-86) This provides another example of how SFD is successfully spearheading growth of the MSME sector as a whole and the tools available to all stakeholders.

### Community and Human Development Sector

| **TABLE 12: Community and Human Development Sector Disbursement and Job Creation Trends** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Community and Human Development Sector** | **Amount Disbursed (L.E. Million)** | | | | | | | |
|  | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011 (July)** | **Total** |
| Public Works | 194 | 117 | 83 | 54 | 69 | 76 | 18 | 611 |
| Community Development | 81 | 27 | 5 | 5 | 18 | 33 | 8 | 177 |
| Human Resources Development | 11 | 2 | 11 | 8 | 10 | 12 | 2.5 | 56.5 |
| Total Disbursed | 286 | 146 | 99 | 67 | 97 | 121 | 28.5 | 844.5 |
| Estimated job opportunities | 39239 | 22144 | 15978 | 8083 | 9158 | 14662 | 1826 | 111090 |

The Community and Human Development (CDHD) Sector is divided into relatively small, largely community-identified public works programmes, community development programmes and human resource development activities. The majority of jobs created, which amount to 111,090 between 2005 and July 2011, can be expected to be temporary wage labour in connection with construction. In monitoring jobs created, CDHD does not distinguish between temporary and longer-term jobs created. CDHD activities do, however, indirectly create conditions at the local level for the creation and growth of MSME activity through:

* The construction of infrastructure essential for production;
* Improving living conditions and perhaps, by extension, the productivity of workers including through improved health of the community;
* The creation of a literate workforce and the training of participants in the workforce more able to perform skilled jobs; and
* The raising of local consumption and demand through the raising of incomes.

None of the above dimensions have been monitored in a systematic way and cannot therefore be verified. In general this sector involves projects that have been implemented as grants and in a relatively traditional, top down manner, with the exception of recent changes under an EU grant where community leaders and CDAs have been brought more closely into the identification and implementation of projects. The latter provides a useful model in the context of Egypt, which should be replicated in the current political and economic environment, and if properly monitored to identify lessons learned, could also serve to inform broader policy issues such as decentralisation.

From a purely political point of view, programmes within this sector are also attractive in that they provide a very physical and measurable demonstration of achievement. If linked with the new processes instituted for the identification of priority needs and if supplemented with the model developed by UNCDF/UNDP for Local Development Funds whereby communities are organised to identify needs, prioritise them, secure funding from local authorities and manage implementation with appropriate provisions for transparency, could also provide impetus for both growth of local contracting and decentralisation. If management practices involving even partial cost-recovery for social services such as education and health care could be linked in with appropriate government subsidies or local budgets, private management of these services could both encourage the provision of services by small enterprises and re-engineer the current paradigm for service delivery in Egypt, transitioning to a framework of public-private partnerships.

#### Community Development Programmes (CDP)

**Overall Findings:** CDP contributes positively to the SFD’s core mission to reduce poverty through the creation of employment opportunities. Under the EU programme, CDP activities have become more transparent and responsive to community needs with a focus on partnering with community leaders and local NGOs, concurrently reducing its focus on partnering with line ministries. The integration of programmes with micro lending and small loans has ceased to be a priority following the transformation of microfinance into a separate, standalone group. Opportunities to develop private/public partnerships for community development are being lost as a result.

The CDP addresses community problems and real needs for social services. They suitably identify and incorporate the relevant needs for access to basic social services. On the other hand, objectives and project design accord community and civic participation a secondary value. The general trend has been to treat community participation only as a means to achieve objectives. Lack of channels of representation and inclusion for effective governance, and the consequent weak accountability at the local level, is one of the root causes of poverty in Egypt.

CDP has had a positive impact on large numbers of people. Principal activities have been in health, basic education including adult literacy, water and sanitation and community level environmental education (see Table 13). To achieve its services-oriented objectives and disbursement targets, CDP has thus far operated largely through ministries and public agencies and has channelled only modest resources through NGOs. CDP should capitalise on the proper value and comparative advantage role of the civil society organizations as representative, initiator, and leader of local development.

| Table 13: Outputs of the Community Development Component  (Jan 2005 – Jul 2011) | |
| --- | --- |
| Renovation of Health units/clinics (No.) | 82 |
| No. of beneficiaries | 820,000 |
| Health awareness campaigns and medical coveys (No.) | 3,951 |
| No. of beneficiaries | 123,020 |
| Health awareness household visits (No.) | 204,282 |
| Beneficiaries of eradication of illiteracy classes (No.) | 132,850 |
| Students re-enrolled in schools (No.) | 936 |
| Septic tanks (No.) | 452 |
| Benefiting families (No.) | 2,720 |
| No. of hygienic latrines | 562 |
| Latrine evacuation (No.) | 36,905 |
| Potable water - house connections (No.) | 3,454 |
| Waste water - house connections (No.) | 457 |
| Number of trees planted | 5,706 |
| Canal covering (M) | 2,205 |
| Environmental awareness campaigns (No.) | 898 |
| No. of benefiting families | 67,933 |
| Environmental awareness household visits (No.) | 136,795 |
| No. of benefiting families from garbage collection programmes | 49,770 |
| Issuance of national ID (No.) | 1,731 |
| Birth certificates issued (No.) | 299 |
| NGOs benefiting from capacity building programmes (No.) | 476 |
| Upgraded training centres (No.) | 29 |
| Trainees trained (No.) | 22,883 |
| Tractors purchased for environmental projects (No.) | 164 |
|  |  |

CDP has influenced long-established partners such as the Ministry of Health and Population (MOHP) on family planning programmes and the General Authority for Literacy and Adult Education (GALAE), which works in partnership with more than 500 CDAs in the delivery of literacy classes. This, a first for GALAE, increased programme efficiency as the CDAs have far lower overheads than a large organisation such as GALAE. The CDAs are responsible for implementation, while GALAE focuses on oversight and backstopping. Another contribution to quality has been better targeting to more needy communities for the MOHP and GALAE programmes. Greater progress may be achieved after effectively placing more emphasis on bottom-up needs identification and focusing on capacity building for local CDAs. Still a higher proportion of the CDP work needs to be channelled through NGOs. Networking and learning between NGOs also requires greater attention. There is room for more pursuit of greater community ownership and governance of development processes and resources as a priority. The effectiveness of SFD’s Community Development Programme would increase with a greater strategic focus.

As with the other sectors of SFD, geographic targeting was used as the sole means for reaching the poor. While there are projects supporting NGOs dealing with needs of the disabled, more consolidated/ integrated programmes would be useful for addressing the needs of specific vulnerable population segments.

The innovative design and implementation of the SSD project provides the CDP with valuable experience for more participation at the local level. CDP has the opportunity to use the success of the SSD project to draw up a concerted policy reorientation and realign its human resources towards social and political inclusion of the poor. This should improve the targeting process.

On the issue of gender, CDP analyses and studies indicate that women and children constitute the majority of beneficiaries of health clinics established or renovated by SFD or of the family planning and women empowerment projects. Some sustainable CD projects (such as family planning in Beni Suef) include a micro-finance scheme though grants to CDA’s where the rural guides act, also, as credit officers targeting economically active females, mainly female-headed households.

CDP projects have been reasonably effective, but greater clarity and a strategy vis-à-vis

CDAs and “participation” would achieve greater potential effectiveness. CDP can become a far more effective change facilitator by assuming as principal the mission of providing space – at the lowest tier of local communities and dispossessed social groups – for the identification of opportunities and the initiation of innovative solutions.

CDP’s efficiency is satisfactory, given its (a) broad mission, (b) extremely wide range

of operational modalities and partners, and (c) limited workforce at central and regional levels.

CDP could make a quantum leap through greater validation of the individual and collective experience of its field practitioners/ NGOs partners and the legitimization of the “field” as the authority and the reference for evolving CDP policies and procedures.

**Box 1: EU-SFD "Support to Social Development" Project**

The overall objective of this project is to contribute to poverty reduction and socio-economic development through activities supporting employment creation and income generation for the poor. This is achieved through the implementation of 118 sub-projects in 3 governorates. A transparent process for the selection of NGOs through an open tender process and the use of a community-based selection committee for the screening and selection of 118 sub-projects applying mutually agreed, pre-set criteria. The process serves as a model that could raise the acceptance and credibility of SFD activities in local communities if widely implemented.

Another first for this project is the implementation of a “snapshot” as a participatory methodology to measure the short-term results of sub-projects during implementation. This task was combined with training for the NGOs and the PIUs on how to plan and implement a snapshot in order to enable them to measure the long-term impact of the sub-projects at a later stage. The methodology adopted relied upon two sources of data: i) secondary data from evaluation reports of the SFD; and ii) primary data collected using tools such as beneficiary questionnaires, NGOs questionnaires, focus groups with the PIU members, employment sheets, and documentation with photographs. Quantitative data collected was analyzed using SPSS. The sample included 421 beneficiaries in the three governorates with an average of 13-15 per NGO.

### Community Infrastructure and Public Works Programme

**Overall Findings:** PWP activities contribute to improving the standard of living of poor communities and increase increasing short-term local employment opportunities. In the last few years, the PWP has lost several experienced staff due to reduced funding. PWP works closely with relevant government entities at the local level, both in the articulation of needs and identification of subprojects and project implementation. The PWP has also successfully pioneered close work with community leaders in the identification and prioritisation of needs. The systems and procedures used are very well designed. PWP has institutionalised criteria and procedures to ensure that labour-intensive methods are used and that at least 25% of subproject funds go to employing people from the community being served. PWP has introduced an innovative and sustainable maintenance system to ensure that facilities constructed are maintained. PWP is well positioned as a “change agent” which could have a far reaching impact on the many technical directorates with which it works at the governorate level, with CDAs and village councils at the grass roots, and at the policy level, with sponsoring agencies such as line ministries and governors. Inputs and outputs are monitored, but there is no on-going monitoring of outcomes or impact.

The main objective of the Public Works department under the Community and Human Development Sector, is the implementation of small, labour-based, community infrastructure projects aimed at providing a set of comprehensive, integrated services to improve the living standards of target groups in the governorates, and to create a large number of primarily temporary job opportunities directly and long-term job opportunities indirectly at the local level.

The community infrastructure department/ Public Works Programme (PWP) finances and facilitates the implementation of several infrastructure project types. Potable water projects including the digging of artesian wells, the construction of elevated and ground tanks and pipe networks, sewage collection and treatment, including the laying of gravity networks, pump stations, forced main pipes and treatment plants, rural roads connecting villages, or to access main roads, construction of schools, clinics and social/ youth centres, solid waste management systems, and finally, irrigation projects including the pitching and covering of water canals. The community infrastructure department has funded sub-projects with a capital investment of over LE 611 million from 2005 to July 2011(with an average of LE 94 million per year. This is a decline when compared to an average of LE 113 million per year during 1992-2004.

| **Table 14: Outputs of Community Development Component (Jan 2005 - July 2011)** | |
| --- | --- |
| Renovation of Health units/clinics (No.) | 82 |
| No. of beneficiaries | 820,000 |
| Health awareness campaigns and medical convoys (No.) | 3,951 |
| No. of beneficiaries | 123,020 |
| Health awareness household visits (No.) | 204,282 |
| Benefiting illiterates from eradication of illiteracy classes (No.) | 132,850 |
| Students re-enrolling in schools (No.) | 936 |
| Septic tanks (No.) | 452 |
| No. of households benefiting | 2,720 |
| No. of hygienic latrines | 562 |
| Latrine evacuation (No.) | 36,905 |
| Potable water connections to houses (No.) | 3,454 |
| Waste water connections to houses (No.) | 457 |
| Number of trees planted | 5,706 |
| Canal covering (M) | 2,205 |
| Environmental awareness campaigns (No.) | 898 |
| No. of families benefiting | 67,933 |
| Environmental awareness household visits (No.) | 136,795 |
| No. of benefiting families from garbage collection programmes | 49,770 |
| Issuance of national ID (No.) | 1,731 |
| Issuance of birth certificates | 299 |
| NGOs benefiting from capacity building programmes (No.) | 476 |
| Upgraded training centres (No.) | 29 |
| No. of trainees trained | 22,883 |
| Tractors purchased for environmental projects (No.) | 164 |

So far, PWP has been more closely associated with government delivery systems than any other SFD programme both on the demand side (articulation of needs and identification of discrete subprojects coming up through local government and community bodies) and the supply side - project implementation agreements with Sponsoring Agencies (SA) such as governorates/ministries, and execution through Intermediary Agencies (IA) such as local administrative units and technical directorates. Actual execution of sub-projects is contracted under tenders to local contractors, with an emphasis on labour-based methods. To effectively implement its projects, SFD created Project Implementation Units (PIU) at the governorate level delegated by the Sponsoring Agency for managing project implementation. More specifically, the PIU, composed of SFD staff, is formed to ensure that:

* The project is completed according to schedule and within budget.
* Labour intensive methods are properly applied resulting in facilities that are up to code and in line with national standards.
* The labour content is more than 25 % of the total budget.
* At least 50 % of the labour force employed is from the project implementation area.

PWP has introduced and institutionalised a number of criteria and procedures to ensure that labour-intensive methods are used and that a significant portion of subproject funds goes to employing people from the community being served. This includes standards, procedures and the role of specialised equipment. At least 25% of the project budget must be allocated to wages. Contractors are also selected according to their track record in labour-based public works. The monitoring of implementation includes checks to ensure that labour-based methods are being applied. These are seen as adequate, and due to the low prevailing unskilled wage rates only poorer labourers are “self selected” for the temporary jobs resulting from labour based public works, and such work tends to supplement incomes in the off-season in particular.

The systems and procedures used by PWP in its project cycle are well designed, especially in the Egyptian context and given the degree to which PWP projects and subprojects are embedded in Egyptian government political and delivery systems. This is particularly true of the use of Project Implementation Units (PIUs) as managers and process facilitators working closely with government, and also with the roles assigned to SAs and IAs (in particular governorates and governorate directorates).

Complementarity and coherence of PWP systems are good, mainly through the systems PWP has evolved to complement other investments and to coordinate subproject identification and funding with local directorates, local administration, and the Ministry of Planning. There are also mechanisms embedded within the project cycle to improve the technical and management capabilities of intermediary agencies, which can have a catalytic effect. However, the performance of these systems raises a number of issues in terms of impact and effectiveness as discussed below.

The design of monitoring and evaluation systems of PWP are good for the tracking of subprojects outputs and flow of funds, for evaluating disbursements, for ensuring minimum quality of execution, and for the identification and correction of problems during the project cycle. Monitoring of projects is carried out on a monthly and quarterly basis.

However, there is little by way of monitoring of outcomes and impact that can be fed back to PWP management at either the RO or central level. Post-project impact assessments are commissioned from time to time, but these tend to be sterile reporting requirements that do not serve to inform PWP on how to improve its relevance, effectiveness, and impact. There is a preoccupation, probably borne of the need to fulfil donor reporting requirements, with easily quantifiable “objectively verifiable indicators”, such as the kilometres of roads paved and pipes laid, the number of buildings renovated, etc., more than their impact on the human development or living standards of target groups.

PWP despite its declining size could potentially be positioned first as a “change agent” and then as the agent that encourages private public partnerships for local development, with far reaching impact on the many technical directorates with which it works on the governorate level, with CDAs and village councils on the most local level, and also, with sponsoring agencies such as line ministries and governors at the policy level. Most importantly, the SFD could serve as agent for a paradigm shift in the way in which development is supported at the local level ensuring that it is:

* Client driven with priorities identified by communities themselves;
* Increasingly implemented with community oversight;
* Managed and run by private individuals on a partly subsidised, but essentially private sector basis.

In the last few years PWP has continued to provide innovative examples to partner agencies, although mostly on an *ad hoc* basis and not as part of a broader strategy. Examples cover technical subjects as well as procedural and cost issues, and encompass such areas as household connections, labour intensive contracting, CDA involvement in public works, the PIU approach to managing projects and maintenance contracts. However, it is not likely that PWP by itself can have a fundamental impact on its partner institutions. Their weight in all sectors is enormous in relation to the actual volume of PWPs interventions. PWP can provide examples of better practices and disseminate these. To do this effectively it will need effective monitoring and evaluation systems in place in order to draw lessons and identify best practice.

Unfortunately, the PWP could make more of an effort to systematically propagate its more promising innovations, to make them a standard practice for Government or other service providers. One exception is the maintenance mechanism introduced for infrastrucure; PWP introduced an innovative and sustainable maintenance system to ensure that some of its subprojects are well maintained by allocating 10 % of the PWP budget to a maintenance fund. Only the interest accrued on this fund is used to finance maintenance contracts for PWP subprojects completed a minimum of ten years ago. The fund is therefore sustainable. Subprojects for maintenance are prioritised in consultation with the relevant line department. There is evidence that the GOE is benefiting from this and other innovations of the PWP. The deputy prime minister and minister of finance has recently instructed all GOE ministries to allocate 10 % of its projects budget to maintenance.

Expanding the use of Integrated Local Area Development (ILAD) approach offers an interesting attempt to have a more synergetic impact. Another advantage of the ILAD approach is that it allows, through the mechanism of rapid baseline studies, to be able to measure the impact of interventions on poverty indicators and employment in the particular area being taken up.

### Effectiveness in Targeting

#### TARGETING THE POOR

**Overall Finding:** Targeting of the poor is passive and based on general geographic distribution. An analysis of disbursement in conjunction with the poverty map suggests that even this form of targeting is ambiguous at best. Targeting at the level of individual clients does not seem to take place in any systematic way. Intermediary bank requirements are largely unaltered and it would appear that those receiving small enterprise loans are those that are able to fulfil standard collateral and personal guarantee requirements and are merely benefiting from more advantageous interest rates. The one exception is the creation of temporary manual jobs under labour-based public works schemes as these are largely self-targeting (the wealthier members of society tend not to opt for manual labour).

According to the SFD, its targeting of the poor is based on the 2006 poverty map developed by the Ministry of Economic Development. The map is based on data of the 2006 census and data from the National Income, Expenditure and Consumption Survey of 2005. The map ranks villages and urban shiakhas according to the estimated percentage of inhabitants living below the national poverty line.

Some other institutions have developed new targeting tools recently. For example, the Social Contract Centre (SCC) has developed a “Social Responsibility Map” that is based on the first phase of the 1000 villages initiative[[89]](#footnote-87) and covers 151 villages out of an estimated total of 4,200 and constitutes at translation of resource mapping at the local level and a “participatory needs assessment of local communities”[[90]](#footnote-88) largely undertaken by consultants visiting the villages. According to the SCC, the SFD is present in only in the targeted villages in Sohag, Qena, Behera and Menia[[91]](#footnote-89). It should be noted that the monitoring system proposed by the SCC covers a mix of output and outcome/impact indicators at the community level that is worthy of further review and possible adoption by the SFD under all of its programmes. The SCC has established a baseline for the 151 villages in phase I using a wide range of indicators that could be tapped into by the SFD[[92]](#footnote-90).

It is important to stress that most PWP subprojects serve a particular geographic area, and

thus benefit all inhabitants in that area. That is, PWP subprojects are not self-selecting. (The exception are sub-components involving house connections.) Thus the impact on the poor is very much related to geographic targeting. The design of the current system of selecting subprojects, (where PWP subprojects are selected by local communities and officials with knowledge of poorer areas, combined with the PWP outsourcing of needs assessments, screening process for subprojects and general budgetary allocations based on regional poverty targeting indicators) is adequate, but it is not particularly sensitive to the poorest of the poor. In particular cases, where PRAs and CDAs are involved in identifying poor households for water and wastewater connections, the system is excellent.

#### TARGETING WOMEN AND YOUTH

Various studies have shown that women and youth constitute a critical component of the vulnerable and the poor. The SFD requires the collection of gender-disaggregated data to ensure that planned targets are met. In the current enterprise development portfolios, women were the beneficiaries of over 50% of micro loans, and approximately 30% of SME loans. Visits to the SFD One Stop Shops (OSS), also, confirmed that the percentage of women is about 30% of the total of clients[[93]](#footnote-91). The SFD plan for 2011 is to increase the percentage of women borrowers of micro and SME loans to 65% and 35% respectively. It is not clear, however, whether or how gender is factored into the review of applications at the level of individual applicants. Targeting therefore appears to be less than systematic even if gender disaggregated data is being monitored.

The empowerment of women through environmental and gender sensitive activities is referred to in the set of "Community Intervention tools" that the SFD requires its executing partners to apply so as to ensure that the priorities of a community are addressed and properly targeted. Inclusion of gender analysis in the profiling of the community is advisable as it would enable the executing partner to design appropriate equity and mainstreaming measures, and provide the SFD with a basis for monitoring and reporting on gender results.

The Gender Issues in the context of economic development and entrepreneurship are recognized and fully acknowledged by the SFD, as is the need to better integrate gender in their programming, internal processes, as well in their institutional monitoring procedures.[[94]](#footnote-92) There is a need to further train staff on gender issues at SFD. While various members of the staff have had at one point or the other received gender training, this training was not received through the SFD or linked to their job description, which somehow reduces its effectiveness.[[95]](#footnote-93) A review of the training plan of the SFD confirmed that there was no gender training planned for the near future and accordingly no budget allocated. Consideration may also be given to incorporating gender targeting indicators into staff performance appraisal systems.

There is evidence of a shift towards a gender sensitive perspective in the SFD's approach and operations reflecting institutional commitment to the international agreements to which Egypt is signatory including the Beijing Platform for Action and CEDAW. A draft planning note entitled “Enhancing the Role and Participation of Women in SMEs” includes ten broad intervention areas where equity and mainstreaming measures are intended to produce GE results. The SFD is already engaged from a pro poor perspective in some of these intervention areas through its involvement in the GOE 1000 Poorest Villages Initiative. According to the Deputy Manager for the General Secretariat Technical Office, there is the institutional will to go a step further and "engender private sector development".

The ten areas of intervention can be summarized as follows:

* Disseminating positive messages about women entrepreneurs and their contribution to the Egyptian economy. Shedding light on their success stories in the appropriate venues and through the commissioning of research and publications.
* Upgrading the entrepreneurial capabilities and skills of women through training, and establishing as well, information channels for women to learn about the various types of enterprises, and the financial and non-financial services available to small entrepreneurs.
* Building the capacity of businesswomen’s associations and civil society organizations so that they can play a more effective role in supporting women's participation in the SME sector.
* Establishing business linkages between the smaller enterprises and the medium and larger sized ones in the sectors and industries where women are concentrated, such as for example the food, and the garment and textile industries.
* Encouraging home-based production of handicrafts, electronic devices, information technology software and other feeding industries.
* Developing appropriate financial schemes, products and methods of outreach that are suitable for women.
* Removing the barriers facing women's entry into the labour force, including the gender role stereotyping of women as housewives and mothers.
* Implementing literacy and awareness-raising programmes for women.
* Improving the quality of life of rural women by introducing water and wastewater household connections and other sanitation facilities.
* Upgrading primary health care facilities, maternal and child care centres as needed, and organizing medical caravans in remote areas where there are no health facilities.

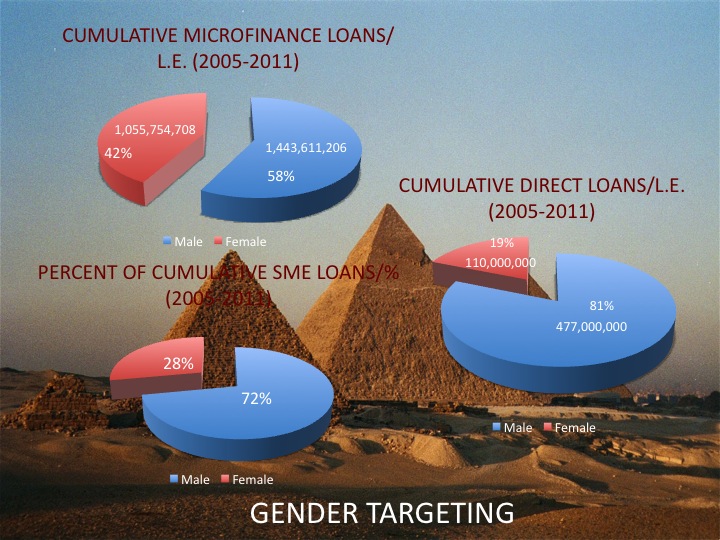


Figure : The Extent of Gender Targeting

#### ADDRESSING ENVIRONMENTAL ISSUES

SFD had a environmental unit that provided support and technical assistance to all divisions on environmental issues. This unit has since been closed and SFD lost key talent in the process. But the PWP and the CDP have relevant expertise and are funding programmes that support sustainable development as outlined in other sections of this report.

It cannot be said that environmental impact assessment is a centrally important step in the design or selection of projects. However, tender documents of PWP projects have sections requiring local contractors to adhere to environmental laws. All one-stop shops in SFD regional offices provide support to SFD clients to secure approvals from the Ministry of Environment for start-ups and existing businesses. SFD also has agreements with donors to support green businesses such as recycling of agriculture and solid waste.

Creating capacity at SFD to assess environmental externalities of SFD projects and to formulate green projects in PWP CDP as well as to advise on green projects in MSEs is likely to help mobilise donor funding while at the same time generating employment and income growth (see Recommendations).

## IV. EFFICIENCY

### Disbursement

#### Timeliness and Responsiveness

**Overall Findings:** The credit scoring system is comprehensive and covers all components of sound credit analysis. Some feasibility studies at ROs would benefit from an updated schedule of unit prices/costs. Loan disbursements are delayed at the banks, as well at various levels of clearances at SFD. Headquarters Credit Committee meetings are frequent and are not the cause of delays. Information flows need to be strengthened to adequately communicate loan terms and conditions to borrowers, to issue bank reports to SFD on late repayments, and to enhance information-exchange on the quality of loan portfolio among the concerned departments within SFD. Loan disbursement at NGOs is rapid, but neither the ROs nor the NGOs are responsive to client feedback on the size and terms of loans; financial products are not fine tuned to meet demand and business realities. Some ROs are understaffed insofar as microfinance officers are concerned, negatively affecting the support provided to NGOs and end-borrowers and perhaps the quality of the loan portfolio.

The main dimensions of efficiency that were reviewed included:

* Quality of the credit and feasibility studies,
* Promptness of loan disbursement procedures,
* Promptness of recognizing late repayments,
* Responsiveness to end-borrowers' needs,
* Responsiveness to intermediaries' needs if any,
* Quantitative and qualitative adequacy of manpower, and,
* The flow of information within SFD, and between SFD and intermediaries and/or end-borrowers.

***SME Lending:*** While intermediary banks conduct their own credit analyses, SFD supports SMEs by providing “feasibility studies” for various projects. These are, to all intents and purposes, business plans. Some are provided “off the shelf” for projects that the SFD thinks may prove viable, while others are generated in consultation with potential borrowers. A limited sample of business plans were reviewed: most are comprehensive business, but some clearly need revisiting as projected unit costs are not up-to-date.[[96]](#footnote-94)

In the case of SFD's direct loans, an automated Credit Scoring System has been put in place by the IT Sector.[[97]](#footnote-95) The Scoring System adequately covers the components of a sound credit study. SFD provided training to 600 NBE officers, free of charge, on this Scoring System.[[98]](#footnote-96) I-Score Credit Bureau suggested disseminating the system to all banks; representatives from five banks formed a committee to review this.[[99]](#footnote-97)

Loan disbursement procedures, by bank intermediaries, are reported by borrowers to be lengthy and lead sometimes to unacceptable delays in implementation. This may be addressed through strengthened follow-up by the Regional Office Loan Officers with the banks, on behalf of borrowers. It may also a merit a detailed review of the steps involved in clearances and the location of those clearances. Under Direct Lending, delays at SFD Zone Office and at Headquarters have also been reported, as well as delays in checking through I-Score reports.[[100]](#footnote-98)

In this regard, the credit approval cycle under direct lending is as follows:[[101]](#footnote-99) Loans of up-to LE 50,000 are approved at the level of the Zone Office, loans of LE 50,000-300,000 are reviewed by SEDO at Headquarters and approved by the Credit and Risk Committee, and loans of LE 300,000– 2 million undergo same steps plus the approval of the Higher Committee for Credit and Project Evaluation. While LE 2 million is a ceiling per end-borrower for SME-loans (through intermediary banks and direct lending), exceptions were made under DL during the avian flu pandemic where individual slaughter-house loans of about LE 10 million were disbursed. DL loans up-to LE 5 million are within the Managing Director’s authority and those above it need Board approval.[[102]](#footnote-100)

The Credit and Risk Committee meets at least once a week while the Higher Committee meets on a bi-weekly basis or as the need arises.[[103]](#footnote-101) This is therefore not the bottleneck leading to delays. SEDO recently designed a system for monitoring/controlling loan processing and disbursement time, for DL that should now be institutionalised.

With respect to late repayments, banks are aware of delays of only one day in the repayment of monthly instalments.[[104]](#footnote-102) On the other hand, delays are reported to SFD on a quarterly basis. Such a long interval does not allow SFD loan officers at ROs to take any remedial action to support the borrower and help her/him overcome difficulties. It is only recently that SFD started to require banks, under newly signed contracts, to report the repayment delays on a monthly basis. Monthly reports on late payments are still not communicated to Headquarters online: the RO sends it to the Headquarters Settlement Department by fax or scanner. Also some banks e.g. PBDAC did not agree to report on repayment delays/defaults on a monthly basis.[[105]](#footnote-103)

Information on legal procedures, and terms and conditions, are not adequately communicated to borrowers, hence lengthier and more costly bureaucracy due to lack of information.[[106]](#footnote-104) Also within SFD, such basic information as end-borrowers' repayment to banks is not adequately communicated between/ or followed up by the departments concerned.

***Microcredit:*** Standard forms are provided by SFD to intermediary NGOs to use in conducting the credit study. The form are simpler than those employed by intermediary banks and better suit the small size of loans and the large numbers of borrowers, yet loan officers at NGOs need further training on the content of the form and the rationale underlying each of its elements.

Delays in microfinance are reported regarding the contractual stage with NGOs[[107]](#footnote-105). Major delays on the part of NGOs sometimes also occur in completing the required documentation (especially in the case of first time intermediaries of SFD), further delays sometimes also occur within SFD in the process of clearances between RO, Zone Office and Headquarters. Sometimes the NGO receives the first tranche of funds three months from date of completing its documentation.[[108]](#footnote-106)

Loan contracts with NGOs/ (CSOs) up-to LE 750,000 are presented and directly approved by the Credit and Risk Committee. Loans over LE 750,000 and up to 5 million have to be presented to and approved by the Higher Committee after Credit and Risk Committee approval. Loans between LE 5 million and LE 25 million require general approval from BOD to be granted to the NGO after being presented and approved by both committees without a case-by-case approval of BOD if a) the NGO fulfils the LE 25 million criteria presented and approved by both credit committees and b) the NGO credit worthiness is analyzed and approved by both MFCS and the Credit Risk sector. It is worth noting that only very few NGOs have contracts exceeding LE 5 million.

Once contracts have been signed, loan disbursement, as a general rule, is prompt. Disbursement to end-borrowers is generally processed within 10-days. Borrowers in focus groups held by the Review Team in Beni Suef indicated that disbursements had, in all instances, been effected within 8-10 days. The same focus group discussions, however, reflected a lack of responsiveness to borrowers' needs both at NGO and RO levels:

1. Loan sizes were kept by the NGO at a maximum of LE 10,000 even for repeat borrowers with prompt repayment histories even though their volume of business may justify obtaining larger loans either by orienting them to DL or by applying to SFD for an increase to the ceiling of LE 25,000 on a case-by-case basis. It followed that the borrowers obtained supplementary micro loans from other commercial lenders in addition to the existing one in order to cover their needs, in some instance rendering their monthly payments difficult to manage.
2. All micro loans were for a duration of one year and required monthly repayments without a grace period. The same loan terms were provided to borrowers who needed to purchase equipment leading to a mismatch in cash flow with repayment requirements. Failure to distinguish between working capital finance-needs and fixed assets finance-needs is one example of how borrowers are faced with difficulties in repayment. Those that are able to meet repayment requirements are those that have independent means for repaying the loans even before their revenue stream had begun.
3. Loan duration was reduced for most borrowers due to NGO liquidity shortfalls, leading to larger/more burdensome monthly instalments (i.e. end-borrowers are penalized for reasons beyond their control).

Manpower inadequacy at the RO level needs to be addressed. Table 15 shows the number of NGOs by governorate, the number of microfinance staff members, the cumulative funds disbursed and funds managed at present. The ROs in some governorates are quite under-staffed. For example in Minia and Sohag, only two microfinance officers are responsible for 72 and 36 NGOs respectively. Qena and Aswan ROs are also seriously under-staffed.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 15: Micro-credit by Governorate, number of NGOs and number of RO staff [[109]](#footnote-107) | | | | |
|  | **Cumulative**  **Disbursements [[110]](#footnote-108)**  **2004– Sept. 2011**  **(LE million)** | **Current status [[111]](#footnote-109)** | | |
| **Funds Under Management**  **(LE million)** | **Number**  **of**  **NGOs** | **Number of Microfinance Staff at RO** |
| Alexandria | 27.3 | 20.5 | 14 | 1 |
| Assiut | 231.2 | 42 | 32 | 3 |
| Aswan | 123.6 | 28.3 | 25 | 1 |
| Beheira | 369.1 | 59.9 | 12 | 2 |
| Beni Suef | 125 | 21.9 | 16 | 3 |
| Borg El Arab | 0 | 0 | 0 | 1 |
| Cairo | 110.9 | 19.5 | 13 | 4 |
| Damietta | 29.5 | 15.7 | 10 | 2 |
| Daqahlia | 70.4 | 21.1 | 24 | 2 |
| Fayoum | 233.1 | 42.9 | 23 | 6 |
| Gharbia | 50.2 | 11.4 | 7 | 1 |
| Giza | 106.8 | 57.9 | 11 | 2 |
| Ismailia | 7.3 | 4.7 | 7 | 2 |
| Kafr El Sheikh | 80.3 | 33.8 | 22 | 2 |
| Luxor | 40.9 | 7.7 | 9 | 1 |
| Matruh | 5.9 | 2.7 | 5 | 1 |
| Menoufia | 43.3 | 22.8 | 12 | 2 |
| Minia | 183.4 | 54 | 72 | 2 |
| New Valley | 20.2 | 11 | 13 | 2 |
| North Sinai | 20.8 | 11.3 | 12 | 2 |
| Port Said | 4.6 | 2.7 | 4 | 2 |
| Qalubia | 122.2 | 13.8 | 10 | 2 |
| Qena | 182.6 | 37.8 | 40 | 3 |
| Red Sea | 16.6 | 6 | 4 | 1 |
| Sharqia | 131 | 34.7 | 26 | 3 |
| Sixth of October | 3.5 | 1.3 | 1 | 1 |
| Sohag | 176.8 | 37.1 | 36 | 2 |
| South Sinai | 6.8 | 4 | 4 | 2 |
| Suez | 13.4 | 4.8 | 5 | 1 |
| **Total** | **2536.7** | **631.3** | **469** | **59** |

### Cost Efficiency of the Public Works Programme

The project cycle used ensures a tight and logical relationship between planning and execution. Subprojects are identified from below, screened, and then packaged and funded centrally. Execution follows logically and is decentralized.

**Overall Findings:** Efficiency of the SFD’s public works programme rates favourably in comparison to other infrastructure service providers in Egypt. Project overheads are remarkably low in part due to transparency of the process. Once approved, sub-projects are executed in a timely manner although lengthy approval processes in practice result in considerable delays. While they bring valuable local experience to bear, the skills of personnel at the ROs and the PIUs could benefit from in-service refresher courses.

Responsibilities, procedures and operational norms are clearly spelled out, and reporting and monitoring of implementation is also well defined. However, it could be said that such a relationship is too rigid and vertical, especially compared with other social funds, which allow considerable regional autonomy in funding choices. Day to day management is good. Channels of communication between RO and the Headquarters are effective, both formally and informally. Communications are also close and effective. Budget management and tracking of the flow of funds are also good.

Reporting on the use of donor funds appears competent and sound. Personal management and personnel motivation are good despite the dramatic decline in funding and the loss of staff. Also, contracting and tendering, outsourcing, coordination with other bodies, etc. seems sound.

In relation to the project and subproject cost-effectiveness, tendering for subprojects is normally carried out at the governorate level. Egyptian government regulations on tendering applies, and least cost is the principal determining factor. Bidders are given a bill of quantities and are asked to set unit costs for the various items so that the unit costs of successful bidders are in conformity of with market rates. While in price terms the tendering process may result in least cost choices, there is the danger that the chosen contractor may produce substandard work. Evaluating of contractors’ technical offers, and instituting a quality assurance system would avoid this.

Project overheads are remarkably low, especially when considering that most subprojects are quite small in size and do not result in the kinds of economies of scale associated with large civil works projects. These rates are particularly low when compared to donor-executed projects in Egypt, which rely heavily on local and international private consultants and contractors. Evidence provided by PWP indicates that the cost of subprojects has been about 20 % lower than average market rates. Transparency and the timely payment of contractors’ invoices are important factors resulting in this cost effectiveness. Only when the donor procedures require an international tender, are the costs of subprojects much higher that local market rates (e.g. the EU funded project Support to Social Development).

In the past few years, the PWP has lost several experienced staff as a result of reduced funding. Currently, three capable professionals manage PWP centrally. Although the RO and PIU teams bring to bear valuable local experience, the skills of their staff need upgrading. Since ROs are mainly implementers, they are frequently pre-occupied with day-to-day management and do not always take full advantage of the opportunities for synergetic collaboration, especially at the project formulation and design stages.

In relation to disbursement rates and project timeframe, the projects are executed in a timely manner. However, the project cycle is long, and the time span from subproject identification to completion of all subprojects in a project can be as long as 2-5 years. This means the response rate to needs is not rapid. This is due to: i) the need for screening and prefeasibility studies of sub-projects and their checking with government agencies that there is not duplication of funding; ii) the need for donor agreements to go through official channels, including Parliament; and iii) the central SFD appraisal and approval process for projects. Once framework agreements are signed, execution normally begins within three to four months, and all subprojects are completed within 1.5 to 2 years.

### Procurement

PWP is closely entwined with government, both on the demand side (articulation of needs and identification of discrete subprojects coming up through local government and community bodies) and the supply side (project implementation agreements with Sponsoring Agencies such as governorates / ministries, and execution through Intermediary Agencies such as local administrative units and technical directorates). Actual execution of sub-projects is tendered to local contractors, with an emphasis on labour-based methods. To efficiently implement its projects, SFD created Project Implementation Units (PIU) at the governorate level delegated by the Sponsoring Agency to be responsible for the successful implementation of the project.

Design and quality control is not directly in the hands of PWP, since standard designs for infrastructure, materials specifications, and tendering and execution are in the hands of intermediate agencies such as technical directorates at the governorate level. But the PWP and the PIU has been and is trying to influence the process and follow up at each step, to ensure the quality of PWP projects.

Procurement requirements of donors can be burdensome and time consuming, and have raised the costs of “administrative support” associated with projects. However, understanding of donors’ requirements is excellent and these external procurement requirements are not considered problematic for SFD.

### Other Bottlenecks

#### AUDIT

In the current environment, all government and quasi-governmental institutions are under scrutiny for possible corruption. The reaction of bureaucracies the world over is to go to the extreme and maximise the number of checks, balances and controls on institutions. The SFD is currently under pressure from government, donors and the public alike to demonstrate that it does not conform to the worst stereotype of a government institution -- that it is not a bed of waste and corrupt practices. It has, as a result, taken things to the extreme. There is an “audit fever” afoot at the SFD and it has gone to such an extreme that it has both resulted in a reduction in efficiency and gone beyond the realms of best practice.

**Overall Findings:** Current audit practices constitute a drag on efficiency without necessarily adding to the level of financial probity beyond a more reasonable audit regime.

The SFD is currently subject to internal audit by its own audit department, to external audit by private audit firms, and Government audit by the Auditor General’s office. The SFD is also subject to questioning by security audits that are designed to undertake random and targeted checks to ferret out corruption.

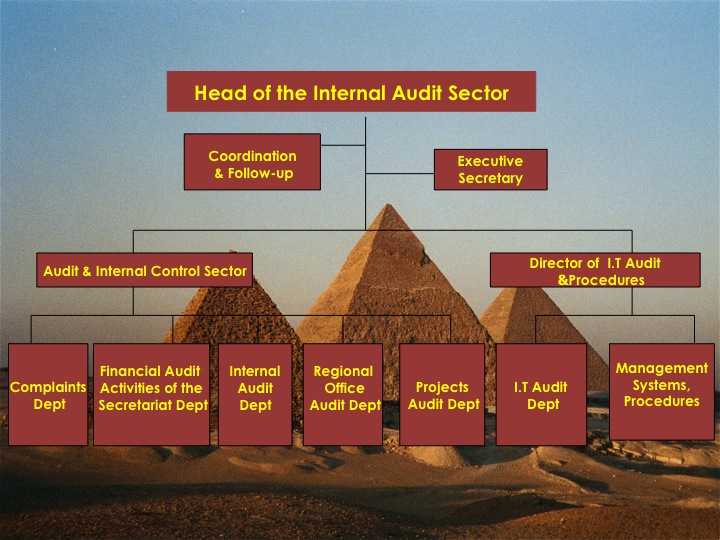


Figure : Structure of the Internal Audit Sector

The internal audit sector is well staffed and appropriately reports directly to the Managing Director and performs what essentially amount to financial and compliance audits rather than management audits[[112]](#footnote-110). To all intents and purposes it appears to be structured more as a control, oversight and monitoring department than an independent audit function. Internal audit performs the following[[113]](#footnote-111):

* Reviews of draft contracts between SFD and intermediary banks and NGOs prior to signature;
* A first full audit after contract signature and prior to delivery of the first instalment;
* Audit review of the contract, compliance and the basis for the “credit decision” with respect to the intermediary prior to issuance of the second instalment;
* Follow-up audit reviews on a regular basis using a checklist, making sure that any “required corrective action is undertaken and backed up with official documents”;
* Issuance of a final audit report upon completion of both an external and an internal audit prior to closure of the SFD’s financial books.

Furthermore, internal audit reviews financial data entry[[114]](#footnote-112) at SFD on a daily basis, audits all cash advances and the basis on which they were issued, day-to-day constraints in implementation and takes “preventive action” to control cash transactions under direct lending at the RO level.

Some 280 contracts have been audited between 2005-2011. This level of internal scrutiny is sure to reduce efficiency and healthy risk taking on the part of staff and slow down the flow of work without meaningfully adding to the accountability or probity of the work undertaken. A guaranteed, comprehensive internal audit during the lifetime of each project/contract should suffice to ensure that staff are mindful of regulations and ethical practice and that projects are sufficiently compliance. The current practice, where audit is actually involved in management decisions at the stage of the review and approval of draft contracts as well as the basis for credit decisions would under most other conditions be viewed as potential conflict of interest on the part of the internal audit department on grounds that it is both involved in management decisions and auditing compliance of the same decisions with rules and regulations as well as financial probity.

External audits are currently undertaken by three private companies:

* Hazem Hassan;
* Mohamed Helal; and
* Pricewaterhousecoopers.

Government audits are undertaken by the Central Audit Organisation.

The audit process is supported by whistleblower facility – the Complaints Department that was established in 2009 and receives complaints directly from intermediaries and clients, indirectly through ROs and via an established telephone hotline service. To date, a total of 865 complaints have been received and some 830 resolved – mostly without any need for corrective or punitive action (see Table 16).

|  |  |  |  |
| --- | --- | --- | --- |
| TABLE 16: COMPLAINTS RECEIVED | | | |
| Source of Complaint | Incoming | Solved | Percent Solved |
| Outside Clients | 338 | 308 | 91 |
| Complaints received via ROs | 25 | 25 | 100 |
| Hotline Service | 502 | 497 | 99 |
| TOTALS | 865 | 830 | 96 |

Complaints were reduced by 47% in 2010, although it is not clear whether this was because of satisfaction on the part of clients or for other reasons. The Review Team was informed that the Complaints Department takes steps to prevent repetition by performing the following:

* Routing complaints to the concerned departments of SFD;
* Categorising complaints and determining means to avoid repetition and reduce the overall number of complaints; and
* Follow up with concerned departments to ensure that valid complaints are addressed.

There are few organisations worldwide that are as heavily audited as the SFD. It needs to be streamlined if it is not to negatively affect the work and morale of staff.

## V. MANAGEMENT AND CAPACITY ISSUES

The following analysis focuses on areas in which the Fund can improve, but it should not be construed from it that the Fund is in any way lacking in its overall capacity or professionalism.

While capacity varies between groups and units as it does in any private or public organisation, the SFD has created significant professional capacity that is comparable with that at any institution in Egypt or abroad. The staff give every impression of being highly committed to their work and fulfilling the mandate of the Fund to the very best of their ability.

### Governance of the SFD

The SFD governance is through a Board that is chaired by the Prime Minister of Egypt and includes the Managing Director. The TORs of the SFD Board, issued by the Cabinet on 6/5/1991, outlines the Board’s role as follows:

“The Board shall achieve the following objectives and competencies entrusted to SFD as follows:

* Delineating the SFD general orientations and prioritizing its activities.
* Approving the SFD estimated budget and its closing balance as well.
* Accepting grants, donations and contributions to be provided to SFD whether in kind or in cash from national and/or international organizations.
* Approving the SFD by-laws governing all administrative, financial and technical affairs to be proposed by the Managing Director.”

Although it has gone through different iterations, the composition of the SFD Board as approved by the Cabinet on August 17, 2011 was as follows:

* Prime Minister Dr. Essam Sharaf (Chairperson);
* Professor Aly El Salmy: Deputy Prime Minister for Political Development, Democratic Transition and Minister of Public Enterprise Affairs.
* Professor Hazem El Beblawy: Deputy Prime Minister for Economic Affairs and Minister of Finance.
* Mrs. Fayza Abul Naga: Minister of Planning and International Cooperation.
* Professor Ahmed El Boraay: Minister of Manpower and Immigration.
* Mr. Osama Heikal: Minister of Information
* Councilor Dr. Mohamed Ahmed Attia: Minister of Local Development.
* Dr. Mahmoud Abdul Rahman: Minister of Industry and Foreign Trade.
* Mr. Hany Seif El Nasr: SFD Managing Director.
* Mr. Osama Saleh: Chairman of the General Authority for Investment and Free Zones.
* Mr. Mohamed El Sawy: Board Chairman of Saqiat Al Sawy, a cultural centre for youth in Cairo.
* Mr. Moataz El Alfy: Board Chairman of Americana.
* Mrs. Yousria Loza: Financial Consultant.
* Dr. Naglaa El Ahwany: Economic Expert.

The Board is authorized to invite whomever it deems appropriate to attend its meetings to discuss issues that are brought before it. The Board, however, has not yet convened in 2011; the last meeting having been held in December 2010. However, the Economic Ministerial Committee met on June 2011 where the SFD’s strategic orientation was discussed.

Despite the addition of private individuals as well as two businessmen, the Board remains i) very Cairo-centric; and ii) dominated by Government institutions. Broadening the Board to include one or more representatives of poor Governorates, a large manufacturing company and a banker with a background in private commercial or investment banking would greatly broaden the range of experience that could be brought to bear, including practical experience of the constraints faced by communities and private enterprises on the ground, mitigate the current perception of SFD being a Government entity, and dilute the potential for pressure to be brought on SFD to programme its assistance with political objectives in mind.

It is recommended that the Board should also have more formal rules of procedure and a terms of reference that specifies the scope as well as the limits of its authority. The reconstituted Board should:

* Meet regularly on a semi-annual basis;
* Receive reports on outcomes and impact at each meeting based on a clear set of indicators;
* Receive reports on constraints and practical difficulties faced by enterprises, micro entrepreneurs and community development programmes with a view to influencing policies;
* Receive reports on credit risk faced by the SFD on a regular basis; and on an annual basis,
* Receive reports regarding staffing and capacity development.

Consideration could be given to appointing subsidiary working groups to report to the Board on key issues such as reform of the SFD or credit issues. These working groups would then report back to the Board based on their findings. The working groups could be expected to function on a more intensive basis for a limited period of time based on the workload

### Organisational Structure of The SFD

The SFD, despite the presence of 31 Regional and 9 Zonal Offices, remains a relatively centralised organization, with most decision-making authority retained at its headquarters in Cairo. As a result, its nationwide network of offices constitutes a largely untapped resource and comparative strength of the SFD as an organisation that could be more effectively leveraged to raise the effectiveness of the organisation as a whole.

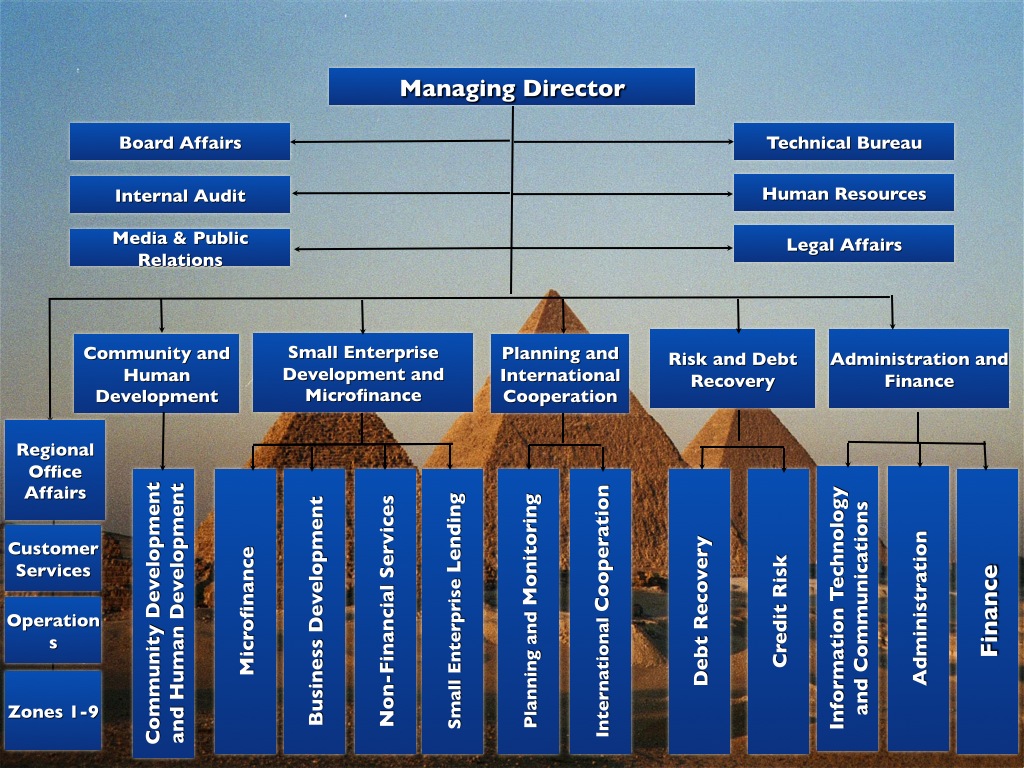


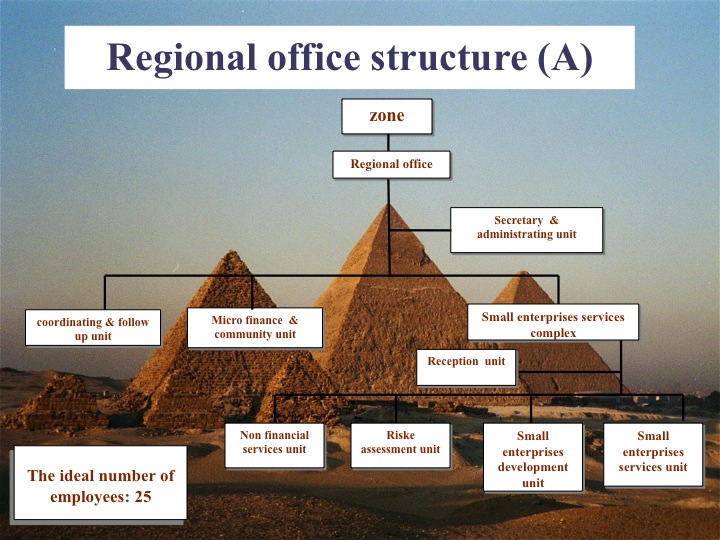
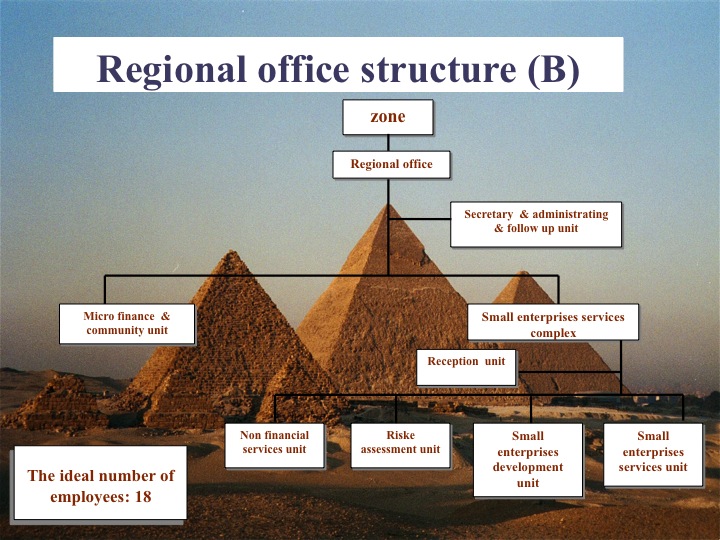
Figure : Organizational Structure of the SFD[[115]](#footnote-113)

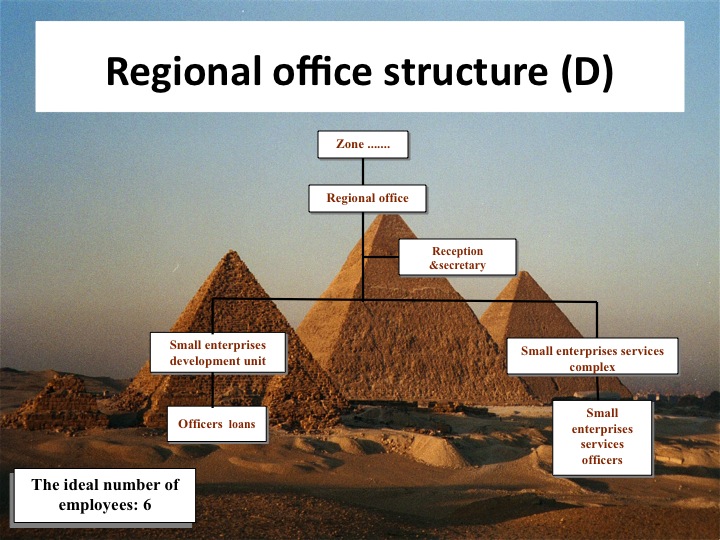
The SFD is organised in clusters with the exception of the Managing Director’s office and the Technical Bureau; “Central Sectors” are clustered in “Groups”. The Regional Office Group covers all 31 Regional Offices and the Regional Office management in Cairo. For staff distribution, see Table 17.

|  |  |
| --- | --- |
| TABLE 17: SFD Staffing | |
| Group/Sector | Number of Staff |
| **Small Enterprise Development Group** | **91** |
| Small Enterprises Loans Central Sector | 51 |
| Business Development Central Sector | 16 |
| Non-Financial Services Central Sector | 21 |
| **Credit Risk Central Sector** | **39** |
| **Dept Recovery/Control Central Sector** |
| **Community and Human Development Central Sector** | **17** |
| **Regional Offices Group** | **602** |
| **Planning and International Cooperation Group** | **19** |
| International Cooperation, Central Sector | 6 |
| Planning and Monitoring Central Sector | 10 |
| **Media and Public Relations Central Sector** | **35** |
| **Financial and Administrative Affairs Group** | **98** |
| Financial Affairs Central Sector | 44 |
| Admin Affairs Central Sector | 33 |
| Information Technology & Communications Central Sector | 20 |
| **Internal Audit Central Sector** | **37** |
| **Human Resources Central Sector** | **16** |
| **Legal Affairs Central Sector** | **9** |
| **Technical Bureau** | **9** |
| **Managing Director’s Office** | **9** |
| TOTAL STAFF | 999 |

|  |  |
| --- | --- |
| Group/Sector | Number of Staff |
| **Small Enterprise Development Group** | **91** |
| **Credit Risk Central Sector** | **39** |
| **Dept Recovery/Control Central Sector** |
| **Community and Human Development Central Sector** | **17** |
| **Regional Offices Group** | **602** |
| **Planning and International Cooperation Group** | **19** |
| **Media and Public Relations Central Sector** | **35** |
| **Financial and Administrative Affairs Group** | **98** |
| **Internal Audit Central Sector** | **37** |
| **Human Resources Central Sector** | **16** |
| **Legal Affairs Central Sector** | **9** |
| **Technical Bureau** | **9** |
| **Managing Director’s Office** | **9** |

The SFD is plainly not understaffed. With respect to the staffing of field offices, however, the Regional Offices Group consists of 9 zones, each responsible for 3-4 offices. Staffing within the regional office group is based on the current level of business in each governorate. ROs are divided into category A, B, C, and D.





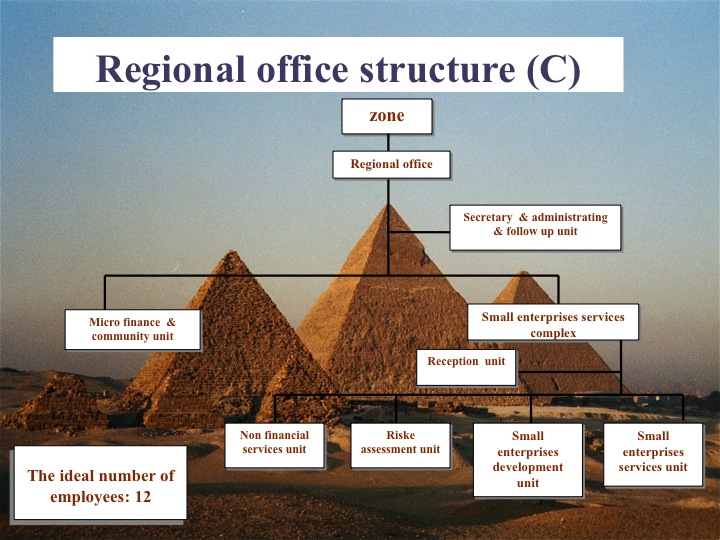


Figure : Regional Office Structures and Staffing Complement by Category

The structure is a perfectly rational one for a banking institution. However, for an institution that has at its core the mandate of reducing poverty through the proliferation of MSMEs and the creation of jobs targeting the poorer sections of the Egyptian population, it does not take into account the fact that i) Building a portfolio in a poor governorate is more labour intensive than in a wealthy one; ii) that the management of micro credit, which is the more likely modality for poor governorates is more labour intensive than the administration of small loans; and iii) that the primary purpose of the SFD is to facilitate and encourage the growth of the private sector in poorer governorates. It is recommended, therefore, that based on these considerations that Regional Office structures be reconsidered with a view to placing as many category A and B offices in poor governorates as possible. The structure should obviously be altered, with the largest number of staff being allocated to business development, client follow-up and the management of loans and the provision of non-financial services.

Decentralisation of the SFD will also require a fundamental reconsideration of the staffing and structure of the ROs. The decentralisation study proposed elsewhere in this report should make specific recommendations on the new and strengthened functions of the ROs, the processes that will need to be implemented to perform these functions and the structure and staffing of the regional offices that will be required.

As discussed elsewhere in this report, the ratio of loan officers to borrowers also needs to increase. This includes both staff in the SFD RO and those in the intermediary NGO or bank.

Current staffing is also based on a heavy focus on operations, with relatively little attention paid to the SFD’s coordination and policy development functions. Current strategic planning documents relate primarily to operational planning[[116]](#footnote-114). It is recommended that for this reason, the Technical Bureau be accorded strategic planning (as opposed to operational planning), policy development and coordination support functions and be strengthened in terms of its staffing complement – both in terms of numbers and seniority of staff. The strengthened office (upgraded appropriately) would perform the following key functions:

* Collection and dissemination of information on developments in the sector to stakeholders;
* Support to the Managing Director in performing the coordination functions of the SFD – between national institutions and international organisations as well;
* Development of policies, rules, regulations governing the sector; and
* The planning of future strategies, reforms and directions for the SFD in the medium and long-term.

### Human Resources

The SFD has introduced a staff performance appraisal system that is based on joint assessment of performance between staff and their supervisors on a periodic basis. The system has proven difficult to implement effectively as supervisors have found it culturally difficult to enforce. Such appraisal systems are rarely easy to implement in bureaucracies and need considerable management attention and perseverance. A quick look at the performance appraisal system at the SFD would suggest that it is based too heavily on qualitative criteria, rendering it all the more difficult to implement effectively. Quantitative targets are not frequently used. To make the system more meaningful, it is recommended that quantitative targets that are mutually agreed upon based on a joint review of individual work plans between the staff member and his/her supervisor should be established at the beginning of each year and reviewed either on a quarterly or 6 monthly basis. Both staff member and supervisor should be required to sign off on the targets at the beginning of the year and at the end of the year. Each Performance Appraisal Report should also be signed off on by the Sector or Group head. Staff Performance Appraisal Reports should constitute one of the principal sources of information for decision-making regarding promotions.

The SFD has access to high quality staff in Cairo. It has greater difficulty, however, convincing the best staff to serve in Zonal or Regional Offices. Factors that serve as impediments include quality of life, access to material comforts, access to quality schooling for children and distance from family and friends. This is going to prove a challenge if the SFD is going to have to decentralise effectively, making the Regional Offices the primary centre for operations. It is recommended that a rotation system be instituted and that prior to rising to Group Director status, all staff must be required to serve at least 5-10 years in the field – either in a Regional Office or in a Zonal Office; in this way, serving in the field will need to be viewed as a qualification for promotion. Staff relocating to the field from Cairo should be entitled to additional benefits. A schedule of benefits would need to be drawn up, but may include:

* A “hardship allowance” that constitutes a percentage of the staff member’s salary;
* A rotational allowance, that is also a percentage of the staff member’s salary, but which increases each time the staff member rotates to another office in the field, up to a maximum of 5 rotations (to serve as an incentive for staying in the field and not remaining in any single RO too long);
* An education allowance for children of staff members that wish to pursue their education in Cairo or elsewhere in Egypt away from their parents’ field posting.

Most staff have been at the SFD for an extended period of time. This provides for sound institutional memory and continuity in the work of the organisation. However, there is a need for staff refresher training courses on a periodic basis for all staff to ensure that their skills remain up to date. It is recommended that a certain portion of the operational budget be set aside for periodic in service training for all staff. The SFD should negotiate an arrangement with the American University of Cairo or other such institution that offers a Masters in Business Administration programme to take SFD staff for targeted courses in Finance, Investment Banking General Business Administration or Marketing, Staff should be eligible to take two such courses every 4-5 years during their period of service.

### Monitoring, Evaluation and Reporting M&E and Reporting in SME Lending and Microfinance

***Overall Finding****: Under SFD’s lending programme, existing systems need to be fine-tuned and strengthened to ensure that relevant indicators are monitored regularly to assess SFD’s effectiveness in fulfilling its core mandate including at the outcome and impact levels.*

SFD loans are followed at a number of stages. At the field level, follow-up has been outsourced to the Egyptian Association for Human Resource Development (EAHRD)[[117]](#footnote-115). The association employs local Field Officers (FOs) who report to the Follow Up and Coordination Unit at SFD's Regional Office (RO). The Unit determines for each FO the list of borrowers to be visited. The Unit then collects the visit reports from the FOs analyses them.

SFD has very comprehensive forms for field follow up. The forms can serve for strongly supporting the M&E system within SFD. They are here-below highlighted for both the follow up of small loans and micro loans.

|  |
| --- |
| TABLE 18: Small Loan Follow-Up Form |
| Small Loan Follow up Form |
| Date of the Field Visit: Field Officer's Name:  *First: Verify the data obtained from SFD and record the changes/missing data only if any:*  Borrower's Name, date of birth, gender:  Borrower's ID Number (date and place of issuing):  Type of business, location, telephone:  Loan value, Date of receiving the loan, rate of interest:  Loan duration: number of months of grace, number of months for repayment:  *Second: Data to be obtained on site:*  Number of employees: permanent, temporary, male/female:  Number of times participated in exhibitions, names of the exhibitions:  Number of training sessions, names of the training courses:  Status of the business: operating/ closed/ withheld-suspended/ not existing/ the business has been changed to another activity/ the business is liquidated:  For recently financed businesses only: is the business targeted? not targeted?  Repayment: regular/ in default on purpose/ in default for reasons beyond his control  Description of the site:  Equipment (type and present value):  Description of the product or service:  Problems encountered by the borrower: inadequate marketing skills/ lack of technical experience/ poor quality products/ unsuitable business location/ lack of skilled labour/ burden of finance and partnership/ inadequate equipment or in bad condition/ high product pricing compared to market/ equipment damage due to natural disaster/ administrative and implementation constraints/ special social or health conditions/ inadequate finance/ other  Explanation of the problem  Suggested solutions a) borrower's suggestions b) FO's suggestions:  Reasons for default in repayment (if any):  Remarks on borrower's or business status/ circumstances; Other remarks:  Recommendations:  FO signature Team Leader signature |

|  |
| --- |
| TABLE 19: Micro Loan Follow up Form |
| Micro Loan Follow up Form |
| Date of the Field Visit: Field Officer's Name:  Name of the Borrower:  The Lending Agency:  Loan Value, date of receiving the loan:  Loan repayment periodicity:  Status of repayment:  Purpose of follow up, follow up visit number:  Type of business:  Number of employees: permanent, temporary, male/female  Description of the site:  Description of the product, quantity of production:  Status of the business:  Reason for default in repayment if any:  Explanation of the problem, suggested solutions:  Evaluating the business:  Borrower's opinion regarding the extent to which he benefited from the loan and explanation of any problems that he encountered during project lifetime if any:  Recommendations  FO signature ……………………. Approval by the Follow up Responsible Officer ………. |

The information potentially collected using the above forms can be of great value to SFD, not only for loan repayment monitoring, and addressing borrowers' problems if any, but also for impact tracking. Both forms have entries for 'number of employees'. If the change in the number of employees is tracked from one year to the next by adding a question “change in the number of employees since receipt of the loan” and inputting of the information on MIS, the trend in number of jobs created for SFD borrowers could be estimated based on actual field-collected data. This would greatly improve the current practice whereby number of jobs is estimated through formulae estimating the number of jobs created based on the volume of disbursement for SME lending (SFD currently uses the formula of one permanent job created per LE 11,000 disbursed, and 30% of that amount in case of temporary jobs[[118]](#footnote-116) and number of financed micro-enterprises multiplied by 1.1 for microfinance[[119]](#footnote-117)). In 2011, SFD started to apply actual employee-count in light of field visits by Field Officers three months after loan disbursement. This practice so far showed that average cost per job is LE 30,000 rather than the LE 11,000 referred to above. Yet this applies to small loans only, as F/Os do not visit all micro-borrowers. FOs visit all small borrowers but only 30% of micro-borrowers. The SFD loan officer at the RO then selects a sample of 5% and visits them on his/her own[[120]](#footnote-118) for purposes of verification.

The form also enquires whether the enterprise is in operation or liquidated. The collected information from the field could help track the death rate of enterprises, thereby contributing to various more in-depth impact studies. A quick review of a sample of forms by the review team, showed that the forms are not always fully completed by the FO. Some of the information found to be missing was central to the monitoring of SFD’s impact in line with its overall mandate of widening access to credit, the generation of employment through the creation of small and micro enterprises and increasing incomes and standards of living in poorer communities.

The information contained in the forms, with some adjustment, could also help to assess and monitor borrowers' needs for non-financial services; this is in light of the different types of problems encountered. Current and planned SFD corporate MIS systems, based on the presentation received, need to be adjusted to ensure that data such as employment trends, income and indicators of living standards could be collected and monitored in aggregate across ROs as part of the overall effort to monitor the effectiveness at the outcome and impact levels

FOs should be encouraged to fully complete the forms while they are on site, and to follow up this with them, as well as to consider the possibility of visiting 100% of the micro-borrowers not only 30%, at least once a year for regular borrowers[[121]](#footnote-119).

It should be recognized that microfinance, to be successful, is a labour intensive endeavour. To assess the possibility of covering all borrowers by field visits, at least once a year, the workload of FO needs to be reviewed. There are about 240,000 active clients under the micro-credit programme at present[[122]](#footnote-120). There are just short of 60,000 active borrowers receiving SME loans at the present time including about 50,000 through intermediary banks[[123]](#footnote-121), and a further 8,500 under direct lending. To cover this total of 300,000, at least once a year per borrower, would entail 25,000 monthly field visits. Based on the current complement 140 Field Officers, about 180 visits would have to be conducted by each. Increasing the number of FOs from 140 to 200 would reduce the workload to a more acceptable 125 field visits each or, about 6 visits per day. Also noting that delinquent borrowers get more frequent visits.

## VI. SUSTAINABILITY

### Sustainability of SFD Capacity

***Overall finding:*** With the increased emphasis on its revenue-generating lines of business, the SFD has become fully self-sustaining. Revenues from the interest on loans and investments adequately cover SFD’s operating costs, including all staffing. SFD's income-generating units (i.e. SEDO and Microfinance), realize revenues that are equivalent to 118% and 89% of their expenses, respectively. This is even after charging these two programmes with overheads that represent the expenses of all other departments (i.e. expenses by the support activities). Revenues from fund-revolving are not included among reported revenues. Highlights on SFD's Income Statement for 2010 are in the Annex.

SFD operating costs, consisting of operational expenditures and staff overheads amounted to approximately LE165 million in 2010 and was charged to the three principal “business units” of SFD (SEDO, micro-credit and non financial activities) according to the breakdown in Table 20 below. These are the SME-lending by SEDO, the micro-credit and the non-financial activities including community development and non-financial services. The support units' overheads are allocated to the income generating units[[124]](#footnote-122).

In the table, the overheads' allocation factor varies from one case to another, e.g.: [[125]](#footnote-123)

1. "Number of projects" is the criterion used for distribution of expenses incurred by each of the following Groups/Departments: "Finance & Operations", Legal Group, Planning Group, Technical Office, Regional Office Sector and Internal Audit Group. A total of 1,922 projects are divided to 1,500, 40 and 382 among SEDO, Non-financial group and Micro-credit respectively.
2. "Number of employees" is the criterion used for distributing the expenses of the MIS and Human Resources. A total of 174 employees is distributed such that 104, 58 and 12 are allocated to SEDO, Non-financial group and Micro-credit respectively.
3. "Square meters" are used for distributing the expenses of Administration and Engineering Depts. A total of 1,945m2 is distributed such that 995m2., 700m2 and 250m2 are allocated to the three activities respectively.
4. Regional Offices' expenses are allocated at 75%, 10% and 15% respectively.
5. "Outstanding loans from donors" is the criterion used for allocating the expenses of the International Cooperation Group.
6. "Direct Lending" expenses are allocated at 66%, 12% and 22% respectively.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 20: SFD Expenses & Overheads Distributed among Activities (end 2010)[[126]](#footnote-124) | | | | | |
| Organisational Unit | Expenses and Overheads (in LE) Allocated to: | | | |  |
| SEDO | Non-Financial Group | Micro-credit | TOTAL | % |
| Finance & Operations | 8,143,649 | 217,164 | 2,073,916 | 10,434,729 | 6.34 |
| Admin. & Engineering | 4,043,946 | 2,844,987 | 1,016,067 | 7,905,000 | 4.81 |
| Legal Group | 1,099,681 | 29,325 | 280,052 | 1,409,058 | 0.86 |
| Planning Group | 2,250,024 | 60,001 | 573,006 | 2,883,031 | 1.75 |
| MIS Dept. | 2,635,196 | 1,469,629 | 304,061 | 4,408,886 | 2.68 |
| Technical Office | 10,054,531 | 268,121 | 2,560,554 | 12,883,206 | 7.83 |
| Human Resources | 1,805,377 | 1,006,845 | 208,313 | 3,020,534 | 1.84 |
| Regional Office Sector | 14,331,434 | 382,172 | 3,649,739 | 18,363,344 | 11.16 |
| Regional Offices | 39,715,467 | 5,295,396 | 7,943,093 | 52,953,955 | 32.19 |
| Internal Audit Group | 3,255,261 | 86,807 | 829,006 | 4,171,074 | 2.54 |
| International Cooperation | 5,098,144 | 926,935 | 1,699,381 | 7,724,460 | 4.70 |
| SEDO Group  (direct expenses) | 25,215,478 | 0 | 0 | 25,215,478 | 15.33 |
| Non-financial Group (direct expenses) | 0 | 10,057,458 | 0 | 10,057,458 | 6.11 |
| Micro-credit Group  (direct expenses) | 0 | 0 | 3,081,346 | 3,081,346 | 1.87 |
| **Total** | **117,648,187** | **22,644,838** | **24,218,534** | **164,511,559** | **100** |
| % | 71.51% | 13.76% | 14.72% | 100% |  |
| Borrowing expenses paid to donors | 43,454,828 |  | 11,108,013 | 54,562,841 |  |
| **Total expenses** | **161,103,015** | **22,644,838** | **35,326,547** | **219,074,400** |  |
| Operations Revenues:  Interest on Loans \*  Investment \*\* | 152,475,425  37,043,176 |  | 14,390,650  16,928,635 | 166,866,075  53,971,811 |  |
| **Total Revenues** | **189,518,601** | **0** | **31,319,285** | **220,837,886** |  |
| *(\*) This figure does not include interest on revolving funds; some donors require that it not to be used to cover operating expenses except up-to a certain percentage*  *(\*\*) Revenues from investments represent interest earned on funds (received from donors) placed in interest-bearing accounts until lent by SFD.* | | | | | |

### Risk Management

***Overall Findings:*** The loan portfolio is not of high quality. SD takes several measures for risk management, including internal audit, penalties for late payment for NGOs, automatic classification of loans according to quality based on delays in repayment and the establishment of clear provisions for each category of loan. Penalties are charged by SFD for late repayments by NGOs. There is a need to ensure that the NGOs, in turn, charge late penalties to end-borrowers. Penalties for late payment serve as incentive for prompt repayment improving the overall health of the loan portfolio. Installation of micro-credit specialized MIS would provide NGOs with the means to properly compute their provisions and PAR. To account for FX risk, a weighted average for the fluctuations in currencies is computed for those currencies in which SFD's liabilities are denoted. This is a practice adopted by SFD recently. The resulting loss, if any, is added to the cost of funds and taken into consideration when contracting with banks in the following year. The mismatch in duration between assets and liabilities is in SFD's favour, noting the interest rate differential between local and foreign currencies.

Two forms of risk are of critical importance – both to the sustainability of the enterprises created and to the SFD itself; credit risk and foreign exchange risk. These are discussed below.

#### Management of Credit Risk

As noted in other sections of the report, the loan portfolio is not of high quality. With the exception of banks' repayment to SFD, all other credit relationships have relatively high arrears' ratios and/or PARs; this is reiterated below (Table 21).

|  |  |  |  |
| --- | --- | --- | --- |
| TABLE 21: Summary of Portfolio-Quality ratios | | | |
|  | Arrears Ratio | PAR Ratio | Date (As of) |
| End-borrowers' repayment to NGOs | **4.2%** to be adjusted to **7.8%** by adding old over-due payments not yet written off | Not available | End of June 2011 |
| NGOs' repayment to SFD | **10.33%** | **14.68%** | July 2011 (based on end of June) |
| End-borrowers' repayment to banks | **13%** | **18.5%** | End June 2011 |
| Direct Lending borrowers' repayment to SFD | **3.3%** | **21%** | End June 2011 |
| Banks' repayment to SFD | --- | --- | Oct. 2011 |

SFD takes a number of measures for risk-management including internal audit, delay penalties on NGOs, and loan classification and provisions. Additional measures are below:

* A delay penalty of 1% is charged to NGOs for each month of delay; and in case of delays for over three months, SFD has the right to claim immediate repayment of total outstanding loan (principal, interest plus penalties)[[127]](#footnote-125). NGOs, in turn, charge a similar delay penalty to the end-borrowers, although not all NGOs appear to be doing this.
* Overdue repayments by NGOs and banks to SFD, (as well as clients' repayment under Direct Lending) are classified according to number of days of delay. Provisions applied by SFD are indicated in Table 22.

|  |  |
| --- | --- |
| Table 22: Provisions for Intermediaries' Repayment to SFD[[128]](#footnote-126) | |
| Days overdue | Provisions |
| Up-to 90 days: | 1% of the outstanding |
| 91-180 days: | 20% |
| 181-360 days: | 50% |
| Over 360 days: | 100% |

* With regard to borrowers' repayment to SFD, a clear system of provisions would be in place if specialized micro-credit loan tracking systems were installed as noted in other sections of the report. Some of the most commonly used loan tracker systems for micro-credit programmes[[129]](#footnote-127) apply the following provisioning system (Table 23) for purposes of PAR calculation: [[130]](#footnote-128)

|  |  |
| --- | --- |
| TABLE 23: Provisions for Borrowers' repayment to NGOs (non-SFD) [[131]](#footnote-129) | |
| Number of days overdue | Provisions |
| 1-30 days: | 10% |
| 31-60 days: | 25% |
| 61-90 days: | 50% |
| 91-120 days: | 75% |
| Over 120 days: | 100% |

The provisions' system used by non-SFD micro-credit programmes, as in Table 23 is apparently even more conservative than the Central Bank of Egypt's provisions adjusted for micro-credit (see Table 24).

|  |  |
| --- | --- |
| Table 24: Central Bank of Egypt's provisions adjusted for microcredit [[132]](#footnote-130) | |
| Number of days over-due | Provisions |
| Assets and regular contingent liabilities | 3% |
| 31-180 days (substandard): | 20% |
| 181-270 (doubtful): | 50% |
| Over 270 days (bad debt): | 100% |

Contracts with NGOs are reviewed by SFD's Internal Audit Sector then the Sector conducts a first audit after six months from disbursing the first tranche to the NGO i.e. prior to disbursement of remaining tranches[[133]](#footnote-131). Periodic follow-up is done by the Sector. At project-end, external audit is conducted before the financial books are closed.[[134]](#footnote-132)

#### Foreign Exchange Risk

SFD receives loans from donors in foreign currencies. Repayment is made over a stipulated number of years (15-20) in the same foreign currency following a grace period – usually five years. SFD re-lends the funds to its intermediaries in local currency and repayments are made by intermediaries in local currency, hence the risk of foreign exchange (FX) losses. The chart in Figure 11 below shows historical exchange rates between the Egyptian Pound and US Dollar, Pound Sterling, Euro and Saudi Riyal between January 2007 and mid-November 2011. This would suggest that the Egyptian currency has remained reasonably stable even through the financial crisis.

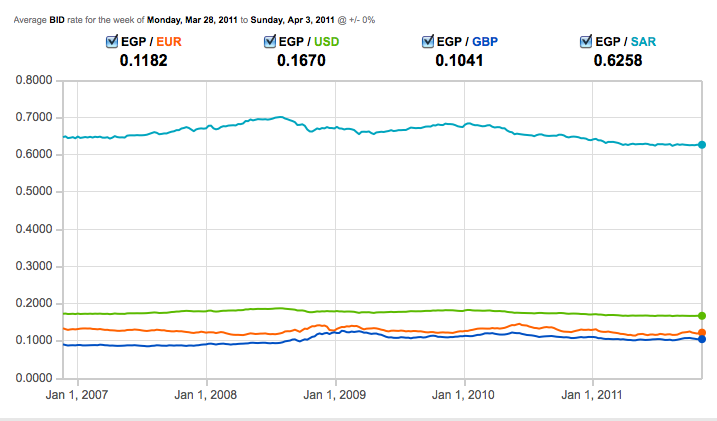


Figure : Historic Exchange Rates for the Egyptian Pound

Nevertheless, to minimise the effects of monthly fluctuations, SFD has recently started the practice of using monthly exchange rates obtained from the CBE for each of the currencies that SFD deals in. SFD then computes average fluctuations in cost of each currency weighted according to the proportion of each currency in SFD's total basket of currencies.[[135]](#footnote-133) This weighted average is then taken into account in making deals with banks in the following year.[[136]](#footnote-134) This will be applied for the first time in 2011 and is managed by SFD’s Treasury.

The fact that SFD's liabilities to donors are over long periods say 15-20 years, while receivables from intermediaries are over 5-7 years, allows for realizing gains from revolving funds. SFD usually has a grace period of 3-5 years in repaying to donors, which could also allow for even more revolving.[[137]](#footnote-135) This mismatch in maturity between assets and liabilities favours SFD, also taking into account the interest rate spread between local and foreign currencies.

Foreign exchange risk is further hedged by the placement of short-term time deposits with banks in foreign currencies in addition to those in local currency.

On another front, SFD’s Finance Sector follows International Accounting Standards whereby all foreign currency denoted assets and liabilities (even with long maturity periods) are evaluated at year-end.[[138]](#footnote-136) The resulting gain/or loss appears as an end-note on the Income Statement of SFD (i.e. not actually charged to the Profit and Loss Account as it is not an actual loss or gain, just a re-valuation).[[139]](#footnote-137) The revaluation resulted in a negative LE250 million in 2010 (see Annex IV on SFD’S balance sheet). This resulted in part from a rise in exchange rates of some of the currencies that constitute relatively large portions of SFD’s FX portfolio (e.g. Kuwaiti Dinars and Japanese Yen)[[140]](#footnote-138).

### Sustainability of Public Works and Infrastructure Constructed

The sustainability of the CDP and PWP operations (and of HCD Central Sector in general) should be viewed as sustainable when SFD is seen by the Government and by the donors as a most efficient and effective organization for implementing programmes in favour of the poor. The result of this would be that donors and the Government continue to use SFD as an organization for the implementation of their programmes aimed at poverty alleviation and employment creation through community development, improving social infrastructure and human resources development. This can be improved if HCD central sector act more as a facilitator/ advocator for more representation and participation of the poor in needs identification as well as in implementation of programmes. This should improve community ownership and should improve the sustainability of the programmes.

Although extremely difficult in the Egyptian context, PWP should deepen and expand its innovative approaches to ensuring better operations and maintenance of its completed infrastructure investments and services. The real role of PWP in the ocean of government is one which is best described as catalytic within the wider environment, one which can influence and improve government service delivery, making it more pro-poor and more labour intensive.

Given the overwhelming weight of government and its resistance to change, the strategic choice is whether to continue as is, trying to improve general targeting (including real community participation) and impact and wider influence with SAs and impact assessments, or to shift to more innovative and selective approaches. More movement towards the latter approach is recommended, and in fact there is already some shift in this direction which should be reinforced. PWP can only provide examples of better practices and disseminate these. Unfortunately, to date PWP has not made great efforts to systematically propagate its more promising innovations. One good example, is that PWP introduced an innovative and sustainable maintenance system to ensure that some of its subprojects are well maintained. This has been done by allocating 10 % of PWP budget as maintenance fund. The interest of this fund is used to finance maintenance contracts for PWP subprojects that has been completed ten years ago. There is evidence that the GOE is benefiting from this and other innovations of the PWP. The deputy prime minister and minister of finance has ,recently, instructed all GOE ministries to allocate 10 % of its projects budget to maintenance.

Some sustainable CD projects (such as family planning in Bani Swief) include a micro-finance scheme though grants to CDA’s where the rural guides act ,also, as credit officers targeting economically active females, mainly female-headed households. The micro finance group moved away from the CDP and became an independent central sector. This restructuring has reduced the development of integrated programmes and has affected the sustainability of the CDP. The CDP and HRDP should provide more support and assistance at the local level and minimize its participation with ministries and national/ central agencies. By developing the capacity of local NGOs and CDAs more bottom up participation and ownership should result in sustainable programmes addressing the real needs of the poorest communities. Better targeting tools should be used with indicators covering the different dimensions of poverty at villages and markaz levels.

The design of the entrepreneurship programme takes into consideration the sustainability of the entrepreneurships in different ways; (i) building their capacities in the related aspects of establishing an entrepreneurship such management, accounting, feasibility study…etc, (ii) Linking them to sources of funds and facilitating the process of getting approvals, licenses …etc according to the new law of SFD, and (iii) monitoring them for three months to ensure that they successfully start up their projects. However, there should a monitoring plan for longer period to

ensure their sustainability over time especially with changes may take place in the market. For the trainees of the skills development programme and the entrepreneurship, the monitoring system used by the HRD should provide feedback on the sustainability of those trainees (i.e. to what extent the trainees are using the gained knowledge and skills after the training, as well as impact on their employment or sustainability of their start up business).

Training for employment programme is currently experimenting in having the training cost covered 100 % by the potential employer/employees through loans from SEDO to be paid after the trainees start working and collecting monthly salary. This pilot can be successful with well established employers such as Egypt Air and represent an interesting model for sustainability.

## III. PARTNERSHIPS

#### DONORS

The SFD has received both grants and loans from a variety of different donors (see Annex V) and indeed donors have been a central part of the SFD’s success to date; while the core operational budget of the SFD has been paid for from the SFD’s own revenue, the project budgets have been derived from a variety of donors – global multilateral, regional multilateral, bilateral from the region, bilateral from other regions and domestic institutions. Between January 1 and 31 July 2011, approximately US$ 1billion equivalent of donor funds have been disbursed.

With Egypt’s transition to middle income status, however, grant funding has virtually disappeared and is limited to just a few donors. The Government of Egypt has a strong policy that forbids the use of loans for projects that do not recover their costs, and this has constrained the SFD’s work in a number of areas – most notably in CHD, but also in the delivery of non-financial services and products. The largest sources of grant funding has most recently been the European Union, while the largest loan is currently for about US$300 million from the World Bank. The donors are organised into a thematic group on employment and private sector growth that reviews activities within the purview of the SFD.

Donor influences on the SFD are strong. Its monitoring and evaluation activities are largely skewed to respond to donor requirements. This in practice has resulted in a heavy emphasis on the monitoring of visible, physical results in the form of outputs rather than more developmentally meaningful outcomes or overall impact. Each donor requires reporting by the SFD in its own format, which increasing the transaction costs and labour intensity of the management process at a time when the SFD is called upon by the donors themselves to streamline and work towards full cost-recovery and self sufficiency in terms of funding. Agreement among the donors on standardised reporting requirements would greatly reduce the current burden on the SFD. Furthermore, it is recommended strongly that in the wake of the recent events in Egypt that the donors work together to identify sources of grant funding for the SFD for the purpose of: i) boosting community and human development activities based public private partnership to ensure long-term sustainability; and iii) the development and piloting of new financial and non-financial products that can only be distributed on the basis of cost recovery once their value has been demonstrated to customers.

#### INTERMEDIARIES

***Overall Finding****: SFD has concentrated the bulk of its SME lending since 2004 through two intermediary banks only and average loan size has been rising, but remains well within acceptable limits for the groups targeted. Lending is heavily dependent on bank procedures and requirements and this is limiting access to SFD loans.*

SFD's small enterprise lending is generally implemented through banks, and to a lesser extent through companies and associations (this is in addition to Direct Lending by SFD that does not go through intermediaries). The list of intermediaries, and the trend in volume of disbursements through each, are provided in Table 25 below.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| TABLE 25: Trend in SME Lending through Intermediaries (LE million)[[141]](#footnote-139) | | | | | | | | |
| **Intermediary** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011**  **(9 months)** |
| NBE | 182.4 | 311.9 | 406.8 | 390 | 519.1 | 312.7 | 347.2 | 558.3 |
| Banque Misr | 17.1 | 37.8 | 23.8 | 21.3 | 15.3 | 15.3 | 7.2 | 1.6 |
| Banque du Caire | 3.4 | 1.1 | 0.2 | -- | -- | -- | -- | -- |
| Bank of Alexandria | 34.8 | 65.8 | 12.1 | 2.3 | -- | -- | -- | -- |
| PBDAC | 123.3 | 316.1 | 285.4 | 212.1 | 188.6 | 58.9 | 71.5 | 106.6 |
| Nasser Social Bank | 0.4 | -- | -- | -- | -- | -- | -- | -- |
| Egyptian National Bank(Mohandes) | 0.8 | 0.3 | -- | -- | -- | -- | -- | -- |
| Suez Canal Bank | 0.2 | -- | -- | -- | -- | -- | -- | -- |
| Industrial Development Bank | -- | -- | 0.7 | -- | -- | -- | 2.0 | 0.3 |
| Commercial International Bank | 0.5 | 5.2 | 2.5 | 0.1 | -- | -- | -- | -- |
| National Bank for Development | -- | 1.0 | 1.3 | 0.5 | -- | -- | -- | -- |
| Société Arabe Internationale de Banque (SAIB) | 1.5 | 3.8 | 2.2 | 0.9 | 0.3 | 0.3 | -- | -- |
| Egyptian Saudi Finance Bank | 3.2 | 12 | 8.4 | 8.6 | 1.3 | -- | -- | -- |
| Housing and Reconstruction Bank | -- | 4.5 | 12.2 | 13.7 | 7.3 | 0.9 | 4.0 | 0.1 |
| Poultry Stock Exchange | -- | -- | 2.2 | -- | -- | -- | -- | -- |
| Horus Home Appliances Company | -- | -- | 1.7 | -- | -- | -- | -- | -- |
| Audi Bank | -- | -- | -- | -- | -- | -- | 5.6 | 2.3 |
| Faisal Islamic Bank | -- | -- | -- | -- | -- | 1.9 | 1.4 | 0.2 |
| Al Ettehad Al Watani Bank-UAE | -- | -- | -- | -- | -- | -- | -- | 1.8 |
| Animal Coop[[142]](#footnote-140). | -- | -- | -- | -- | -- | -- | 1 | 1 |
| Car Gas Co. | -- | 8.6 | 6.1 | 4.6 | 5.3 | 5.7 | 2.6 | 2.5 |
| **Total** | **367.6** | **768.1** | **765.6** | **654.1** | **737.2** | **395.7** | **442.5** | **674.7** |

Table 25 reflects a heavy dependence on just two intermediary banks; the National Bank of Egypt (NBE) and the Principal Bank for Development and Agricultural Credit (PBDAC). Nevertheless, new agreements with new and existing intermediaries are in the pipeline, increasing diversification, as follows: [[143]](#footnote-141)

* Audi Bank (private) will get a new contract for LE 55 million, after a previous contract for LE 10 million was signed in 2009.
* The Bank for Industrial Development and Workers (public) also had a contract for LE 10 million in 2009 and is now about to get a new one for LE 30 million; (discussions for a large LE 250 million contract are ongoing).
* Al Ettehad Al Watani Bank (private sector, UAE) had a contract for LE 10 million in 2009, and a new one for LE 30 million is currently being negotiated.
* National Bank of Abu Dhabi (private sector) is about to deal with SFD for the first time; a contract for LE 30 million is currently being negotiated.
* Société Generale is about to deal with SFD for the first time; a contract for LE 60 million is being discussed. Their leasing body Soci-Lease is also expected to sign a contract for LE 100 million.
* The National Bank for Development has developed an Islamic banking product line and will have a contract with SFD for LE 100 million.
* The Federation of Potato Growers will have a contract of LE 75 million payable in tranches of LE 5 million each.
* The Federation of Buffalo Growers will sign a contract in cooperation with PBDAC.
* Banque Misr has a new contract for LE 120 million for micro loans rather than the previous small-loans relationship that was phased out.

In June 2011, SFD produced a strategic orientation document that recommends encouraging all banks to establish specialized MSE Units, under supervision of the Central Bank of Egypt (CBE).[[144]](#footnote-142)

In the process of identifying potential intermediaries, banks are approached by SFD/SEDO. The Credit Risk Assessment Central Sector of SFD reviews audited balance sheets and Income statements for the last three years for each bank[[145]](#footnote-143). The bank is assigned a score and the size of its contract with SFD is determined accordingly.

When lending to SFD’s ultimate beneficiaries (SMEs), each intermediary bank conducts its own analyss and applies its own procedures; as a result it is not clear to what extent SFD’s involvement actually widens access to lending. If it is increased, it is as a result of the non-financial services and advice that is provided to the SME itself -- to the extent that it is provided at all, by SFD. These services that currently focus on helping prospective borrowers put together “feasibility studies” (business plans) and obtain essential licenses and certification through the “One-Stop-Shop” provide some encouragement to the client to approach intermediary banks. Based on interviews with the intermediary banks, however, there is no indication that these services influence the due diligence conducted to assess the credit worthiness of the applicant by the intermediary bank concerned; potential borrowers are subject to the same scrutiny and prerequisites that other borrowers are. Indeed, although banks are requested by SFD not to require end-borrowers to pledge assets or employees' salaries as collateral unless the borrowers do so willingly[[146]](#footnote-144). But in general it is clear from interviews conducted by the Review Team with both borrowers and intermediary banks, that SFD’s intermediary banks do not honour this request. Intermediary banks justify this on the grounds that banks are the principal bearers of risk; collateral is viewed in the traditional sense as a means of mitigating the level of risk without further raising interest rates. At least one of the banks was not willing to re-activate its relationship with the SFD until the bank's autonomy in loan-pricing for end-borrowers -- at a level favourable to the bank -- is secured (the new contract is in micro- rather than small loans).

While NBE is, based on interviews conducted by the Review Team at the governorate level, satisfied with the 3% spread on SFD-loans, Banque Misr has not renewed its contract with SFD for small enterprise lending in view of interest rate ceilings considered by the bank to be not viable. Banque Misr aims to maintain financial sustainability thus considered that the previous subsidized-lending agreement with SFD was not viable and insisted on enjoying autonomy in pricing policy under the new micro-lending contract.

A new contract with SFD for micro-credit was just signed while ensuring bank's autonomy in setting the pricing to end-borrowers. NBE on the other hand, is envisaging a 2nd OVD-contract with SFD given the very high demand on the first one (due to lower interest cost to end-borrower compared to regular loans).

It appears that average loan size under SME-lending through intermediaries has been increasing[[147]](#footnote-145) (Figure 12). This could be a reflection of the relatively lower overhead costs associated with larger loans, or the rate of inflation in the Egyptian economy. Nevertheless, the average size has remained well within acceptable SME-lending levels.

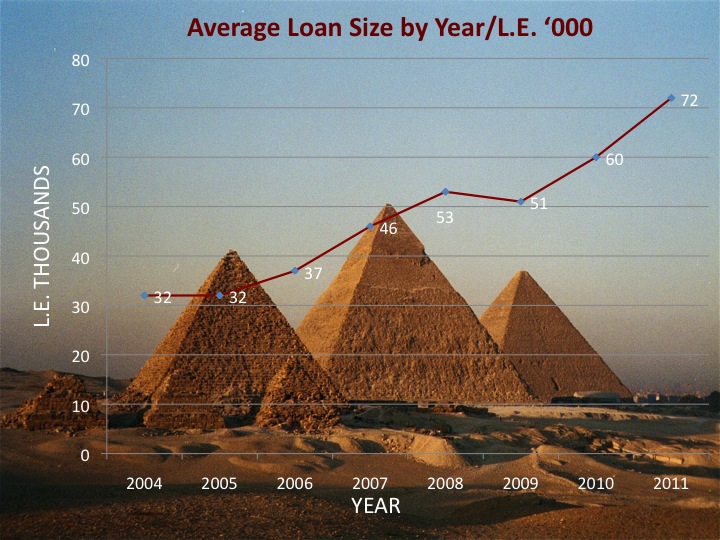


Figure : Average SME Loan Size

interviews conducted at bank intermediaries are highlighted in Boxes (1) and (2). The first box is for NBE exclusively, being SFD's main intermediary in SME-lending.[[148]](#footnote-146)

|  |
| --- |
| **Box 2: Visits to two NBE Branches**  NBE started SFD-loans in 1993/94; loan disbursements in Beni Suef governorate in 2010 and 2011 were about LE 15 and 26 million respectively, of which LE 10 and 11 million were through this main NBE branch, Beni Suef branch. Loans went mostly to the trade sector, 40%, manufacturing sector 30%, service sector 20% and livestock 10%. About 65% are start-ups. Repayment is by monthly or quarterly instalments, up to 5 years including a one year grace period. But for existing trading enterprises maximum loan duration is 2 years. SFD does the market and feasibility studies but NBE does its own credit analysis while observing SFD conditions regarding maximum capital of the enterprise (LE 1 million) and maximum loan size (LE 2 million). NBE gets the funds from SFD at 7% interest and re-lends at 10% (+2% CIS premium). Only 1-2 claims were made to CIS, in cases of such force majeure as client's death. NBE is satisfied with the 3% spread, but prefer a larger loan ceiling. Non-SFD loans are at 11.75% adding up to 13.5% with the highest debit balance commission.  Credit staff in this branch are two Deputy General Managers and two officers; they handle SFD-loans in addition to regular NBE lending. Clients are usually visited semi-annually. About 700 borrowers are currently active, of which about 600 are SFD's (LE 22 million approx.) and 100 are non-SFD (LE 100 million). Collaterals include the guarantee of CIS (where NBE is a shareholder) and personal guarantee, pledge of salary or other collateral depending on the borrower's status (some villages are said to be more troublesome in repayment hence harder collateral). The bank is connected to I-Score "The Egyptian Company for Credit Investigation". Through national IDs, clients are connected on-line with I-Score as soon as the account is opened. Arrears are about 5% of outstanding; loans are classified as substandard, doubtful and bad debt after 3, 6 and 9 months of delay respectively.  NBE's Mansoura Branch, Daqahlia, has 187 active SFD-loans with LE 14.8 million outstanding. Clients in default are 21, with total indebtedness of 624,000; the bank estimates PAR at 4% (though classification by delay-days is not readily available) and arrears at 1%. Credit staff are the Manager, Deputy Manager and the Controller (not devoted to SFD-loans). CIS guarantee covers all SFD-loans, and machinery commercial mortgage for manufacturing sector loans. In Oct. 2010, NBE signed with SFD one contract for "Overdraft" lending (as opposed to loans) for LE 100 million nation-wide, for existing enterprises only. It was fully utilized in less than 6 months due to lower interest expense to the end-borrower as interest is computed on utilized amounts only based on outstanding balance. A second contract of this type is being arranged for. |

## VII. RELATIONSHIP WITH UNDP

UNDP’s relationship with the SFD is a particularly close and long-standing one. The SFD was originally created as a UNDP project established by Presidential Decree[[149]](#footnote-147)under the umbrella of the Government as a “safety net” to “protect” vulnerable groups from the adverse effects of the Economic Reform and Structural Adjustment Programme (ERSAP) agreed to with the IMF and to generate employment including for unemployed youths and undertake community development activities at the District and Village levels.

Initiated in 1991, UNDP’s assistance has been through a total of four phases. It has seen the transformation of the SFD from a fund focused on serving as a social safety net, to one that supports employment creation through its support for micro and small enterprises. Phase II saw the most important shift in UNDP’s approach with the introduction of the micro-start programme that aimed at enhancing access to financial services on the part of micro-entrepreneurs with a particular emphasis on women with a view to “expanding their business, increasing their income and augmenting employment”. Phase III aimed at “the institutional development and modernisation of the Social Fund in order to make it as sustainable organisation, reflecting its new mandate as a permanent employment institution, focused on generating employment for the youth and underemployed, providing them with financial and non-financial services based on best practices. The project was to achieve this by providing the SFD with institutional and technical support coupled with innovative and methodological approaches that can strengthen the Fund’s capabilities in the development an implementation of programmes and projects in a new business-oriented approach.”

UNDP’s assistance has been to develop and modernise the SFD and to make it a sustainable organisation, able to support itself with its own revenue and loans and grants supplied by development agencies and other partners. At the outset of UNDP assistance in Phase I, the SFD was a normal project which eventually was transformed into a quasi- governmental organization, enhancing its overall sustainability with its own procurement department, its human resources department, its resource mobilization and international relations department. Capacity was created at SFD to undertake procurement and recruitment directly and the administrative support functions were transferred from UNDP to the SFD.  

The SFD no longer receives funds from government. Rather, it is primarily dependent on loans from donors and a few grants. Donors provide the government of Egypt with loans for SFD or provide grants and loans directly to SFD. As discussed elsewhere, its entire operational budget is paid for from its own revenues from its lending programmes.   
   
Phase IV of UNDP’s assistance to SFD is a cost sharing agreement whereby SFD revenues and UNDP funds are used to pay the staff salaries to implement the donor funded programmes, pilot innovative interventions such as one-stop-shops and some capacity building. The SFD has its own resources from the repayment of its loans. The UNDP project is said to allow it to attract capable staff as UNDP salary scales, recruitment and procurement policies are applied.

It was recognised that the SFD had become heavily donor-dependent and needed to diversify its sources of funding including the possibility of domestic borrowing and the pursuit of innovative mechanisms for cost recovery.

Under its budget revision EGY/96/011/01/NEX, the UNDP introduced a microfinance (“The MicroStart Programme”) component that enabled the SFD to first address the needs of micro borrowers. UNDP’s role was to mobilise international and local technical expertise and to cover the costs of management and monitoring and evaluation of the component.

UNDP Resident Coordinator co-chairing of a Steering Committee with SFD on microfinance.

UNDP has gone through two phases of its assistance during the period covered by this review; Phase III and Phase IV. The latter is currently operating under an extension. The total budget under the original project document for Phase IV was US$96,820,070.32 (a total that is incorrectly calculated on the signed cover page of the project document provided to the Review Team). Just US$250,000 constituted UNDP’s contribution from its TRAC (core) resources. The balance was funds that were to be contributed by SFD from its revenue (primarily from its microfinance and small enterprise lending programmes. The underlying strategy for Phase IV entailed stimulating and facilitating the development of a strong SME sector, which avails of “easy access to business services as well as credit”. This was to be achieved by:

* Strengthening the role of financial intermediaries in the ***SME*** (our emphasis) market;
* Increasing SME access to financing;
* Strengthening SEDO and the Microfinance components of SFD;
* Having SFD experiment with direct lending (i.e. lending directly to beneficiaries in the absence of intermediary institutions) with a view to demonstrating the scope and potential of certain categories of lending;
* Creating linkages between micro-, SME and larger ventures;
* Upgrading the capacity of SFD in microcredit and developing projects applying best practices in small credit;
* Relying on market-driven cost effective support mechanisms that ensure sustainability;
* Ensuring that SFD operates in line with Government priorities and programmes and that its programmes are coordinated with those of the line ministries; and
* Promoting decentralisation of decision-making to ROs, banks and other partners.

According to the project document, Phase IV was intended to help the SFD target youth and promote a narrowing of the gender gap, providing “***priority to female beneficiaries”***, with particular attention to poor women. Indeed at the beneficiary end, it was stated in the project document that women should constitute 50% of the beneficiaries of training for employment. A resource mobilisation strategy was envisaged to render the SFD sustainable, yet to the extent that it was elaborated in the project document, the strategy appeared to be almost entirely based on the mobilisation of resources from partners in the traditional manner.

One of the explicit outputs of Phase IV of UNDP’s assistance was the establishment of “integrated financial centres” in seven (Beni Suef, Matrouh, New Valey, Port Said, Qena, Suez and Zaton in Cairo in addition to the ones already being established in Helwan, Kafr Shokr, Shobra and Shooting Club. The integrated financial centres are currently called One Stop Shops and have been fully established in17 Governorates.

For recommendations on UNDP’s support to the SFD during the next phase of its assistance, please see the section on recommendations in the Chapter on Major Conclusions and Recommendations.

## IV. COMMUNICATIONS STRATEGY

SFD’s communications strategy: i) publicises its successes and product lines to potential clients/beneficiaries; ii) publicises its achievements to the general public; and iii) Provides additional packaged information to donors and other stakeholders on the SFD’s achievements. More specifically, in its presentation to the Review Team, SFD’s media strategy was described as having the following as its mission:

*“Promoting SFD programmes, projects, initiatives, and success stories to attract the attention of potential Target Groups”.*

The principal approach taken has been to harness the media to target beneficiaries in all of the governorates of Egypt to:

* Raise awareness of SFD’s poverty-alleviation and job creation activities;
* Highlighting achievements in collaboration with development partners;
* Contributing to promoting entrepreneurship among youth; and
* Contributing to promoting products of beneficiaries by focusing on exhibitions.

Perhaps most significantly in its communications work, the SFD does not undertake regular research to understand how best to address its target audiences and to assess the success of its current efforts. As a result, the approach taken by SFD mixes both formal workshops and seminars that are publicised in the media in which carefully selected people who are involved in the sector are invited to discuss issues arising from SFD’s work, to glossy press packages and newsletters that target a similar group, to public service spots on television to publicise SFD’s spots to the general public. The SFD also makes use of mobile service vans that move around, publicising the work of the SFD and financial and non-financial products lines of Fund to potential borrowers. The extent to which these modalities are successful in achieving their intended objectives is dependent in large part on the penetration of different media used as well as the quality of the message and materials. The SFD has entered into a contract with the Raya Contact Centre, a private company to monitor and evaluate the media campaigns that it has undertaken. Results are apparently not yet available. It must be clear, however, that different public information products target different audiences. Press packages and workshops target potential intermediaries, government and the press itself, while television and radio spots and the mobile service vans target end-borrowers and residents at the community level. More effort needs to go into continuously monitoring the effectiveness of different approaches and modalities in order to raise the effectiveness of the public information efforts.

Figure : SFD Mobile Service Van

In the case of the mobile service van its use at the district level and below has enabled both the delivery of public information on the SFD’s programmes, but also enables the delivery of a select number of non-financial services and follow-up work with borrowers.

Figure : Organizational Structure of the Media Department

The relative emphasis on achievements, packaging and marketing is understandable and indeed necessary to raise awareness and market new products to the public. Unfortunately this heavy emphasis on publicising the positive has, by the same token, influenced the demand for data and information on SFD’s activities in such a manner as to skew the monitoring and evaluation that is being done at the SFD to provide material for marketing rather than serving as an important management-oriented tool that identifies strengths, weaknesses failures and opportunities for improvement that can then be fed into internal management and decision-making processes.

The Media Department of SFD is an important one and appears reasonably well staffed. In view of the current mood in the country, over the next few years, the principle emphasis will need to be placed on addressing the public who are the potential beneficiaries of the SFD’s programmes. In order to do this, the SFD should focus principally on television and radio that will maximise penetration at every level of Egyptian society. To do this effectively, it is important that the TV & Radio unit of the Media Department work closely with the rest of the Department to build a close relationship with the major TV, radio and newspaper outlets in the country. The firs priority should be to establish personal relationships so that access becomes relatively easy. The second is to work with the new contacts to identify ways in which news and information regarding the SFD’s work can be weaved into topical programmes. This may even be tangential, and not at the centre of the programming. The principle should be that of maximising exposure. The third step should be that of crafting the message, a message that is in line with the SFD’s new directions and plans. To the extent possible, to most effective, television and radio programming should be filmed and recorded by the TV and radio stations and not produced separately and fed to them by SFD. However, snippets of file footage should also be developed by the TV and radio department that could be inserted into programmes. This will require the SFD to identify examples of success and best practice from all over the country and film them. The messaging should not only be that of publicising the best examples, but also speaking about the importance of ensuring the economic viability of programmes, getting viewers to understand the important decisions that have to be taken by business owners, a comparison between the services and products available between the SFD and regular banks and other sources as well as the range of products available for different types of end-users at the SFD itself. The importance of repayment to the continuity of programmes should also be emphasised.

## IX. MAJOR CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

#### RELEVANCE AND STRATEGIC POSITIONING

Pressures to make the SFD self-sustaining and the advent of Law 141/2004 have resulted in mission drift away from the organisation’s broader developmental mandate to one of operating as a financial institution lending to MSMEs. There is considerable demand for an institution to fulfil SFD’s original mandate and the challenge is for SFD to do this in a manner that encourages and creates conditions for an expanded role of the private sector in the development of Egypt including through what may appear to be higher risk ventures, while at the same time ensuring the sustainability of its own operations.

Indeed, during the period under review, the SFD has seen a shift in its emphasis and overall profile focusing more on lending to entrepreneurs with existing means than on creating opportunities for those who have traditionally been excluded. Law 141/2004 provided a clear and central role for the SFD, but covers only a part of the SFD’s mandate, leading to a major shift in the SFD’s attention away from other aspects of its mandate, such as community and human development including labour-based construction of essential productive and “social” infrastructure. This trend was further amplified by Egypt’s transition to Middle Income status and its exclusion from most sources of concessional loans and the decision on the part of the Government not to use loans received at market rates for projects unable to recover their costs.

Inherent in the mandate of an Apex institution is usually the coordination of other actors and stakeholders in the sector. The SFD has not, to date, taken a very active role in the substantive coordination of the sector. However, the outreach capacity created under the SFD as well as the considerable substantive capacity at headquarters if properly harnessed and organised, can lay a strong foundation for integrating policy development with practical experience at the local level. It would appear that this is a role for SFD that several partners would greatly welcome as the sector becomes more important and the number of stakeholders multiplies.

The SFD, for all its quasi-governmental status is still largely seen in the eyes of the public as an agency of the Government of Egypt. As a result, it is viewed by much of the public as an arm that carries out government policies and programmes. This has been reinforced by the use of the SFD on occasion by the Government for political purposes.

Demand for SFD support is rising. Indeed the SFD is likely to come under increasing pressure to create employment and entrepreneurial opportunities for a much wider spectrum of people within the coming years, particularly in “poor” governorates and within poor communities. The SFD needs to be seen to be effective in fulfilling its mandate, reorienting itself to ensure that it is clear to all that the SFD’s primary clients are the ultimate beneficiaries of its programmes, be they communities at the grass roots level, private entrepreneurs at the micro level or entrepreneurs in, or with aspirations to move into, the formal sector.

#### EFFECTIVENESS

The period 2005-2011 has witnessed a significant increase in SFD's micro-credit disbursements through a growing network of intermediary NGOs mostly in the relatively low-income governorates. More than 90% of the total loan disbursements of about LE 2.7 billion during 1992-2011 were accomplished in 2005-2011. Women have been successfully targeted (57%) as have start-up businesses (35%). The structure of the products offered has not always been appropriately tailored to the needs of the borrower and has posed problems as a result. Although the way in which jobs created are tracked is problematic, there is no doubt that a large number of jobs and livelihoods have been sustained through this modality,

SFD has had great achievements in terms of the volume of disbursements to small enterprises and associated job-creation. The number of jobs created has been estimated on the basis of a formula. But starting March 2011, the actual number of employees has been counted, resulting in an increase in the estimated cost per job from LE 11,000 to LE 30,000.

Direct lending has enabled the SFD to address higher-risk areas such as star-ups that do not receive loans from banks in Egypt. In less than 6 years, loans for LE 587 million have been disbursed to over 10,000 borrowers. Female borrowers and start-ups constituted 20% and 22% respectively. A sound automated credit scoring system is applied. Loan performance, however, is of some concern with the arrears ratio and PAR standing at 3.3% and 21% respectively by mid-June 2011. The challenge facing SFD now is to effectively manage the risk involved and to encourage the entry of other lenders into the sub-sector with appropriate provisions to offset or compensate for the additional risk involved.

The SFD has played an important role in the development of a number of institutions and tools that are essential for efficient functioning and growth of the MSME lending sector of the banking industry. The performance of these institutions, as may be expected, varies. SFD can have little control over their performance. SFD ties to these institutions remain and should be severed to enable them to function independently as soon as they reach maturity.

CDP contributes positively to the SFD’s core mission to reduce poverty through the creation of employment opportunities. Under the EU programme, CDP activities have become more transparent and responsive to community needs with a focus on partnering with community leaders and local NGOs, concurrently reducing its focus on partnering with line ministries. The integration of programmes with micro lending and small loans has ceased to be a priority following the transformation of microfinance into a separate, standalone group. Opportunities to develop private/public partnerships for community development are being lost as a result.

PWP activities contribute to improving the standard of living of poor communities and increase increasing short-term local employment opportunities. In the last few years, the PWP has lost several experienced staff due to reduced funding. PWP works closely with relevant government entities at the local level, both in the articulation of needs and identification of subprojects and project implementation. The PWP has also successfully pioneered close work with community leaders in the identification and prioritisation of needs. The systems and procedures used are very well designed. PWP has institutionalised criteria and procedures to ensure that labour-intensive methods are used and that at least 25% of subproject funds go to employing people from the community being served. PWP has introduced an innovative and sustainable maintenance system to ensure that facilities constructed are maintained. PWP is well positioned as a “change agent” which could have a far reaching impact on the many technical directorates with which it works at the governorate level, with CDAs and village councils at the grass roots, and at the policy level, with sponsoring agencies such as line ministries and governors. Inputs and outputs are monitored, but there is no on-going monitoring of outcomes or impact.

SFD’s communications strategy is intended to: i) market its products to potential clients/beneficiaries; ii) publicise achievements to the general public; and iii) publicise its achievements to donors and other stakeholders and partners. This blanket strategy, however is not sufficiently differentiated between the different target audiences and would benefit from more coherent messaging. A coherent and targeted communications strategy can have an important role in re-positioning the SFD at a time of national upheaval. The heavy emphasis on publicizing positive achievements appears to have also had a strong influence on monitoring and evaluation which is being largely used to support marketing efforts rather than an important tool that for proactively identifying strengths, weaknesses and opportunities for improvement for management.

Targeting of the poor is passive and based on general geographic distribution. An analysis of disbursement in conjunction with the poverty map suggests that even this form of targeting is ambiguous at best. Targeting at the level of individual clients does not seem to take place in any systematic way. Intermediary bank requirements are largely unaltered and it would appear that those receiving small enterprise loans are those that are able to fulfil standard collateral and personal guarantee requirements and are merely benefiting from more advantageous interest rates. The one exception is the creation of temporary manual jobs under labour-based public works schemes as these are largely self-targeting (the wealthier members of society tend not to opt for manual labour).

There has been heavy emphasis paid to making the SFD itself self-sustaining. As a consequence, the SFD has tended to abide by the conditions set by intermediary banks for lending, limiting the range of potential borrowers through the stringency of these terms. Active targeting has not been in force and while the portfolio of small and micro loans has grown dramatically, the SFD could have widened its spectrum of potential clients for loans considerably by influencing the credit review process, possibly even through the provision of sound business advice and non financial services that would reduce the risk placed on the banks themselves. Furthermore, when assessing its own exposure to credit risk, the SFD has paid more attention to the rate at which intermediaries repay their loans to the SFD than the rate of repayment of loans by beneficiaries to the intermediaries themselves. *While repayment rates by the bank intermediaries to the SFD are acceptable, NGOs repayment to SFD is not and must be addressed. In addition, the downstream portfolios of the intermediary banks and NGOs are showing signs of stress.* The extent of the problem needs to be further assessed in some depth with visits to all of the Governorates and districts covered by the SFD.

On the other hand, the presence of SFD has demonstrated the viability of loans to MSMEs and has, as a result of its involvement, encouraged the entry of additional financial institutions into the sector. It has also encouraged and created a series of institutions that are essential for growth of the sector. The long-term health of these institutions needs to be studied more closely as some, particularly the guarantee associations, may need to be strengthened for long-term sustainability.

There are indications that the labour-intensity of micro- and small business lending has been underestimated and that portfolio performance may be improved through raising the ratio of loan officers to borrowers. Peer pressure has so far not been used as a means of encouraging timely repayment and as a general rule group lending has not been entered into.

The SFD has experimented with different forms of financial services including Islamic lending with varying degrees of success. The SFD’s direct lending programme has been used to spearhead new forms of lending. In this respect, the SFD has spearheaded the growth of lending to start-ups in Egypt through its both its direct lending and intermediary lending programmes. There are signs that this has encouraged other financial institutions to consider start-ups loans. SFD's Direct Lending programme will be introducing Islamic finance for the first time, under a new contract that will apply 'morabha' Islamic mechanism. SFD's franchise project has developed business with 15 franchisors under SFD’s Direct Lending Program since 2008. Loans for about LE 15.5 million have been disbursed with 447 franchisees as of March 2011.

The proportion of repeat borrowers is quite high. Most borrowers in focus groups indicated that they would like to receive progressively higher loans to support the growth of their businesses. This would suggest that the businesses are successful and growing. However current rules do not easily allow for an increase in the size of the loans or their terms in order to accommodate the changing needs inherent in the process of expansion.

According to the SFD’s monitoring figures, a large number of temporary and long-term jobs have been created. While the number of jobs created is undoubtedly large, the figures provided are deceptive in that they are based on an estimate that is based on the total volume disbursed. Furthermore, the figures do not allow for repeat lending, probably leading to a certain degree of double counting of jobs created. Verification of the figures through direct monitoring is weak and baselines have not been established for either the number of jobs actually created or the trends in income levels in communities that are beneficiaries of SFD assistance.

The SFD’s community and human development programme activities have shrunk dramatically since 2005. They have, however, demonstrated that community level planning, prioritisation and management of public works contracts is viable. However, there are few links between the SFD’s programmes and policy development in such areas as decentralisation and local governance reform. There are also relatively few links between SEDO’s lending programmes and the creation and management of productive and social infrastructure created with SFD assistance. There is room to develop programmes and policies that would facilitated the entry of public private partnerships that would not only leverage additional resources for community development public works programmes, but would also enhance their self sustaining nature.

PWP objectives are fully in line with the main objectives of the SFD to improve the standard of living of the poor communities and increase local employment opportunities. PWP is closely entwined with government, both on the demand side (articulation of needs and identification of discrete subprojects coming up through local government and community bodies) and the supply side (project implementation agreements with sponsoring agencies such as governorates, ministries, and execution through intermediary agencies such as local administrative units and technical directorates). The systems and procedures used by PWP in its project cycle are well designed in the Egyptian context. Complementarity and coherence of PWP systems are very good, mainly through the systems PWP has evolved to complement GOE infrastructure investments and to coordinate subproject identification and funding with local directorates. PWP has set up a number of criteria and procedures to ensure that labour-intensive methods are used and that at least 25% of subproject funds go to employing people from the community being served. Also, PWP introduced an innovative and sustainable maintenance system to ensure that some of its subprojects are well maintained. There is evidence that the GOE is benefiting from this and other innovations of the PWP.

PWP is well positioned as a “change agent” which could have a far reaching impact on the many technical directorates with which it works on the governorate level, with CDAs and village councils on the most local level, and also, on a more policy level, with sponsoring agencies such as line ministries and governors. The monitoring system tracks the inputs and outputs effectively, but there is no on-going monitoring of outcomes.

The period 2005-2011 has witnessed a significant increase in SFD's micro-credit disbursements through a growing network of intermediary NGOs mostly in the relatively low-income governorates. Women have been successfully targeted (57%) as have start-up businesses (35%). The structure of the products offered has not always been appropriately tailored to the needs of the borrower and has posed problems as a result. Although the way in which jobs created are tracked is problematic, there is no doubt that a large number of jobs and livelihoods have been sustained through this modality,

According to its own estimates, the SFD has disbursed LE8.9 billion for small enterprise loans since 1992, to a total of 306,572 enterprises, creating 1.3 million jobs. The number of jobs created has been estimated on the basis of a formula. But starting March 2011, the actual number of employees under SME lending has been counted, resulting in an increase in the estimated cost per job from LE 11,000 to LE 30,000, hence indicating doubts regarding the formula that has been previously used. Job creation under micro-credit is still based on a formula used by the 2008 National Impact Study of Microfinance, namely "number of borrowers multiplied by 1.1". It is recommended to use actual counting of generated jobs, through intensified field follow-up of micro-enterprises, rather than using a formula. Also noting that in case of loans to existing enterprises (as opposed to start ups) the loan can be said to have helped 'maintain' the existing job opportunity of the entrepreneur rather than 'created it'.

Under SME lending, 72% of the beneficiaries reached were male and 28% female. A significant drop in disbursements in 2009 reflected a heavy dependence on two intermediary banks that underwent restructuring. SEDO has taken steps to diversify its implementation arrangements since then. Small enterprise lending has only very loosely targeted the poorer governorates and the requirements and terms for lending have to all intents and purposes eliminated the poorer sections of the population. Demand, however continues to be high, and lending has reached new heights in 2011.

Direct lending has enabled the SFD to address higher-risk areas such as start-ups that do not receive loans from banks in Egypt, (start-ups are accommodated under intermediary lending as well). In less than 6 years, loans for LE 587 million have been disbursed to over 10,000 borrowers under DL. Female borrowers and start-ups constituted 20% and 22% respectively. A sound automated credit scoring system is applied. Loan performance, however, is of some concern with the arrears ratio and PAR standing at 3.3% and 21% respectively by mid-June 2011. The challenge facing SFD now is to effectively manage the risk involved and to encourage the entry of other lenders into the sub-sector with appropriate provisions to offset or compensate for the additional risk involved.

SFD's NFS Sector does not provide a sufficiently broad range of products; they are not tailored to the needs of businesses and are not sufficiently exploited to widen access of the poor to financial services. They also lack the budget necessary for adequate service provision. Some loan beneficiaries complain of a lack of access to NFSs. Cost-recovery is not pursued, affecting financial sustainability and reducing the emphasis placed on them as SFD pursues its own strategy for sustainability. The rationale for organisationally separating NFSs and BDSs into two sectors is not clear. There is staff shortage at headquarters and in ROs in a number of specializations and capacity development is needed.

Financial products are not sufficiently tailored to the needs of borrowers, creating difficulties in repayments that could be avoided if there were a wider array of products available to match the specific nature of the most common categories of micro and small businesses that receive loans. For this, the SFD will need to listen to client needs more closely and feedback mechanisms will need to be created.

One of SFD’s important functions is the piloting of new modalities. The success rate of such ventures is likely to be lower, but donors should accept this as an acceptable cost of transacting in new areas. Startups are clearly subject to higher risk, but with appropriate risk management their upside is also greater. SFD's franchise project has developed business with 15 franchisors under SFD’s Direct Lending Programme since 2008. Loans for about LE 15.5 million have been disbursed to 447 franchisees as of March 2011. Portfolio performance is not tracked separately for the franchise programme in terms of rate of repayment. SFD will face increasing demands for Islamic Banking. SFD's Direct Lending programme will be introducing Islamic finance for the first time, under a new contract that will apply 'morabha' Islamic mechanism.

The SFD has played an important role in the development of a number of institutions and tools that are essential for efficient functioning and growth of the MSME lending sector of the banking industry. The performance of these institutions, as may be expected, varies. SFD can have little control over their performance. SFD ties to these institutions remain and should be severed to enable them to function independently as soon as they reach maturity.

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It is not clear to what extent the SFD has actively targeted women under their various lending programmes. Women, have, however, been the recipients of 57%, 28% and 20% of microfinance, small, and direct loans respectively since 2005. The fact that just 20% of direct loans have successfully targeted women appears to be a reflection of the lack of real attention paid to the issue by SFD. It is worth noting that the majority of businesses financed under the microfinance component are in fact in the informal sector, reinforcing the role of women in the less robust segments of the economy.

#### EFFICIENCY

Current audit practices constitute a drag on efficiency without necessarily adding to the level of financial probity beyond a more reasonable audit regime. Efficiency has been affected by the frequency of audits and the use of audits as a prerequisite for key decisions during the project cycle. The sheer number of internal, private external and government audits conducted on the SFD must surely make it one of the most heavily audited entities in Egypt. The audit strategy as presently implemented also risks creating conflict of interest as internal audit is involved in making key decisions in the approval of contracts and projects.

Audits as presently implemented are financial compliance audits. Management audits are not conducted and are not used to inform on the current processes and management practices.

In general, the most significant delays occur as a result of the extensive delays experienced as a result of the numerous layers of approval that are required before implementation of any sub-project. These approvals have to be obtained at the local level, within the SFD, at the level of relevant technical ministries and coordinating ministries in Cairo, at the level of the Board of Directors of SFD in the case of large projects and from Parliament in the case of sub-projects funded by foreign bilateral or multilateral donors.

The credit scoring system is comprehensive and covers all components of sound credit analysis. Some feasibility studies at ROs would benefit from an updated schedule of unit prices/costs. Loan disbursements are delayed at banks, as well at various levels of clearances at SFD. Headquarters Credit Committee meetings are frequent and are not the cause of delays. Information flows need to be strengthened to adequately communicate loan terms and conditions to borrowers, to issue bank reports to SFD on late repayments, and to enhance information-exchange on the quality of loan portfolio among the concerned departments within SFD. Loan disbursement at NGOs is rapid, but neither the ROs nor the NGOs are responsive to client feedback on the size and terms of loans; financial products are not fine tuned to meet demand and business realities. Some ROs are understaffed insofar as microfinance officers are concerned, negatively affecting the support provided to NGOs and end-borrowers and perhaps the quality of the loan portfolio.

Efficiency of the SFD’s public works programme rates favourably in comparison to other infrastructure service providers in Egypt. Project overheads are remarkably low in part due to transparency of the process. Once approved, sub-projects are executed in a timely manner although lengthy approval processes (see above) in practice result in considerable delays. While they bring valuable local experience to bear, the skills of personnel at the ROs and the PIUs could benefit from in-service refresher courses.

SFD’s PWP programme is too closely intertwined with Government and could effectively support a paradigm shift leading to the application of public-private partnerships in the construction and management of social services, utilities and publicly used facilities such as elementary schools and primary health care clinics.

Monitoring and evaluation at the SFD is at present heavily influenced by donor and public information needs. Less attention is paid to management needs or the monitoring of results at the outcome and impact levels. As a consequence, monitoring of outputs is strong, but the monitoring of outcomes and impact is relatively weak. Systems for the collection of outcome and impact indicators such as actual jobs created and income levels have not been introduced in most instances and baselines have not been collected. The independent impact assessments conducted have been standalone studies and have had assessed the sector as a whole and cannot be used to assess the impact of the SFD’s programmes themselves. The absence of baseline data has caused some evaluations in the past to emphasise the use of controls generally consisting of neighbouring geographic areas that have not benefited from SFD assistance.

*Under SFD’s lending programme, existing systems need to be fine-tuned and strengthened to ensure that relevant indicators are monitored regularly to assess SFD’s effectiveness in fulfilling its core mandate including at the outcome and impact levels.*

#### SUSTAINABILITY AND MANAGEMENT CAPACITY

The SFD has been highly successful in rendering its core business self-sustaining; its operational costs, as presently structured, are fully covered by revenue from the interest on loans and short-term investments. SFD's income-generating units (i.e. SEDO and Microfinance), realize revenues that are equivalent to 118% and 89% of their expenses, Margins, however, are insufficient to cover new lines of non-financial products, adjustments in staffing structures or the addition of services that cannot be expected to fully recover their costs at least initially will need to be funded separately. .

While there may be some exceptions (as with all institutions) the SFD has been able to attract and retain a cadre of highly competent and motivated staff – especially at its Cairo headquarters. This is largely due to competitive terms of employment and career development that sets it apart from government agencies and more in line with the private sector. This is due to its status as a UNDP project that enables staff salary scales to be higher than those of other government institutions.

The loan portfolio is not of high quality. SD takes several measures for risk management, including internal audit, penalties for late payment for NGOs, automatic classification of loans according to quality based on delays in repayment and the establishment of clear provisions for each category of loan. Penalties are charged by SFD for late repayments by NGOs. There is a need to ensure that the NGOs, in turn, charge late penalties to end-borrowers. Penalties for late payment serve as incentive for prompt repayment improving the overall health of the loan portfolio. Installation of micro-credit specialized MIS would provide NGOs with the means to properly compute their provisions and PAR. To account for FX risk, a weighted average for the fluctuations in currencies is computed for those currencies in which SFD's liabilities are denoted. This is a practice adopted by SFD recently. The resulting loss, if any, is added to the cost of funds and taken into consideration when contracting with banks in the following year. The mismatch in duration between assets and liabilities is in SFD's favour, noting the interest rate differential between local and foreign currencies.

In the last few years, the PWP has lost several experienced staff due to reduced funding. Currently, PWP are managed by three capable professionals.

Decision-making processes at the SFD remain highly centralised. Yet, one of the underexploited strengths that the SFD possesses is its network of zonal and regional offices that provide it considerable operational outreach and proximity with the ultimate beneficiaries. The quality of staff located in the zonal and regional offices could be strengthened further through the provision of incentives to ensure that the most qualified staff serve not just at headquarters but in some of the poorest governorates – at least for a period of time. The staffing complement of regional offices has been determined by the current volume of business rather than an assessment of the priority of a particular governorate as determined by its low average per capita income or the staff strength that it is anticipated may be required to increase the penetration of microfinance and small loans. As a consequence, the staffing of regional offices in poor governorates that rapidly need to expand their lending programmes to MSMEs may need to be strengthened if the SFD is to meet public expectations.

The SFD is in the process of implementing an ambitious programme to fully automate its operations. Effective computer automation could both improve the management of monitoring data and also strengthen the delivery of non-financial products to clients. Regional offices and the PSUs need to be fully included within SFD’s computer network. For the moment, however, there remain gaps in the enterprise management information systems that need to be covered.

In terms of the sustainability of enterprises created, the death rate of small and micro enterprises supported with SFD loans is not systematically monitored. However, judging from the frequency of demand for repeat loans, it would suggest that the success rate is reasonably high.

Public works programmes under the community and human development sector are maintained better than similar facilities constructed by government line departments on their own. A fund has been established to cover periodic maintenance and at present maintenance is prioritised along with communities concerned and only interest is used to cover the costs.

#### COMMUNICATIONS STRATEGY

SFD’s communications strategy is geared to: i) marketing its products to potential clients/beneficiaries; ii) publicising achievements to the general public; and iii) publicising its achievements to donors and other stakeholders and partners. This blanket strategy is not sufficiently differentiated between the different target audiences and would benefit from more coherent messaging. A coherent and targeted communications strategy can have an important role in re-positioning the SFD at a time of national upheaval. The heavy emphasis on publicizing positive achievements appears to have also had a strong influence on monitoring and evaluation which is being largely used to support marketing efforts rather than an important tool that for proactively identifying strengths, weaknesses and opportunities for improvement for management.

### Recommendations

#### RELEVANCE AND STRATEGIC POSITIONING

***De-politicisation of the SFD***: In the post-January 25 period, the SFD must urgently reassert its independence from political pressures, reinforce its role in promoting greater equity through access to jobs and higher incomes while doing so, operate through the private sector or public-private partnerships without promoting entitlement programmes or market distortions through overt subsidies so closely associated with it during the 1990s. The SFD must be seen to be effective in the public eye in fulfilling its mandate and needs to reorient itself to ensure that it is clear to all that the SFD’s primary clients are not the Government, not the donors, not the intermediaries, but the ultimate beneficiaries of its programmes, be they communities at the grass roots level, private entrepreneurs at the micro level or entrepreneurs in, or with aspirations to move into, the formal sector.

The Board of the SFD should continue to broaden its base. It is recommended that the following be appointed as board members: i) A senior investment or commercial banker from a private bank or financial institution; ii) A CEO or COO of a large manufacturing company who is familiar with the problems and obstacles faced by the private sector in Egypt as well as the supply requirements of large firms that could be fulfilled by small companies; and iii) One more serving President or head of a large NGO operating in Egypt; and iv) One or more representatives of poor Governorates (either from local government or local CSAs). It is recommended that all four additions be Egyptian nationals or expatriate Egyptians of impeccable standing. To the extent possible they should not have any clear links to prior political regimes. Background checks should be run prior to appointment to ensure that there could be no suggestions of impropriety in their past. The investment banker should ideally bring to the table a knowledge of the use of debt instruments for essential infrastructure (bonds floated on capital markets) as well as a sound knowledge of public/private partnerships for utilities and both productive and “social” infrastructure.

It is recommended that the Board should also have more formal rules of procedure and a terms of reference that specifies the scope as well as the limits of its authority. The reconstituted Board should:

* Meet regularly on a semi-annual basis;
* Receive reports on outcomes and impact at each meeting based on a clear set of indicators;
* Receive reports on constraints and practical difficulties faced by enterprises, micro entrepreneurs and community development programmes with a view to influencing policies;
* Receive reports on credit risk faced by the SFD on a regular basis; and on an annual basis,
* Receive reports regarding staffing and capacity development.

Consideration could be given to appointing subsidiary working groups to report to the Board on key issues such as reform of the SFD or credit issues. These working groups would then report back to the Board based on their findings. The working groups could be expected to function on a more intensive basis for a limited period of time based on the workload

The appointment of the new board should be widely publicized in the press to ensure that the public is aware of steps that are being taken to reinforce the independence of the SFD from political influence. At the very least, a press conference should be organised for the purpose. The press conference should serve to publicise the new structure of the board and also reiterate and emphasise the SFD broader mandate (see below).

***Reclaiming the Full Scope of SFD’s Mandate:*** The SFD should reassert its position as the ***Apex institution*** for expansion and development of the MSME sector for employment generation, poverty reduction and an improvement in living standards. As an Apex institution, its role should be to facilitate and promote access to financing for MSME establishment and creation for the poorer segments of the population that were previously excluded because of institutionalised obstacles such as collateral and capitalisation requirements. Its role should also be one of encouraging the sustainable entry of an ever-wider array of lending institutions, raising competition in the MSME financing sector and a broadening of the array of products available to small and micro entrepreneurs. The SFD should, as Apex institution for the sector, take on the lead coordination role on behalf of Egypt for both international and national institutions and agencies involved in the sector. This coordination, to be effective, needs to be substantive and policy-driven while at the same time being informed by the practical experience gained through implementation on the ground.

The SFD, building on its role as an institution that straddles the public and private sectors, should position itself as an agency that brings together both practical experience “on the ground” through its ***decentralised*** operations and puts this together with its strong capacity to develop policies. To do this, it must show that it is prepared to ***innovate***, to ***take risks*** and spearhead new modalities and approaches in the sector. This is an area in which partnerships with multilateral agencies that continue to be prepared to provide grant assistance to the SFD becomes particularly important as a means of offsetting the risks inherent in innovation and the application of new modalities that have not yet proven themselves and therefore cannot yet be expected to recover the costs incurred.

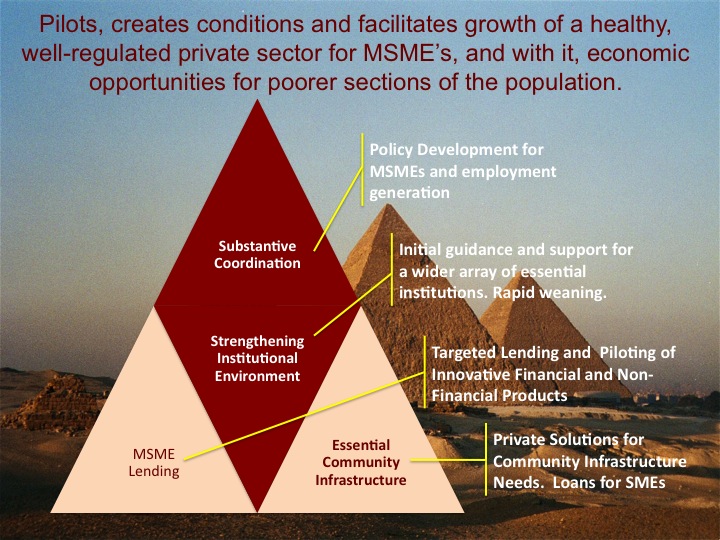


Figure : Proposed Strategic Roles and Functions of the SFD

SEDO and the microfinance sector should ***conduct a study to identify key non-financial services*** that are required by MSMEs – particularly those wishing to either move into the formal sector or significantly expand – and build capacity to deliver them. Such non-financial services should be provided in conjunction with loans issued by banks or NGOs with the objective of reducing perceptions of credit risk to the lending institution. SFD should work with intermediaries to convince them to relax collateral requirements if valuable non-financial services are provided in conjunction with loans. While such non-financial services may need to be piloted on a grant basis to demonstrate their value, within a period of 4-5 years, they should be sold to borrowers, recovering costs incurred and becoming a new stream of revenue for SFD.

There is scope to better tailor and differentiate financial products to the specific needs of different types of micro-enterprises and economic ventures. For instance, while one-year loans with monthly repayment schedules without a grace period may work for petty traders, productive schemes such as agriculture (and animal production) often have lag times before the marketing of produce can enable repayment. Loans for the latter would ideally be for a longer duration and involve a grace period during the growing season. The same holds true for loans for financing the purchase of such fixed assets as machinery and equipment. Such an approach would reduce the likelihood of delays in repayment and positively impact the sustainability of ventures. Financial products for both SMEs and micro borrowers can both be usefully diversified in this respect.

ROs must provide advice to borrowers on the range of financial and non-financial products available to them so that optimum choices are made and borrowers do not end up in financial difficulty.

The SFD appears to have found a niche for itself in direct lending to start ups and high-risk sectors. In view of the concerns about a lack of CBE regulation, it is recommended that DL be retained as a modality to innovate and pilot loans to new sub-sectors and categories of borrowers but maintaining the volume within present limits i.e. about 15% of SEDO's outstanding portfolio. In the case of micro-borrowers that require loans that exceeded the capacity of intermediary NGOs but are too small to appeal to banks, DL could serve as a platform for graduating them, ideally on a temporary basis to an intermediate level until they graduate again to reach a size that is eligible for bank-loans either with SFD involvement or without. As experience is gained under what is essentially a young programme, success of the programme should be publicised and the staff of SFD should analyse any specific obstacles preventing the entry of banks into the venture capital market for start-ups with a view to encouraging entry by private banks into the sub-sector. To encourage entry into the sector, the SFD should look into the possibility of delivering non-financial products or partially financing loans through the intermediaries to demonstrate the financial viability of start-up lending.

Community and human development programmes that are identified and prioritised by the communities themselves need to be seen as a priority in light of recent events. Ways need to be explored on how to ensure that essential community infrastructure such as water, power and even clinics, pharmacies and schools may be owned and managed by the private sector. The Community and Human Development sector should recruit consultants to devise a strategy to promotion of public/private partnerships in the sector, encouraging private individuals or groups to manage these types of essential facilities as private ventures. The Community and Human Development sector could, in this way, seek synergies with SEDO whereby SEDO would support loans to individuals or groups that wish to manage these types of facilities as SMEs.

Some multilateral donors such as the EU have indicated to the review team that grant funding can be made available for the SFD’s Community and Human Development activities based on past success. Obviously such options should be vigorously pursued in the ***short term***, particularly with a view to responding to the growing demands of the population. However, with a pragmatic eye focused on the ***longer-term***, the Community and Human Development Sector should also explore avenues for using debt as a means of financing essential infrastructure as part of larger national or zonal schemes. In all such instances, cost-recovery should be an integral part of the projects. Utilities that are established with cost recovery components should be able to justify receiving financing derived from loans – either international or from bonds issued on the domestic stock exchange -- in conjunction with larger schemes supported by the Government (even if internal rates of return are lower than manufacturing enterprises). This type of approach would not only enable the Community and Human Development Sector of the SFD to continue to pursue the excellent work that it has undertaken in the past, but it would also enable Egypt to accelerate the development of essential productive and social infrastructure at the sub-national level. Such infrastructure is also an essential part of creating an environment conducive to growth of private MSMEs. Schemes of the type envisaged would also result in the creation of longer-term employment where current schemes tend to promote only temporary construction-based jobs. The experience gained in developed countries such as the United States and middle-income countries such as Singapore and Malaysia in this respect should be studied. The role of the SFD as an Apex institution should be to spearhead and pilot this approach, but the ultimate goal should be to convince the Egyptian private sector as well as relevant line ministries of the inherent viability of this strategy. Indeed an ambitious approach of this type would require a concerted, coordinated approach involving banks, ministries, utility companies, the stock exchange, donors and private entrepreneurs.

#### CHANGE MANAGEMENT

The changes proposed in this report appear incremental, but in practice involve a major shift in direction and strategic positioning of the SFD. and call on the staff of the SFD to be bold, take risks and innovate. The current staff of the SFD is, for the most part, highly capable and professional, but change always requires a concerted shift in corporate culture. To drive through the reforms, a systematic approach needs to be adopted; it is therefore recommended that a ***Reform Team*** be appointed under the Managing Director and a ***Reform Team Leader***. The role of the Reform Team should be to:

* Manage and oversee the studies recommended in this report that can lay the foundations for change;
* Identify and recruit any outside technical assistance that may be required for specific aspects of the reform;
* Define or fine-tune the reforms and the means required to implement them;
* Oversee implementation of the reforms driving through the changes in each of their respective sectors or groups;
* Appoint sub-teams as may be necessary to define or implement specific reforms that require intense attention or technical expertise, using members of the Reform Team as chairs of the sub-teams that report back to the Reform Team;
* Monitor the implementation of the reforms, reporting back to the Reform Team as a whole;
* Guide and reorient the reforms as may be necessary based on experience gained in the implementation process; and
* Report through the Managing Director and the Reform Team Leader to the Board or the SFD.

The Reform Team should be composed of at least one person from each of the key sectors and groups of the organisation, both at headquarters and in the field. Ideally many of these Reform Team members should be at the level of head or deputy head of the unit involved, but should selected for their dynamism and willingness to innovate and institute change. The Reform Team should also include mid-level staff who possess the requisite qualities or special skills and are keen to demonstrate their value in the organisation. Each should be empowered as a result of their membership of the Reform Team with the authority to speak on behalf of senior management in the implementation of the reforms irrespective of their own rank. It is suggested that membership should be drawn from:

* The Technical Bureau;
* Planning and International Cooperation;
* Microfinance;
* Small Enterprise Lending;
* Business Development;
* Non-Financial Services;
* Community and Human Development;
* Regional Office Affairs;
* Risk and Debt Recovery;
* Human Resources;
* Finance and Administration;
* Information Technology and Communications;
* Media and Public Relations; and
* Legal Affairs.

In order to ensure the independence of the internal audit function, Internal Audit should not be a part of the Reform Team, but should review the recommendations of the Reform Team as they are produced on its own, providing advice to the Managing Director as necessary.

The Reform Team should be of limited duration – 3 to 5 years – but long enough to ensure that reforms are fully institutionalised into the fabric of the SFD. Appointment to the Reform Team should be seen to be prestigious, and those appointed should expect to, subject to their performance on the Reform Team, be fast tracked for promotion to more senior positions. The Managing Director and Reform Team Leader (also selected personally by the Managing Director) should handpick the appointees individually. The Board should also endorse the full team, once selected, in order to add to its credibility and authority.

#### MANAGEMENT CAPACITY

***Policy Development and Substantive Coordination Capacity:*** In order to assert its mandated role of coordination, particularly at a time when the number of stakeholders in the sector is increasing, the SFD needs to strengthen its strategic planning and policy development capacity. A distinction needs to be made between operational planning and target setting and long-term strategic planning for the sector. The latter capacity needs to be strengthened and the strategic planning and policy sector should serve as the principal secretariat under the Managing Director for the coordination function and the SFD Board. It needs to build or recruit additional capacity to analyse the sector, develop policies, track the activities of all key stakeholders and recommend ways in which the sector could be made more dynamic, drawing on the Monitoring and Evaluation Department and feedback obtained through the SFD’s network of ROs on practical issues arising from implementation at the sub-national level.

In an environment in which most government agencies are heavily centralised and in an environment in which decentralisation is not yet on the cards, the full strength inherent in the SFD can only be fully exploited if the full value of its network of Regional Offices is exploited and key functions are decentralised. A detailed study will need to be undertaken to review internal processes and functions that can be incrementally decentralised. It is essential that some core control functions be retained at headquarters, but thresholds can be restructured so that far greater authority can be accorded to managers in the ROs.

***Field Officers and Loan Monitoring:***  Enough Field Officers should be hired to ensure that all borrowers are visited once a year. SFD should consider hiring an additional 60 Field Officers in addition to the existing 140. The extra cost is about LE 72,000 per month i.e. LE 860,000 per annum. This, however, would allow for more visits to borrowers, improving follow up and monitoring. Some female FOs should be hired in addition to the existing team which fully consists of male officers in order to ensure access to the many female borrowers especially among beneficiaries of micro credit, that may prefer to be visited by female FOs. This is particularly important in case of home-based enterprises where the FO visits the borrower at her house. SFD should consider providing transportation allowances to Field Officers, strengthening their follow up and morale. This is in view of the importance of the information collected at field level, both for the LO and the RO at local levels and for management and decision-making at Head Office.

***Career Development and Decentralisation:*** For decentralisation to be successful, the capacity of staff at the RO level needs to be brought into line with that at SFD headquarters. Career development incentives and incentive schedules should be revised with a view to providing greater incentive for staff to serve in the ROs. For instance, promotions could be made contingent on a minimum period spent in ROs and all staff should be required to spend at least 5 years of their career outside the Cairo headquarters of SFD. A hardship compensation package may also need to be considered so that the family of staff are not overly disrupted as a result of the rotation. For instance, special education allowances may be considered for the children of staff forced to move from Cairo to a Regional Office with a view to enabling their children to continue their education in their schools in Cairo.

***Career Development and Performance Appraisal:*** While it is notoriously difficult to institute systematic procedures for staff appraisal that can be reliably linked to career development, the efforts currently underway by Human Resources should be strengthened. All staff should:

* Be subject to consultative work planning, target-setting and performance review with their immediate supervisors and their unit Directors on a semi-annual basis;
* Performance should be assessed based on readily verifiable quantitative criteria based on individual performance targets that are supplemented with qualitative performance indicators;
* Performance reports should be issued on an annual basis and be the subject of mutual agreement between the staff member and the supervisor;
* Disputes should be handled by a committee as necessary;
* Promotions should be subject to review an appointments and promotions board based on a systematic comparative review of performance reports of candidates;
* As discussed above, rotation requirements should also be taken into account before staff can be promoted above the level of Senior Manager; and
* The appointments and promotions board should recommend promotions to the Managing Director who has ultimate decision-making authority for each promotion.

Customers at the RO level should be issued customer satisfaction questionnaires in the form of simple cards that request them to score their satisfaction with respect to the services and support received. This feedback should be reviewed with a view to improving customer service and should be taken into account in the appraisal of the performance of staff interfacing directly with clients.

Performance of the Managing Director would of course be subject to review by the Board of the SFD.

The staffing complement of ROs is determined by the current workload. However, expanding operations in a poor governorate consistent with the SFD’s mandate to access the poor is more labour intensive than it is in a governorate with potential borrowers with sufficient assets and expertise to qualify for loans from intermediary institutions. It is recommended that staffing of ROs be determined based on the expected level of work required to boost business and to provide access to sections of the population that would normally be excluded from loans. SFD should assign one third more staff for business development at the 7 governorates with the highest poverty levels in Egypt.

The capacity of the Community and Human Development Sector should be urgently boosted with the recruitment of one or more international consultants who can advise on new and innovative means of financing the sector. Such consultants should be recruited initially for a period of 2-3 months, followed by periodic return visits. Implementation of the new programme should remain in the hands of the current staff that should work closely with the international consultants throughout. Current staff should receive exposure to the model being proposed including through visits abroad as recommended and organised by the international consultant(s).

The UNDP or other such partner should fund a project to review demand, identify non-financial products for development and support their development. Staff in SEDO, Microfinance and the ROs should be trained in their application so that these products can be effectively administered.

In order to focus on the sustainability of the loans to the ultimate borrowers, there is a need to boost the ratio of loan officers to number of borrowers, particularly with respect to micro lending. This should be done either in the intermediary NGOs or by boosting the number of Loan Officers at the RO level. Bearing in mind the need to control core operational costs, the number of Loan Officers should probably be boosted in intermediary NGOs rather than in the RO. They should, however, be required to collect essential monitoring data pertaining to the outcome and impact level results.

***Information Systems:*** Additional priority needs to be given to the development of SFD’s information systems for three objectives in particular:

i) The management of results-based monitoring data;

ii) Extending the enterprise management systems and integrating all operational units of the SFD within it; and

iii) Creating a platform for offering non-financial services and information or other services.

The systems should prioritize the inclusion of a database of core outcome and impact indicators for monitoring programme results. Priority should also be given to ensuring full integration between the PSUs, ROs, zonal offices and headquarters. Server-based information systems should be established as a key platform for offering non-financial services to clients and also providing essential information regarding financial services to them. This should be done as part of the development of the new SFD portal that is currently underway. Consideration should be given to finding innovative ways of generating income to support costs associated with the information system. For example, the use of advertisements for some of SFDs private partners may be considered. Also, if the content level of the systems is boosted, consideration may be given to demanding a subscription, for example for access to the online support services. The latter may be provided subject to secure password-based access.

#### EFFECTIVENESS

The selection of borrowers cannot be left entirely to intermediary institutions based on their standard criteria and processes. The SFD needs to develop a clear set of screening criteria that would provide added depth to the factors considered in the selection of potential borrowers. Among other factors, the targeting tool developed should include considerations of income level, gender and age with a view to targeting more poor people, women and youth. Access to non-financial services that can positively improve quality, production and productivity of enterprises or improve design and the general competitiveness should be used to reduce the stringency of lending requirements. This will need to be negotiated between SFD and the intermediary banks involved once the non-financial products have been developed. Consultants/experts may need to be recruited to help develop key non-financial products of relevance. Among those of obvious value include facilities such as computer links to help businesses identify and access suppliers of essential equipment, continuous business advice regarding branding, marketing and overall business strategy, and the identification and support in the penetration of new markets.

A strategy should be developed for organising similar businesses to support supply chains for larger manufacturers either domestically or internationally. For this the SFD should serve as a catalyst, sponsoring a study based on the range of businesses that have been supported by SFD to date, the scope for organising their production and marketing functions and linking them to larger companies of national or multinational stature. A feasibility study should be urgently undertaken for the purpose with a view to:

* Identifying businesses that, if organised and coordinated with other small businesses with appropriate quality controls instituted and production standards, can serve as part of a supply chain, producing goods for larger businesses;
* Defining a strategy for organising and supporting such businesses exploring all possible means including credit, non-financial services that may be required, options such as geographic clustering and the use of information technology platforms;
* Identifying potential buyers and putting them together with the producers;
* Providing legal and other support for contractual arrangements.

In order to boost the performance of loans and to better understand the needs of customers, it is strongly recommended that the number of Field Officers in ROs be be increased so as to allow for at least one annual visit to 100% of the micro-borrowers (rather than the present 30% sample). Under DL, the time-monitoring system designed by SFD should be institutionalised and a similar system ought to be developed in conjunction with banks for lending through bank intermediaries (One or more staff members could be fully devoted to this type of follow-up until procedures are streamlined). More staff should be recruited for DL (noting that active borrowers are over 8,000 and manpower is only 85 nation-wide) to enable more stringent monitoring and backstopping of borrowers with appropriate advice and technical support.

In order to support the expansion of businesses, Loan Officers should be trained to provide information to micro borrowers on the full array of business and non financial services that can be provided to them by SFD with a view to helping viable businesses graduate from micro- to small business status with access to appropriate services and financial products better tailored to their needs; in general SFD’s services should be fully service oriented to fulfil the needs of the customer.

***Community and Human Development:*** It is recommended that there be greater focus on integrated local area development both in rural areas and in urban slum pockets, as is already being considered by SFD. In fact, many of the social and economic benefits inherent in PWP’s menu of infrastructure services (and in HCD’s wider menu of social and human development services) are more cost-effective in very dense and deprived urban slums, where levels of poverty equal those in rural areas and where there are definite geographic concentrations of poverty.

Greater emphasis should be placed on integrating PWP, CDP and HRD projects seeking synergies. Some of PWP’s best practices which combine community participation with service delivery are found in integrated subprojects with CDAs and other elements of civil society, especially in rural villages, and particularly in terms of impact on poverty and sustainability. One aspect would be to use PRAs and other community-based techniques for needs identification

On the demand side for labour, there is the need for better choice of labour-generating interventions, rather than simply mechanistic requirements for labour that can lead to inefficiencies. For instance, manual weed cleaning for irrigation canals is more effective and sustainable solution than mechanical methods.

Better geographic targeting, down to the small village and slum pocket level, in the selection of interventions, using practical indicators and simple mapping.

There needs to be better feedback from projects / NGOs and incorporating experienced learned, to improve the HCD central sector own effectiveness and impact, but even more to be a strong voice on innovative solutions and best practices.

HCD should be more strict in accepting candidate subprojects which come up from national and local political structures. In addition to the normal HO and Regional Office screening process, additional subjective criteria should be added: does this subproject have a wider, innovative effect, and does it serve as an improved model (both in terms of community participation as well as in more relevant and pro-poor service delivery)? Or is it simply more of the same, without any value-added?

***Tracking Results for Management Purposes:*** Monitoring and evaluation systems need to be reoriented to support the management of programmes rather than almost solely a means of reporting to donors and providing public information to the media and the press. As such, in addition to monitoring outputs as is required by the SFD’s donors, monitoring systems need to identify key dimensions of performance at the programme level based on the broad mandate of the SFD (e.g. jobs created, income generated, etc.). Sufficient funding needs to be allocated to identifying readily collected and measurable indicators of each performance dimension and establishing systems to collect such data on a continuous basis. It is recommended that a percentage of all project budgets be set aside to fund a standalone M&E project for the purpose. The M&E project would need to establish a baseline as rapidly as possible with a view to measuring trends resulting at least in part from SFD’s support. The data should be inputted in the enterprise management system and be available to all staff of the SFD for reports and for decision-making. The purpose of monitoring the data should be to identify shortcomings and room for improvement as much as it is to demonstrate positive results. Where appropriate, the systems could be expanded to monitor unintended negative side effects that are found to sometimes occur. Monitoring data should, in this way be based on actual performance and not constitute estimates based on a formula. While formulae may be used to establish targets, monitoring data should be used for verifying the validity of the formula and monitoring actual performance.

In estimating the level of job-creation for targeting purposes, it is recommended that repeat loans be factored in, distinguishing between jobs sustained and those newly created. This should avoid the current double counting of jobs that is probably taking place. Furthermore, there should always be a distinction made between short-term and long-term jobs created, short-term jobs being those that are for a fixed duration of less than six months.

With respect to the monitoring of loan performance, follow-up Forms should be adjusted to include questions regarding changes in income if any in order to enable the tracking of impact. Field Officers should be required to complete the Follow Up Forms in view of the importance of field data for the purpose of impact tracking as well as loan monitoring.

***Environmental Capacity:*** It is recommended that SFD hire one senior officer with experience in environmental issues and sustainable development. He/she can provide needed support to all SFD divisions to integrate environmental sustainability into all SFD programs. This is ,also, good business decision as more funding can be raised from donors if SFD proposals have environmental sustainability as a cross cutting theme. He/she can also, help in selecting key performance indicators that can measure how SFD is progressing in this important issue.

#### EFFICIENCY

In order to boost the efficiency of key decision making processes and to separate audit from management decision-making, it is strongly suggested that both the frequency of internal audits be reduced and that key management decisions such as the approval of contracts not be made contingent on their advice. It is also recommended that consideration be given to conducting internal management audits with a view to assessing the efficiency and effectiveness of workflows and processes, analysing and assessing systems and recommending management reforms on a biennial basis (once every two years). The primary objective would be to proactively identify shortcomings or areas for improvement with a view to making corrections. As such, management audits would serve as a tool for senior management of the SFD rather than yet another mechanism for checks and controls.

To reduce delays in the implementation of sub-projects in donor funded programmes, framework agreements should specify as many sub-projects as possible so that each sub-project does not have to be submitted to Parliament for approval on a case-by-case basis.

Decentralisation to the RO level of more project activities should also result in increased efficiency, cutting out delays in processing at Headquarters.

The time-monitoring system designed by SFD' Headquarters for tracking bottlenecks in loan disbursement under Direct Lending ought to be implemented and institutionalised, and the possibility of extending use of the system to intermediary banks explored as noted earlier.

To undergo an updating of the feasibility studies used by the ROs where necessary.

To enhance responsiveness to end-borrowers' needs at both RO and NGO levels insofar as appropriate loan products are concerned. This too is worthwhile devoting one or more staff members at Headquarters to provide ROs with advice.

Loan officers at ROs and NGOs to be urged and encouraged to relay to borrowers full information on terms and procedures, pre-fact.

To ensure enhanced exchange of information, within all SFD's concerned departments, on the quality of loan portfolio.

To allow ROs that are understaffed in micro-finance to employ additional manpower.

CDP should consider the adoption of broad-based citizen representation, influence, and governance in development as a full-fledged objective of its programmes. CDP should also minimize its assistance to public programmes owned and designed by ministries and public agencies, and increase assistance and support to NGO-led community development interventions. More capacity building efforts are needed for the local NGOs and CDAs. In this respect UNDP should once again consider drawing on expertise gained through Local Development Fund programmes designed and implemented jointly with UNCDF in other countries as a modality that has developed positive experience with a number of processes that have raised overall transparency, accountability and efficiency through the participatory identification, planning, design and implementation of community-based programmes.

CDP should develop a participatory, sustainable and innovative strategy focusing more on the SFD’s comparative advantages as incubator, facilitator, advocate, and disseminator of models and best practices for wider application. The CDP should pilot the privatization of some social infrastructure projects at the village level in connection with partial government subsidies, particularly for projects of social value enabling private individuals, local NGOs / CDA or CSOs to build and operate essential social infrastructure. Loans and business development services can be provided where economically viable by the relevant sectors under SEDO. Once a model is successful, the CDP could promote such models supporting a franchising scheme for the replication of these privatised facilities in other parts of the country. In this respect, utilities that can in large part recover costs such as power, water, health clinics and some schools could be considered for piloting on this basis.

#### SUSTAINABILITY

***Piloting:*** The SFD is at present fully self-financing its core operational costs because non-cost recoverable products and lines of business have been pared down to a minimum. In order to revert to the full scope of its mandate, it is recommended that the SFD should test or pilot products that at least initially may not recover their costs (see recommendations on Relevance and Strategic Positioning). The SFD should focus on those products that in the long term may be cost recoverable. In the meantime, it should seek external funding for their development and piloting. Each product or group of products – both financial and non financial – should have a business plan for their market analysis, development, marketing, performance monitoring and assessment, pricing and eventual sale to clients. The principle of being self-sustaining in the long-run, however, should continue to be the guiding principle.

CIDA's Small and Medium Business Support Project in Daqahlia and its successor, Business Development Support Services Project (BDSSP) may be studied as possible models for introducing cost recovery. Clients who used non-financial services on a repeat basis paid for an incremental portion of the cost each time reducing the overall subsidy on a gradual basis on the assumption that repeat-clients have perceived the value of the service and are more likely to accord it a monetary value.

***Independent Parastatal Status:*** The long-term sustainability of the SFD itself is dependent on its ability to continue to pay salaries and benefits packages to its staff that are competitive with those paid by private banks. In order to wean the SFD off UNDP support and make it a fully independent institution, a concerted effort should be made to develop a strategy for changing the status of the SFD to that of an independent parastatal organisation with its own salary scale and benefits. A full study needs to be undertaken, drawing on the few precedents that may exist in the petroleum sector as well as those in other countries such as India, Malaysia, Indonesia and the Gulf countries. The study also should systematically assess current pay scales in private sector banks in Egypt before making comprehensive recommendations on how to move forward. The transition should take place over the coming 4 year phase of UNDP support to SFD with the SFD fully weaned off UNDP support by the end.

Institutions such as the Credit Insurance Guarantee and the Human Development Association that were created with SFD involvement are now mature and functioning largely on their own. Some, such as the Credit Insurance Guarantee, are having significant problems. However, to avoid accusations of conflict of interest, the SFD should look to the severing its direct ties with these institutions over the next two years with a view to ensuring that they are independent of the SFD in their operation. If advisory services are required to reform them the SFD could work with other stakeholders to secure necessary advisory services.

***Credit Risk Management:*** While credit risk of the SFD itself is relatively negligible as intermediary institutions (banks and NGOs) are contractually obligated to repay the SFD even before repayments are received from borrowers, in the interest of developing the private sector in Egypt, it is important for the SFD to better understand the effectiveness of its loans in establishing successful MSMEs. It should therefore systematically monitor the death rate and the growth of MSMEs funded with SFD loans with a view to adjusting its lending policies if necessary. The health of the loans in SFDs portfolio raise some questions and a thorough study of the credit risk of intermediary institutions should be conducted as soon as possible in order to fully understand the level of risk involved for management purposes. In the case of Direct Lending, the concern with portfolio quality is a more pressing concern. Direct Lending revenues and expenses need to be calculated separately in order to assess financial sustainability.

The complex situation of the current level of credit risk needs to be analysed in depth and it is recommended that a specific study be commissioned to dig deeper into the data and understand the level of risk and sustainability at each level. The study should look in more depth ***inter alia*** at each of the following:

* The actual trends in portfolio ratios at all levels (end-borrowers to intermediaries as well as intermediaries to SFD) and their implications for long term sustainability.
* The structure and design of financial products and their appropriateness for the borrower’s business needs as well as on repayment rates.
* The number and capacity of Loan Officers and SEDO/Direct Lending/Microfinance staff at ROs.
* The adequacy of staffing complements for SFD-loans at some intermediaries (bank branches and NGOs).
* The adequacy of management information systems devoted to lending – particularly at NGOs. Micro-credit specialized MIS would provide NGOs with the means to accurately compute provisions and PAR.
* The adequacy of spreads allowed for banks under SFD loans to cover the necessary operating costs.
* The nature and adequacy of penalties currently being enforced for delays in repayment.
* The impact of ill-conceived press-announcements on the rescheduling of SFD loans rand/or debt forgiveness.
* The quality and scope of information-exchange, within and between SFD's concerned departments, on the quality of loan portfolios. In particular, there is a need to create a new culture at SFD's various organizational levels with better awareness of end-borrowers' repayment to intermediary institutions and not just repayments by intermediaries to SFD.

***Sustainability of HCD:*** HCD should develop a sustainability strategy for each of its programmes. This strategy should focus on how to sustain the results of each programme and should include financial and institutional sustainability of the participating NGOs and intermediaries. Implementation of each sustainability strategy should start from the first year of implementing each programme and should include building the capacity of the participating NGOs and intermediaries. Some examples of generic and innovative sustainable models are:

Establishing a Solidarity Fund within the Sponsoring Agency (SA) where an amount of funds is being given to the SA on a grant basis to be used as a revolving micro finance scheme, the amount of money collected by the SA from the beneficiaries as an interest will not only cover the running cost of the MF scheme but will also cover the cost of other social activities that could be implemented beside the MF scheme such as awareness of important health issues.

Establishing a ***Revolving Fund*** within the Sponsoring Agency where a wide range of activities can be implemented, for example household connections for potable water and/or sanitation, etc., The money is being given to the SA on a Grant basis or a soft loan basis depending on the source of funds. This model can increase community participation to reduce the cost/ connection and the soft loan to each beneficiary can be minimized.

Designing an integrated project for the SA to be funded on a loan basis where a micro finance scheme is coupled with income generating service (run by the SA) to be provided to the targeted communities. These services could be, for example solid waste management, septic tanks sanitary evacuation, etc. A cash flow analysis should be designed to show the total cash out and cash in for the project.

Designing a specialized income generating services projects to be owned by the SA where the money will be given to the SA on a loan basis examples could be health clinics, solid waste management, etc., a cash flow analysis should be developed.

Establishing Integrated Local Area Development platforms (ILAD) where intensive dialogue and participation from all stakeholders (government officials, civil society, natural community leaders, etc.,) would take place for better identification of needs and priorities and securing sustainability of projects and ownership by the communities.

Expanding the maintenance schemes for infrastructure projects. The Deputy Prime Minister and Minister of Finance have recently ordered all Ministries to allocate 10 % of its budget for capital projects to maintenance. Funding for these projects can be secured from GOE programmes and/or donors.

#### COMMUNICATIONS

As the SFD repositions itself more firmly as the pre-eminent, quasi governmental agency for poverty alleviation through development of the private sector and the creation of private sector job opportunities, the Media Department of the SFD should be very much at the core of its effort to rebrand itself as a quasi-governmental agency:

* That is independent of political influence;
* Is geared to facilitating the growth of the private sector by creating conditions and opportunities that are conducive to investment, employment of larger numbers people and the sale of Egyptian goods domestically and internationally, through the coordination and development of policies, standards and regulations, support to institutions that are essential for the growth and maturity of the MSME sector in particular, piloting schemes with a view to testing and demonstrating their viability for their adoption by private investors and the promotion of new approaches and models that can lead to improvement I the delivery of utilities and services that are essential for healthy growth of private companies;
* That is efficient, effective;
* Is client driven and accountable to clientele as well as its board;
* That promotes participatory development at the municipal and rural levels;
* Works with a range of partners on the generation of new approaches and policies and the piloting of new models, but ultimately ensures that its long-term operations are self-sustaining as a means of ensuring that the schemes that it develops are profitable and self sustaining.

Indeed, along with the strategic planning unit, the media department should spearhead the effort to cast a clear image in the SFD along the above lines in the eyes of the Egyptian Public.

This effort will need to involve:

* The introduction of client scorecards that are anonymous and enable each and every clients (end beneficiary and intermediary) of the SFD to grade its experience with the SFD without fear of retribution and lead to visible changes in the way in which clients are treated;
* The regular monitoring of the outcomes and impact of the SFD’s performance;
* The development of a clear media strategy that focuses on television and radio rather than workshops and seminars as well as printed newsletters and press packages with a view to targeting the SFD’s clients rather than its donors and partners in Government (this is discussed in more detail in the Chapter on Communications Strategy);
* The facilitation of media teams to visit the sites of SFD projects and programmes, granting them liberal access to SFD’s programme beneficiaries with a view to enabling them to express their views fully;
* The continuous development of messaging and messaging strategies in collaboration with the media and press;
* Continuous evaluation of the performance of media campaigns, focusing on increased awareness of the value of the SFD among potential end-users, something that needs to be assessed through face-to-face surveys that are contracted out to private third parties.

#### THE FUTURE ROLE OF UNDP

The UNDP’s role in the next ***and final phase*** of its assistance to the SFD needs to be drafted and should be that of supporting the SFD in the final stages of its basic strategic positioning and institution building before allowing it to operate fully independently. More specifically it is recommended that UNDP assistance should be substantially boosted (in relation to recent years) to support the following components:

* Each of the following key studies that are necessary for the strategic repositioning and reform of the SFD:
* The detailed study to plot out an approach to effective decentralisation of the SFD with sufficient accountability and controls built in;
* The study to identify new non-financial and financial products in consultation with beneficiaries;
* The comprehensive, in-depth study on credit risk at all levels of the SFD’s operations with a view to raising the prospects of long-term sustainability and success;
* The Piloting of new products prior to their acceptance by clients and before they can sold with cost recovery as an objective.
* The development of micro-targeting tools for the SFD’s lending programme;
* The establishment of results-based monitoring systems and mechanisms at the SFD including the client score card, collection of outcome and impact oriented indicators and the establishment of credible baselines.
* The additional costs associated with the work of the Reform Team including provision for the recruitment of substantial external support as necessary.
* The management of the process by which information and experience gained in the field is used to inform policy making in each of the key policy making forums (many of which the UNDP is involved in supporting).
* The full development of the automated enterprise management system currently underway incorporating both monitoring and evaluation systems and a platform for supporting the dissemination of non-financial products and services.
* The negotiation process – largely within government -- that needs to be followed to establish the SFD as an independent, parastatal organisation operating on a different salary scale and not as a UNDP project.

## ANNEX I: TERMS OF REFERENCE

1. Background and context

The SFD was created in 1991 as a social safety net mechanism aiming at mitigating the negative social impact of the Economic Reform and Structural Adjustment Programme (ERSAP). Since then, the SFD has developed into a leading organization mobilizing national and international resources to invest in social development with special attention to job creation and the enhancement of the quality of life of low income groups. This has resulted in substantial donor funding estimated at about USD 2 Billion since the creation of the SFD.

Over the years, SFD provides credit to Micro and Small enterprises through intermediaries (Banks and NGOs) and a network of 27 operational regional offices managing credit provision, marketing and non-financial services. Since its inception in 1991, and based on SFD monitoring reports, SFD has so far:

·     Extended 15 billion LE in credit and 3.15 million jobs since January 1992;

·     Funded community development project in the amount of 3.3 billion LE creating 519,000 temporary jobs;

·     Extended 11.70 billion in credit to MSEs that funded 1.45 million projects and created 2.64 million jobs (temporary and permanent, direct and indirect jobs).

***Past Evaluations:***

**The first Multi-donor Review Mission**. In February 2000, a Multi-Donor Review

Mission (MDRM) took place. The review was carried out by a group of independent experts financed by a multiplicity of donors. The conclusions and recommendations of the mission were accepted by the Government of Egypt (GoE), SFD’s Board of Directors and SFD Management. The overall appreciation of the results achieved by the SFD as well as the recommendations formulated have resulted in the GOE’s decision to transform the SFD into a permanent social development institution.

**The second Multi-donor Review Mission**. In 2004, a second multi donor review (MDRMII) took place. The purpose of the second review was the assessment of the relevance and the overall progress of SFD against the overarching aim of poverty reduction and employment creation.

The review aimed to:

* Assist SFD to improve its performance in the field of poverty reduction and employment creation;
* Support SFD in the on-going effort for the development of a new vision and strategy;
* Improve donors’ current and future support to social development and poverty alleviation in Egypt.

In this process the review specifically looked into how the recommendations of the first MDRM have been followed and how the newly proposed organizational structure and mission statement affect SFD’s role and performance in the field.

**World Bank, Social, Economic and Environmental Impact Evaluation of Projects of the Egyptian Social Fund for Development.** In 2006 the WB prepared this report which presents the results of the first impact evaluation of the Egyptian Social Fund for Development (SFD), carried out using robust impact evaluation methodologies. It presents the findings of the impact evaluation of projects implemented under the Public Works Programme (PWP), the Community Development Programme (CDP) and the Micro-Finance Sector (MFS) of the Egyptian SFD between 2000 and 2004. Project types covered by the quantitative survey include seven sub-sectors: education, health, water, wastewater, roads, environment and micro-credit.

**Project Completion Report for the SFD Micro and Small Enterprise support Project funded by the African Development Bank.** In December 2009, the AfDB conducted a mission in Egypt from 22 December 2009 to 7 January 2010, lessons learned from the PCR will inform future project programming as the AfDB continues to be more responsive to regional member country needs. Overall, the project implementation was smooth and was conducted at a faster pace than expected.

**Final Evaluation for agreements funded by the Arab Fund.** In October 2009, an external consultancy firm conducted an evaluation for the agreements funded by the Arab Fund, Overall, the study resulted that the Social Fund for Development is a sustainable institution, works in efficiency and effectiveness way and provide financial and non-financial services, based on good policy aims to alleviate poverty and provide job opportunities and contribute to increase income to the poor of the community.

**Assessing the Direct Lending Model (DLM).** In May 2011, an external consultancy firm in conducting an evaluation for the direct Lending Model at SFD The current study is funded by UNDP. The objectives of the study are to assess the efficiency and effectiveness of the current DLM and to identify potentials for future expansion and development

2. Purpose of Evaluation

UNDP and SFD have agreed to conduct an evaluation of the Social Fund project in order to capture and validate the SFD results, identify lessons learned and identify areas that require further support or strengthening.

This evaluation is quite timely because events which unfolded in Egypt post January 25 have substantially changed the political and social context; placing job creation, SME support and microcredit as well as community development and public works on the top of priorities for the new Government.

The evaluation that will serve the following purposes:

1. Validate results reported by the SFD
2. Articulate the results in messages that could be used in communication on SFD achievements.
3. Identify existing institutional strengths that the SFD enjoys for the continuation of the upcoming Phase and taking into account new and changing realities in Egypt
4. Identify areas that can be further strengthened to help SFD more effectively respond the rising needs of job creation, youth employment, and SMEs at the local level.

3. Evaluation Scope and Objectives

The objectives of the evaluation are to:

* Assess and validate the achievement of the UNDP/SFD project as well as the achievements of the SFD and the strategic, policy and institutional factors that have led to the achievement (or impediment) of results.
* Conduct a capacity assessment of the Social Fund (including regional offices) to identify existing capacities of the SFD and identify needs that can benefit from additional support
* Validate the relevance, efficiency, effectiveness, and sustainability of the SFD Programmes. More specifically, the evaluation should:
* Validate the efficiency and effectiveness of the credit providers of SMEs through the SEDO programme and the micro finance programme.
* Validate the efficiency and effectiveness of the non-financial services provided to SFD beneficiaries.
* Evaluate the development results of the human resources and community development group, including the public works project and recommend future direction.
* Provide recommendations for the future of SFD in relation to developing its role in developing the MSMEs sector and job creation.
* Assess how the SFD sought to mainstream gender in development efforts**.**
* Assess thestrengths and weaknesses of the M&E systems/tools in SFD and the capacity of the M&E Team and review the project’s M&E framework and the establishment of the appropriate indicators and quality criteria to measure future implementation with assigned roles and responsibilities.
* Assess SFD’s Communication plans and how effective they are in reaching their stakeholders
* Assess SFD partnership strategy: Examine SFD’s partnerships (including the UNDP-SFD partnership) during the evaluation’s timeframe and assess the value and relevance of these partnerships in supporting SFD’s mandate.
* Evaluate the decision making process for fund allocation and use,

The evaluation timeframe is from 2004 to date (2004 was the year the second multi donor review was finalized).

4. Evaluation Questions

Evaluation questions define the information that the evaluation will generate. The evaluator(s) will include in the Inception Report a list of evaluation questions that, when answered, will give users of the evaluation the information they seek in order to make decisions, take action or add to knowledge. For example, evaluation questions might include:

* Were stated SFD results achieved?
* What progress toward the results has been made?
* What factors have contributed to achieving or not achieving intended results? In specific, how did the existent SFD institutional and technical capacity help it to deliver planned results? And how?
* Were the actions to achieve the results effective and efficient?
* Has SFD partnerships been appropriate and effective?
* What factors contributed to SFD effectiveness or ineffectiveness?
* How are programmes and initiatives being formulated within SFD?
* Are the results sustainable?
* How can the SFD/UNDP project be improved in its next phase?

Evaluation questions must be agreed upon between UNDP and SFD and accepted or refined in consultation with the evaluator(s). Evaluation questions are to be included in an inception brief prior to start of evaluation mission.

5. Methodology

The evaluator(s) is expected to use all relevant methods to obtain data and information for their analysis and drawing up of findings, conclusions, lessons learned and recommendations.

Among the suggested methodology for the evaluation includes:

* **Documentation review and identification of stakeholders:**  Begin with the description of the project and its intended results. Review documents such as the project document, project brief, quarterly progress reports, Annual Project Reports (APR), and minutes from project Board meetings as well other SFD reports and agreements.

1. **Field visits to relevant project sites and regional offices**. A list of the suggested field visits should be included in the inception brief. The visit will be coordinated by SFD.
2. **Interviews** with SFD directors, managers, staff, partners and beneficiaries.
3. **Focus Groups/questionnaires** with SFD staff and beneficiaries.

* **Probing the project outcome/output indicators**, going beyond these to explore other possible indicators, and determining whether the indicators have been continuously tracked.

The evaluators should develop suitable tools for data collection and analysis. The methodology and tools that will be used by the evaluator(s) should be presented in the inception brief and the final report in detail. The methodology must be agreed upon between UNDP, the evaluator(s) and SFD prior to the start of the evaluation.

6. Evaluation products (deliverables)

Key evaluation products the evaluator(s) will be accountable for producing:

* **Inception brief –** the evaluator will prepare a brief outlining the main evaluation issues that will be addressed, the stakeholders to be consulted, relevant evaluation questions and the proposed and final methodology that has been agreed upon before the evaluation is set to begin. The report should also define and include criteria to measure efficiency, effectiveness, relevance, and sustainability. It is suggested that the evaluator(s) use the Evaluation Matrix (provided in Annex 1) to present the evaluation design and methodology.
* **Draft evaluation report**—The programme units at SFD and UNDP should review the draft evaluation report to ensure that the evaluation meets the required UNDP quality criteria
* Final evaluation report
* Brief Executive Summary
* PowerPoint presentation on findings and recommendations
* List of main messages on results and future directions of SFD

7. Evaluation team composition and required competencies

The evaluation will be carried out by an international or national evaluator and a team of national consultants that have not participated in the project preparation and/or implementation and do not have any conflict of interest with project related activities.

The appropriate **International/National Team Leader** for the evaluation will have the following qualities:

* Advanced university degree in the social sciences preferably in Economics and/or Finance with 10-15 years of national/international experience in the field.
* Recognized experience in the evaluation of institutions similar to the Social Fund for Development
* Experience with strategic Planning and the evaluation of institutional arrangements

Expert in poverty reduction/ social development and social funds, institutional development/ SMEs and laws and regulations pertaining to them

Recent experience with result-based management monitoring and evaluation methodologies

* Fluency in English and strong technical writing and analytical skills
* Previous involvement and understanding of UNDP procedures is an advantage
* Extensive international experience in the fields of project formulation, execution, and evaluation is required.
* Experience in Egypt is a strong advantage and knowledge of the Arabic language a strong plus

The international or national Team Leader will be supported by **two-three national experts.** TORs for the national consultants will be developed by the Team Leader and approved by UNDP and SFD.

8. Evaluation Ethics

All UNDP Programme and project evaluations are to be conducted in accordance with the principles outlined in the UNEG ‘Ethical Guidelines for Evaluation’ and the UNEG Code of Conduct for Evaluation in the UN System. Both documents can be found at the following link: <http://www.uneval.org/search/index.jsp?q=ethical+guidelines>

Evaluations of UNDP-supported activities need to be independent, impartial and rigorous. Each evaluation should clearly contribute to learning and accountability. Hence evaluators must have personal and professional integrity and be guided by propriety in the conduct of their business

Evaluators:

* Must present information that is complete and fair in its assessment of strengths and weaknesses so that decisions or actions taken are well founded
* Must disclose the full set of evaluation findings along with information on their limitations and have this accessible to all affected by the evaluation with expressed legal rights to receive results.
* Should protect the anonymity and confidentiality of individual informants. They should provide maximum notice, minimize demands on time, and: respect people’s right not to engage. Evaluators must respect people’s right to provide information in confidence, and must ensure that sensitive information cannot be traced to its source. Evaluators are not expected to evaluate individuals, and must balance an evaluation of management functions with this general principle.
* Evaluations sometimes uncover evidence of wrongdoing. Such cases must be reported discreetly to the appropriate investigative body. Evaluators should consult with other relevant oversight entities when there is any doubt about if and how issues should be reported.
* Should be sensitive to beliefs, manners and customs and act with integrity and honesty in their relations with all stakeholders. In line with the UN Universal Declaration of Human Rights, evaluators must be sensitive to and address issues of discrimination and gender equality. They should avoid offending the dignity and self-respect of those persons with whom they come in contact in the course of the evaluation. Knowing that evaluation might negatively affect the interests of some stakeholders, evaluators should conduct the evaluation and communicate its purpose and results in a way that clearly respects the stakeholders’ dignity and self-worth.
* Are responsible for their performance and their product(s). They are responsible for the clear, accurate and fair written and/or oral presentation of study limitations, findings and recommendations.
* Should reflect sound accounting procedures and be prudent in using the resources of the evaluation.

All consultants engaged in evaluation must sign an Evaluation Consultants Agreement Form at the start of their contract (**see Annex 2**).

9. Implementation Arrangements

The principal responsibility for managing this evaluation lies with UNDP-Egypt. The UNDP Egypt Country Office is the main operational point for the evaluation and will be responsible for liaising with the project team to set up the stakeholder interviews, arrange the field visits and co-ordinate with SFD and other counterparts.

Although the final report must be cleared and accepted by UNDP before being made public, the UNDP Evaluation Policy clearly states that the evaluation function should be structurally independent from operational management and decision-making functions in the organization. The evaluator will be free from undue influence and has full authority to submit reports directly to appropriate levels of decision-making. UNDP management will not impose restrictions on the scope, content, comments and recommendations of evaluation reports. In the case of unresolved difference of opinion between any of the parties, UNDP may request the evaluation team to set out the differences in an annex to the final report.

Resources and Logistical Support Required:

It is expected that at least one senior member of the SFD will accompany the Evaluation Team during the project site visits in order to facilitate and provide clarifications where necessary.

During the evaluation period, the team will require office accommodation that will be provided by the UNDP-Egypt or SFD as necessary.

The Evaluation Team will work in close collaboration with the SFD Project team and the UNDP programme Officer in charge, who have been involved in the project since its inception. Both SFD and UNDP will facilitate the link with the local communities, the direct beneficiaries of the project and other stakeholders involved (ministries, journalists, private sector, youth…..).

The evaluation team will be contracted by UNDP country office in consultation with SFD. The mission will maintain close liaison with UNDP/ SFD Project Team. During the evaluation mission, at least two meetings should be held to present the status of the work. One meeting will be held after the completion of the data collection and another one after the first draft of the report. The first draft should be presented in English.

**10. Time-frame for the evaluation**

The Evaluation timeframe is tentatively planned to be around 45 days to be undertaken between the months of July and October 2011. The activities and timeframe are tentatively broken down as follows:

|  |  |  |
| --- | --- | --- |
| **Activity** | **Timeframe** | **Responsible parties** |
| **Prepare TORs** of national consultants to be recruited | 1 day | International/national Team Leader |
| **Desk review (home-based)**  International/National Team Leader conducts documentation review of project reports and previous evaluations etc. | 7 days | International/national Team Leader |
| **Inception Report:**  International/National Team Leader finalizes the evaluation design and methodology and prepares the inception report with detailed evaluation questions  TORs of national consultants | International/national Team Leader |
| **Briefing of national consultants and documentation review** | 5 days | National consultants |
| **Data Gathering:**  National consultants collect data on a number of evaluation questions following agreement with International/national Team Leader | 10 days | National consultants |
| **Mission of International/National Team Leader in Egypt:**  Meetings with project managers/staff  Visits to the Field | 14 days | International/national Team Leader  And  National consultants |
| Debriefings and Validation of preliminary findings with stakeholders |
| Writing **draft report, PowerPoint presentation and list of main messages** | 5 days | International/national Team Leader |
| **Finalization of the evaluation report, PowerPoint presentation and list of main messages** (incorporating comments received on first draft) | 3 days | International/national Team Leader |

The time frame above does not include two weeks of unpaid time, during which UNDP Egypt will analyze, provide comments and share the draft report with different stakeholders. This slot falls between the writing of the draft report and finalization of the evaluation report.

**Total Duration of Evaluation Mission:** 45 days

**Total number of working days for International/national Team Leader:** 30 days

**Total number of working days for national consultant(s):** 29 days (TBC)\*

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\* Number of working day for national consultants will be confirmed following discussions with Team Leader and finalization of the national consultant TORs.

**Interested applicants are invited to send a CV and cover letter (specifying the title of the consultancy) to:**

**Noha Rifaat**

**Results-Based Management Officer**

**UNDP**

**1191 Corniche El Nile Street**

**Boulac Cairo**

**E.mail:** [**noha.rifaat@undp.org**](mailto:noha.rifaat@undp.org)

**Vacancy Notice issued on: Tuesday June 14, 2011**

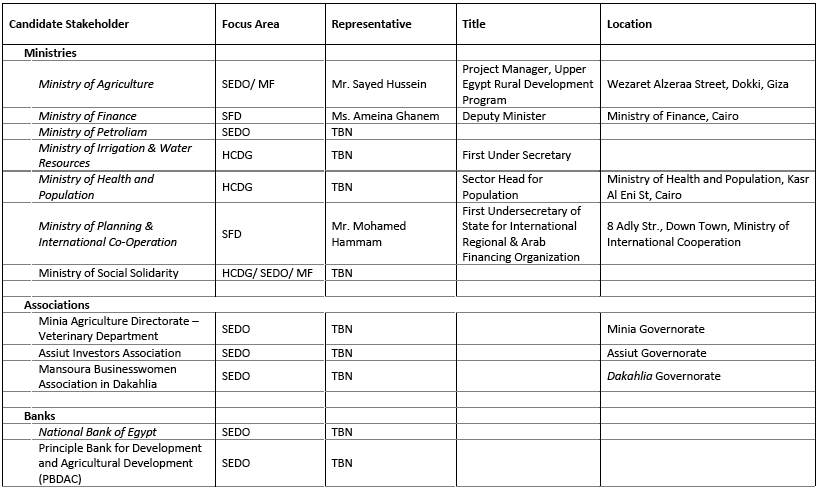
**Deadline for application is: Tuesday, June 28, 2011**

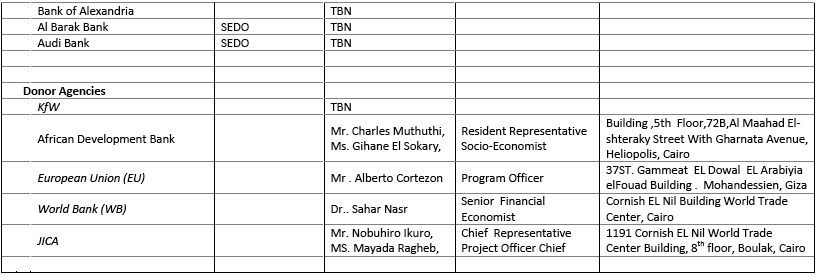
## ANNEX II: PERSONS MET

|  |  |
| --- | --- |
| **African Development Bank** | |
| El Sokkary, Gehane Ibrahim | Principal Socio-Economist |
|  |  |
| **Banque Misr** | |
| Barakat, Mohamed | Chairman |
| Enayat Allah, Maha Heba | General Manager, SME Banking and Microfinance |
|  |  |
| **Cooperative Insurance Society** | |
| Al Sabaa, M. Abdel Rehim | General Manager and Acting Chief Executive Officer |
| Abul Azm, Mostafa Aly | Deputy General Manager for Guarantee |
|  |  |
| **Egypt Association for Human Resource Development** | |
| Amin, Magdy | Managing Director |
|  |  |
| **Embassy Of The Federal Republic Of Germany** | |
| Karara, Khaled | Deputy Head Of Division (Development Cooperation) |
|  |  |
| **European Union Delegation to the Arab Republic of Egypt** | |
| Cortezon, Alberto | Programme Manager, Social, Rural and Regional Development |
|  |  |
| **KfW** |  |
| Abdel-Rehim, M. Walid | Deputy Director |
|  |  |
| **International Labour Organization** | |
| El Essawy, Yasmine | National Coordinator |
|  | |
| **Japanese International Cooperation (JICA)** | |
| Yanagi, Tatsuya | Representative |
| Karam, Dina | Senior Programme Officer |
|  |  |
| **Light and Hope NGO (Dakahliya)** | |
| Keshk, Fatma | Chairperson of the Board of Directors |
|  |  |
| **Ministry of Finance** | |
| Ghanem, Amina | Deputy Minister for International Relations |
|  |  |
| **El Mobadra “Community Development & Small Enterprise Association”** | |
| Mahmoud, Ayman | Executive Director |
|  | |
| **National Bank of Egypt** | |
| El Ghamrawy, Adel | Branch Manager, Mansoura Branch, Daqahlia |
| Mohamed, Yasser | Credit Manager, Mansoura Branch, Daqahlia |
|  |  |
| **PBDAC** |  |
| Deebes, Sayed | Sector Head, Beni Suef |
| Hassan, Salwa | Manager, Investment Department |
|  |  |
| **REDEC (Regional Enterprise Development Centre), Beni Suef** | |
| Amin, Ehab | Executive Director |
| Abdel Latif, Hesham | Head, Community Development and Micro-Credit |
|  |  |
| **Social Care Association (Meniat Sandub), Daqahlia** | |
| Metwally, Sayed | Chairman |
| Abbas, Mohamed | Treasurer |
| Abbas, Mohamed Abbas | Loan Officer |
| Habib, Mohamed | Accountant |
|  | |
| **Social Fund For Development** | |
| Waly, Ghada | Managing Director |
| A. Aziz, Hossam Fathy | Head, Central Sector, Internal Audit |
| Abbass, Raafat | Deputy Director, Technical Office |
| Abdallah, Magdy | Manager, Regional Office, Daqahlia |
| Abdel Bary, Mahmoud | Head of Treasury & Dealing Affairs Sector |
| Abdel Halim, Mahmoud | Manager, Small Enterprise Development Group |
| Abdel Meguid, Khaled | Senior Manager, Data and Reports Department |
| Abdel Razek, Marwan | Head, Franchise Sector |
| Abul Azm, Hanan | Credit Risk Assessment Sector Head |
| Al Awady, Nader | Officer, Human Resources Development Department |
| Al Farouk, Omar | Technical Adviser |
| Al Hawary, Howaida | International Cooperation |
| Al Quorashy, Essam | General Manager Small Enterprises Development Group |
| Al Shafei, Mohamed | Head, Sector of Settlement and Portfolio Quality |
| Ali, Mahmoud Mehriz | Manager, East Delta Zone |
| Ali, Mahmoud Mehriz | Manager, East Delta Zone |
| Atef, Ahmed | Officer, Microfinance Central Sector |
| Attia, Maher | Microcredit Loan Officer, Regional Office, Daqahlia |
| Azmy M. Aly | Chief Director, Technical Office |
| Badr El Din, Nevine | Senior Manager, Central Micro Finance Sector |
| Barry, Mahmoud A. | Head of Treasury & Dealing Affairs Sector |
| Darwish, Walid W. | Manager, Infrastructure Department |
| Deraz, Dalya | Officer, Community Development Department |
| Deraz, Dalya | Officer, Community Development Department |
| El Abhar, Osama | Manager, Community Development Department |
| El Abhar, Osama | Manager, Community Development Department |
| El Azouny, Hesham | Sector Head, Planning and International Cooperation |
| El Barawy, Taher | Manager, Beni Suef, Regional Office |
| El Gharably, Alaa | General Manager |
| El Hilaly, Hanaa | Director General, Planning & International Cooperation Group |
| El Said, Essam | Officer, Community Development Department |
| El Said, Essam | Officer, Community Development Department |
| El Sayed, Aida | Senior Manager, Central Microfinance Sector |
| El Sharkawy, Soha | Officer, Community Development Department |
| El Sharkawy, Soha | Officer, Community Development Department |
| Elsafty, Waek M. | Manager, Infrastructure Department |
| Elsafty, Waek M. | Manager, Infrastructure Department |
| Elshafie, Ahmad | Area Manager, Cairo, Helwan, Qalubya |
| Fahim, Gihan | Manager, Microfinance Central Sector |
| Fatehy, Khaled | Manager, Infrastructure Departments |
| Fatehy, Khaled | Manager, Infrastructure Department |
| Fouda, Osama Khaled | Manager, Electronic Site Department |
| Gad, Hassan | Regional Offices |
| Gamal El Dein, Amal | Finance, Administration and Information Technology |
| Gamea, Nevene | Head Of Credit, Small Enterprise Development Organisation |
| Gouda, Hassan | Manager, Credit Follow-up, Department for Direct Lending |
| Hanafy, Amany | Planning and Monitoring |
| Hanafy, Amany | Senior Manager, Planning and International Cooperation Group |
| Hatata, Ashraf | Zones Credit Head |
| Helmy, Yasser | Director, Information Technology Sector |
| Helmy, Yasser | Director, IT Sector |
| Huweidi, Dina | Micro-credit Loan Officer, Regional Office, Daqahlia |
| Khairy, Ayman | Assistant General Manager, Credit Risk Assessment Sector |
| Khoudeir, Ayman | Assistant General Manager, Planning & International Cooperation Group |
| Khoudeir, Ayman | Assistant General Manager, Planning And International Group |
| Lamiaa, Khalil | Media and Public Relations |
| Massoud, Medhat | Assistant General Manager, Human & Community Development Group |
| Massoud, Medhat | Assistant General Manager, Human and Community Development |
| Medhat, Massoud | Manager, Community Development Department |
| Mekawy, Ashraf A. | Deputy Manager, Microfinance Central Sector |
| Mekawy, Ashraf A. | Deputy Manager, Microfinance Central Sector |
| Mohamed, Hossam Mostafa | Senior Manager, Financial Control Department |
| Mosalem, Gamal | Director, Non-Financial Services |
| Moustafa, Azmy | Technical Adviser |
| Nader, Al Awady | Officer, Human Resources Development Department |
| Nardin, Rizkalla | Assistant Officer, Microfinance Central Sector |
| Noury, Mostafa S. | Consulting Engineer, Assistant General Manager, Administration Affairs & Engineering Sector |
| Qelada, Youssef Fatthi | Zones Credit Manager |
| Rabie, Ahmed | Head of the Central Sector for Credit Risk Assessment |
| Radwan, Samir Talat | Manager, Training & Development |
| Saad, Nahia | Officer, Community Development Department |
| Saad, Nahla | Officer, Community Development Department |
| Safwat, Galal | Regional Offices Supervisor |
| Salah El Din, Magdy | Acting General Manager, Finance & Administration Group |
| Saleh, Mohamed Abdelmlek | Senior Manager, Regional Offices Group |
| Shash, Tarek | Human Resources Director |
| Shash, Tarek Monir | Director, Human Resources |
| Youssef, Amani | Director, Central Microfinance Sector |
| Zaalouk, Shadia | Assistant Manager, Projects and Quality Analysis, Information Technology |
| Zahran, Marwa Samer | Deputy Manager, Microfinance Central Sector |
|  |  |
| **Social Contract Centre** | |
| El Tawila, Sahar | Managing Director |
| Bayoumi, Dalia | Senior Officer, Research, Monitoring and Governance Unit |
|  |  |
| **Vision for Environmental Activities, Training and Consultation (VEATCS)** | |
| Abd El-Latief, Ghada Tosson | Managing Director |
| Shaker, Eman Fatehy | Project Manager |
|  |  |
| **Water and Wastewater Support Programme (USAID-funded Project)** | |
| Hashem, Mohamed | Leader, Technical Assistance Group and Deputy Chief of Project |
|  | |
| **United Nations Development Programme** | |
| Rawley, James | Resident Representative and United Nations Resident Coordinator |
| Tabet, Mounir | Country Director |
| Musa, Khadija | Deputy Country Director |
| Rifaat, Noha | Results-Based Management Officer |
| Sabri, Sara A. | Programme Assistant |
|  | |
| **United Nations Industrial Development Organization** | |
| Valenza, Matteo | Programme Officer |
|  |  |
| **The World Bank** | |
| Nasr, Sahar | Lead Financial Economist, Middle East and North Africa Region |
|  |  |
| **Other** |  |
| Handoussa, Heba | Lead Author, Egypt Human Development Report |
| Hashem, Mohamed | Leader, TA Group and Deputy COP, Water & Wastewater Sector Support Programme (USAID-funded Project) |

## ANNEX III: STAKEHOLDERS

Stakeholders at the national Level (source: SFD):





## ANNEX IV: SFD’s Income Statement

|  |  |  |
| --- | --- | --- |
| Highlights of SFD's Income Statement for 2009 and 2010[[150]](#footnote-148) | | |
| Category | L.E. ‘000 | |
| 2009 | 2010 |
| **Revenues from business:**  Grants and contributions  Interest on Loans  **Total Revenues from Business:** | 77,989  192,827  **270,816** | 78,261  205,217  **283,478** |
|  |  |  |
| **Expenses (business-related):**  Interest on loans and bank charges  Programmes and Project expenses  **Total Business-related Expenses:** | 55,699  88,836  **144,535** | 54,563  84,084  **138,647** |
|  |  |  |
| **Surplus (from business):** | **126,281** | **144,831** |
|  |  |  |
| **Other Income**  Interest on Deposits & Current accounts  Gain on sale of fixed assets  Other revenues  **Total:** | 38,240  32  3,201  **167,755** | 53,972  550  7,810  **207,163** |
|  |  |  |
| Depreciation  SFD Office rent  Expenses of the Administration  Written-off Debt  Other expenses  **Total:** | 8,299  3,167  160,209  1,739  4,211  **177,625** | 8,705  2,917  164,512  1,184  3,512  **180,829** |
|  |  |  |
| Surplus (deficit) for the year before the decrease in value of fixed assets and before FX differences | **(9,870)** | **26,334** |
|  |  |  |
| Decrease in value of fixed assets (increase in provisions) | (24,828) | (13,426) |
| Re-adding the decrease in fixed assets (decrease in provisions) | 1,305 | 2,169 |
|  |  |  |
| Surplus (deficit) for the year after the decrease in value of fixed assets and before FX differences | **(33,394)** | **15,076** |
|  |  |  |
| FX differences (resulting from revaluation, not actual loss) [[151]](#footnote-149) | **67,154** | **(250,973)** |
| Cumulative surplus (year beginning) after settlements | **1,199,450** | **1,233,210** |
| Cumulative surplus (year end) | **1,233,210** | **997,313** |

## ANNEX IV: RECORD OF SME LENDING and MICROFINANCE Beneficiary Focus GROUP MEETINGS

***Findings:***

Positive feedback in general regarding loan impact on revenues and jobs. (In case of micro-borrowers however there was often an additional source of informal finance simultaneously with the SFD-NGO loan).

The bank Overdraft facility allowed under NBE appeals to clients in view of lower interest expense (i.e. interest is computed on the outstanding balances only)

Many SME-Lending borrowers encounter difficult bank procedures

Excessive bank collateral requirements that are costly, lengthy,(and sometimes difficult to cancel upon full loan settlement e.g. the real estate mortgage)

CIS guarantee (at a cost of 2%) is required in addition to the bank's collateral requirements (even in case of such tangible collateral as pledged cars and employee salaries)

Information on legal procedures, and terms & conditions, are not adequately communicated by the bank to the borrowers pre-fact, hence lengthier and more costly bureaucracy due to lack of information

Delays in SFD Zone Office approval (in association with committee changes then)

Delays in SFD Head Office approval for Direct Lending.

Delays in checking through I-Score

Inadequate access to non-financial services (local exhibitions, marketing training, business information..)

For micro-credit, loan disbursement at the NGO was speedy, average 10 days.

Micro-borrowers are in general satisfied with the customer service at the NGO.

The NGO turns down borrowers' requests for loans over LE 10,000 even for repeat borrowers who have been repaying regularly. (NB. SFD-NGO contract allows for a ceiling of LE 10,000 and LE 25,000 for certain borrowers with SFD approval). Similarly, loan duration reduced from 18 months to 15 months for repeat borrowers with same loan size due to NGO liquidity shortages after their grace period under SFD's contract was over[[152]](#footnote-150). SFD HQ explained that cash-flow projections were prepared for NGOs to avoid liquidity squeezes[[153]](#footnote-151).

Micro-borrowers have access to other lending agencies that offer LE 25,000 and LE 50,000, but prefer to focus with one lender only, also noting a higher interest cost at the competitor lending agencies.

***Recommendations***

SFD R/O to strengthen follow up of bank procedures completion, on behalf of borrowers, hence better support to SFD-borrowers

To streamline the approval procedures at SFD Zone Office, Head Office, as well as the I-Score checking. The time-monitoring system designed by SFD' Head Office for this purpose to be effectuated, and the possibility of applying a similar system for lending through intermediaries to be studied.

Communication with borrowers needs to be strengthened vis-à-vis information on terms, conditions and procedures. This also includes information on expected indemnities under CIS guarantee, if any.

Explore the possibility of expanding on bank-overdraft facility for borrowers

To strengthen the non-financial services for borrowers. Specifically, technological support and marketing assistance (local and international exhibitions) are needed by borrowers.

R/O to strengthen its support to NGOs in a way to meet their target cash-flow vis-a-vis disbursement and collection hence avoiding liquidity squeezes. R/Os to be urged to bring to HQ attention any difficulties encountered by NGOs with the aim of working together to address them.

Borrowers with justified requests for loan values above NGO's ceiling are to be referred to Direct Lending where possible. R/O to follow up on this with the NGOs. This would help achieve a service that can stand market competition in microfinance.

**First Focus Group: Beni Suef, SME Borrowers**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Business** | **Loan (s)** | **Repaym't** | **Collateral** | **Impact** | **Constraints** |
| 1 | Garment trade shop  *Start-up* | Direct Lending,  LE 20,000  interest 12% | monthly over 3 years | Two personal guarantees.  CIS guarantee against 2% premium | Temporary employees now, versus nil at the beginning | 2.5 months delay in disbursement due to changes in the committees at SFD Fayoum Zone Office.  Shop damaged in revolution but no CIS indemnity |
| 2 | Foodstuff import & packing | through NBE:  LE 500000 |  | Pledge of 4 cars & 2 employee  salaries | 50% rise in revenues; employees increased from 6 to 10 | Bank procedures are difficult |
| 3 | Medical herbs product'n & exports  (started by father in 1974) | LE 1 mill. through NBE,  (plus LE 1 million as NBE non-SFD), both since 2007 | 5 years | Real estate mortgage on plant; plus CIS guarantee for 2% premium | Revenues & jobs doubled in 10 years. But SFD-loan started in 2007 only; he has support from the Industrial  Moderniz'n programme | NBE required real estate mortgage which took 4-5 months. SFD could not ask NBE to ease collateral requirements. (But private banks only ask for commercial mortgage).  CIS guarantee even with the mortgage.  Increased his capital from LE 2 mill to LE 3 mill and didn't know that this would no longer entitle him to SFD loans. |
| 4 | Manuf're of small ovens  *Start-up* | through NBE:  LE 40,000, LE 80,000, LE 500000 | 4 years | Pledge of 3 employees' salaries and 3 cars.  CIS g'tee | 80 empl. now versus only 4 at start-up | CIS guarantee even with pledge of 3 cars & 3 salaries.  Was not told that commercial register renewal expires if not submitted in a month, so had to re-issue it. Not invited to local exhibitions |
| 5 | Trade in fodder and farm supplies  *Start-up* | through  Bk Misr:  LE 38,000, LE 75,000  Direct:  LE 150000  LE 200000 |  | Salary pledge for bank loans. Personal g'tee only for Direct Lending |  | Bank procedures took 6 months. SFD Head Office approval for Direct Lending took 2-3 months. One month for I-Score's approval. No NFS. |
| 6 | Agric. crops exports | through NBE:  LE 200000  LE 200000  LE 2 mill. as OVD |  | Agric. land, real estate mortgage on the station.  CIS g'tee | Positive impact on revenues and jobs.  OVD bank facility is very useful in reducing interest cost | Bank procedures for initial loans took 8 months, but last loan was easy. Why CIS g'tee with all these collaterals. Trip to Italy with SFD but limited benefit due to lack of translation |
| 7 | Papyrus art work |  |  |  |  |  |

**Second Focus Group: Beni Suef, Micro-Borrowers**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Business** | **Loan (s)** | **Repaym't** | **Collateral** | **Impact** | **Constraints** |
| 1 | Trade in wedding dresses & electr. appliances | LE 3,000  LE 5,000  LE 10,000  LE 10,000 | Monthly over 12 months | Personal guarantee by 2 relatives | Revenues increased | Larger loan needed with longer loan duration (monthly installment too big).  15% interest is high |
| 2 | Hair dresser | LE 3,000  LE 5,000  LE 7,000  LE 10,000 | Monthly over 15 months | Two personal g'tees | 70% rise in revenue.  2 empl. now versus nil | Needs larger loan.  Needs longer loan duration to ensure a smaller monthly installment |
| 3 | Trade in garments (no shop) | LE 5,000  LE 7,000  LE 10,000  LE 10,000  LE 10,000 | Monthly over 15 months | Two personal g'tees |  | Needs larger loan.  Needs longer loan duration hence a smaller monthly installment |
| 4 | Trade in garments | LE 5,000  LE 7,000  LE 10,000  LE 10,000  LE 10,000 | Monthly over 15 months | Two personal g'tees | 80% rise in revenue.  2 empl. versus nil | Needs larger loan |
| 5 | Marble tile installation |  |  |  |  | Small loan and large monthly installment |
| 6 | Leasing evening dresses |  |  |  |  |  |
| 7 | Car spare parts |  |  |  |  |  |
| 8 | Foodstuff packing | Last loan LE 10,000 |  |  |  | Needed LE 150,000, was referred to NBE but latter required difficult collateral, got LE 55,000 from 3 other micro-lending agencies. Couldn't buy all needed equipment |

**Third Focus Group: Daqahlia, SME Borrowers**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Business** | **Loan (s)** | **Repaym't** | **Collateral** | **Impact** | **Constraints** |
| 1 | Grocery | LE 20,000 at bank.  LE 35,000  Direct | Monthly over 3 years | 2 personal g'tees | Revenue increase |  |
| 2 | Stationery | LE 15,000 | Monthly over 3 years | Pledge of employee salary | Revenue increase | Salary pledge is hard to find; guarantor may not extend pledge for a 2nd loan |
| 3 | Car spare parts (import/exp.) | LE 50,000 B. Misr  LE 48,000 Direct  Lending | Monthly over 2 years | Personal g'tee | More goods | Needed LE 100,000 Direct Lending but was told it needs lengthy HO approval |
| 4 | Furniture trade | LE 7,000 bank  LE 38,000  Direct Lending | Monthly over 3 years | Pledge of employee salary | More goods | Pledge of employee's salary required even under Direct Lending |
| 5 | Plastic factory | LE 50,000 B. Misr.  LE 1 mill. from NBE | Quarterly over 5 years | Commercial mortgage on machinery | More machines  Empl.100 versus 80 | (mentioned no constraints, but got no follow up field visits) |
| 6 | Furniture trade & manuf're | LE 20,000 NBE then 170000 AlBaraka | 5 years  (fully paid now) | CIS g'tee |  | Need a new loan but pledge of empl. salary required & hard to find.  Needed technical support in designs but didn't get. Suggest set-up of technology centers. Call for SFD support for the 2012 external exhibitions plan with the firm specialized. |
| 7 | Garment manuf're | LE 75,000 Direct |  | Pledge of 2 employees salaries |  | Had a problem with the gov. body in license-issuing, took 3 years (OSS couldn't help) |
| 8 | Trade in household tools | LE 50,000 NBE  LE 50,000 Direct | Over 2 years | Pledge of 2 employees salaries for 2nd loan (car pledge for 1st loan) |  | It was hard to get 2 employees to pledge salaries.  License needs costly amendments and OSS can't help. |

**Fourth Focus Group: Daqahlia, Micro-Borrowers**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Business** | **Loan (s)** | **Repayment** | **Collateral** | **Impact** | **Constraints** |
| 1 | Glass and frames manuf're | LE 10,000  LE 10,000 | Monthly over 2 years | Personal g'tee  (1 person) | Small loan: no impact | Larger loan needed |
| 2 | Carpenter | LE 5,000  LE 5,000 | Monthly over 2 years | Personal g'tee  (1 person) | Little impact on revenues | Larger loan needed but the NGO told him they were short in liquidity |
| 3 | Rice mill | LE 5,000  LE 5,000 | Monthly over 2 years | Personal g'tee  (1 person) | Little impact on revenues | Fully repaid 5 months ago and didn't renew due to small loan size. Was told about Direct Lending this week only (needs100000) |
| 4 | Haberdashery | LE 5,000 |  | Personal g'tee | Not yet (new) |  |
| 5 | Shoe repair | LE 5,000  LE 10,000 | Monthly over 2 years |  | Income increase |  |
| 6 | Gym court | LE 5,000  LE 5,000 | Monthly over 2 years |  | 30% rise in revenues | Loan too small, NGO said no more so got another loan from same NGO in brother's name. Needs 30/40000. Approached B.du Caire but needs pledge of salary |
| 7 | Upholstery | LE 2,000  LE 5,000  LE 5,000 | Monthly over 2 years | Personal g'tee  (1 person) | Increase in output | Asked for 20,000 but NGO said no liquidity |
| 8 | Trade in curtains | LE 5,000 |  |  | Increase in output | Needed 10,000. NGO told him next time |
| 9 | Honey production | LE 2,000 fully repaid |  |  |  | Asked for a new loan for 20,000. NGO said take 5,000 first |

## ANNEX V: DONOR TABLES (1 Jan 2004 – 31 Jul 2011)

| DONOR | CURRENCY | LOAN/GRANT | STATUS | COMMITTED | | RECEIVED | | DISBURSED | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| CURRENCY | DOLLAR | CURRENCY | DOLLAR | CURRENCY | DOLLAR |
| Arab Fund 2 | KD | Loan | Ongoing | 21,000,000 | 71,437,803 | 21,000,000 | 71,437,803 | 21,000,000 | 72,247,544 |
| Kuwait Fund 2 | KD | Loan | Ongoing | 15,000,000 | 52,673,,236 | 15,000,000 | 52,673,236 | 14,785,211 | 50,794,756 |
| Kuwait Fund 3 | KD | Loan | Ongoing | 20,000,000 | 72,157,968 | 20,000,000 | 72,157,968 | 19,883,625 | 70,950,556 |
| Kuwait – Poultry Ind. | Dollar | Loan | Ongoing | 26,000,000 | 92,527,065 | 9,300,000 | 33,378,650 | 9,202,693 | 184,183,294 |
| ADB 2 | Dollar | Loan | Ongoing | 21,516,420 | 21,516,420 | 21,516,,220 | 21,516,220 | 21,086,185 | 21,086,185 |
| ADB 3 | Dollar | Loan | Ongoing | 87,150,000 | 87,150,000 | 87,150,000 | 87,150,000 | 84,226,476 | 84,226,476 |
| ADB Franchise | Dollar | Loan | Ongoing | 40,000,000 | 40,000,000 | 0 | 0 | 0 | 0 |
| ADB - RIEEP | Euro | Loan | Ongoing | 70,000,000 | 70,000,000 | 17,500,000 | 17,500,000 | 6,329,588 | 6,329,588 |
| Italy | DI | Loan | Ongoing | 12,911,422 | 15,000,000 | 255,000 | 343,524 | 255,000 | 343,524 |
| Islamic Bank | Euro | Loan | Ongoing | 6,811,630 | 9,950,055 | 6,811,630 | 9,950,055 | 6,811,630 | 10,055,684 |
| EU Bustan Project | Euro | Loan | Ongoing | 6,164,038 | 7,822,035 | 6,164,038 | 7,822,035 | 6,164,630 | 7,514,425 |
| EU - Fisc | Euro | Loan | Ongoing | 14,646,161 | 19,777,832, | 14,646,161 | 19,777,832 | 14,618,056 | 19,740,105 |
| Germany Microfinance | Dollar | Loan | Ongoing | 5,000,000 | 6,868,623 | 3,999,775 | 5,376,475 | 1,976,530 | 2,737,430 |
| IDA 4 | Yen | Loan | Ongoing | 300,000,000 | 300,000,000 | 41,548,362 | 41,548,362 | 38,910,322 | 38,910,322 |
| Japan 1 | Yen | Loan | Ongoing | 5,194,000,000 | 46,183,448 | 5,188,084,780 | 46,177,913 | 5,188,084,780 | 46,995,302 |
| Japan 2 | EGP | Loan | Ongoing | 3,760,000,000 | 44,657,245 | 1,561,651,757 | 17,581,594 | 1,549,468,673 | 18,458,690 |
| National Bank of Egypt | SDR | Loan | Ongoing | 107,000,000 | 18,526,031 | 107,000,000 | 18,526,031 | 107,000,000 | 18,440,463 |
| IFAD | SAR | Loan | Ongoing | 10,050,000 | 15,547,577 | 4,513,908 | 7,060,251 | 3,968,178 | 6,140,365 |
| Saudi Fund for Development | Dollar | Loan | Ongoing | 100,000,000 | 26,662,213 | 72,177,127 | 19,231,176 | 71,447,669 | 19,095,088 |
| OPEC | Dollar | Grant | Ongoing | 25,000,000 | 25,000,000 | 2,043,860 | 2,043,860 | 1,102,643 | 1,102,643 |
| ADB3 -- Grant | Dollar | Grant | Ongoing | 875,000 | 875,000 | 717,000 | 717,000 | 200,801 | 200,801 |
| ADB - Franchise | UA | Grant | Ongoing | 950,000 | 950,000 | 475,000 | 475,000 | 77,206 | 77,206 |
| ADB -- MIC | Dollar | Grant | Ongoing | 600,000 | 930,000 | 0 | 0 | 0 | 0 |
| ADB - FAPA | Euro | Grant | Ongoing | 1,000,000 | 1,000,000c | 0 | 0 | 0 | 0 |
| EU South Sinai | Euro | Grant | Ongoing | 1,381,003 | 1,868,777 | 927,782 | 1,267,848 | 917,213 | 1,253,364 |
| EU Support to Social Development | Euro | Grant | Ongoing | 20,000,000 | 27,763,691 | 14,454,609 | 20,586,958 | 11,596,147 | 15,699,663 |
| EU – Local Contribution | EGP | Grant | Ongoing | 3,000,000 | 572,045 | 3,000,000 | 572,045 | 2,544,239 | 448,833 |
| Germany Swap 1 | Euro | Grant | Ongoing | 19,173,446 | 21,254,951 | 19,173,446 | 21,254,951 | 18,720,037 | 24,381,395 |
| Germany Swap 2 | Euro | Grant | Ongoing | 15,000,000 | 18,943,387 | 15,000,000 | 18,943,387 | 10,772,351 | 14,907,899 |
| Egypt 3 | EGP | Grant | Ongoing | 50,000,000 | 11,111,111 | 50,000,000 | 11,111,111 | 47,959,930 | 8,458,127 |
| IFAD Farm Irrigation | SDR | Grant | Ongoing | 6,230,000 | 9,420,000 | 0 | 0 | 0 | 0 |
| UNDP 4 | Dollar | Grant | Ongoing | 410,000 | 410,000 | 159,373 | 159,373 | 126,873 | 126,873 |
| Ministry of Finance | EGP | Grant | Ongoing | 5,775,000 | 1,025,344 | 5,775,000 | 1,025,344 | 4,385,039 | 785,878 |
| Greece | Euro | Grant | Ongoing | 50,000 | 76,594 | 50,000 | 76,594 | 49,221 | 69,702 |
| France 1 | EGP | Grant | Ongoing | 52,42,233 | 12,166,361 | 44,541,500 | 10,754,037 | 39,832,839 | 9,489,568 |
| IDA POP | Dollar | Loan | Ended | 9,770,216 | 9,770,216 | 9,770,216 | 9,770,216 | 9,770,216 | 9770,216 |
| IDA 3 | Dollar | Loan | Ended | 53,631,150 | 53,631,150 | 53,631,150 | 53,631,150 | 53,631,150 | 53,631,150 |
| EU 2 | Euro | Grant | Ended | 142,232,896 | 144,897,591 | 142,232,896 | 144,897,591 | 134,454,245 | 149,609,724 |
| Germany | DM | Grant | Ended | 13,000,000 | 7,898,593 | 13,000,000 | 7,898,593 | 12,989,597 | 8,385,005 |
| Germany 4th | DM | Grant | Ended | 50,000,000 | 29,815,651 | 50,000,000 | 29,815,651 | 50,000,000 | 31,899,849 |
| Germany Matareya | Euro | Grant | Ended | 3,100,000 | 3,127,280 | 3,100,000 | 3,127,280 | 3,100,000 | 4,180,653 |
| Islamic Bank | DI | Grant | Ended | 284,436 | 420,000 | 284,436 | 420,000 | 284,436 | 420,000 |
| TOTALS in US DOLLAR EQUIVALENT | | | | | 1,348,764,966 |  | 887,757,114 |  | 1,013,148,346 |
| *Amounts disbursed exceed amount received due to interest on deposits and exchange rate fluctuations.* | | | | | | | | | |

1. For relevant poverty rankings of Governorates please see the section on Effectiveness and targeting in particular. [↑](#footnote-ref--1)
2. As this is being written, the cabinet has been dismissed once more in the face of widespread protest and a third cabinet is in the process of being formed under SCAF supervision. [↑](#footnote-ref-0)
3. Economist Intelligence Unit, Egypt: Country Report, September 2011, pp.8-9. [↑](#footnote-ref-1)
4. Handoussa Heba et al, Situation Analysis: Key Development Challenges Facing Egypt, 2010, p.36. [↑](#footnote-ref-2)
5. Ibid. [↑](#footnote-ref-3)
6. SFD, Microfinance Business Plan, 2006-2010. [↑](#footnote-ref-4)
7. Handoussa Heba et al, Situation Analysis: Key Development Challenges Facing Egypt, 2010, p.37. [↑](#footnote-ref-5)
8. Central Bank of Egypt and Social Fund for Development, National Strategy for Microfinance in Egypt, 2006. [↑](#footnote-ref-6)
9. Law 141/2004 on the Development of Small Enterprises and its Executive Regulations. [↑](#footnote-ref-7)
10. Segrado Chiara, Case Study: The Involvement of Commercial Banks in Microfinance: the Egyptian Experience, MEDA Project, Microfinance at the University of Torino, August 2005. [↑](#footnote-ref-8)
11. Presentation by the Microfinance Central Sector Deputy Director, Oct. 2011 [↑](#footnote-ref-9)
12. Central Microfinance Sector, SFD. [↑](#footnote-ref-10)
13. ibid. [↑](#footnote-ref-11)
14. ibid. [↑](#footnote-ref-12)
15. Data and Reports Department. SFD [↑](#footnote-ref-13)
16. Information availed by the Central Microfinance Sector [↑](#footnote-ref-14)
17. ibid. [↑](#footnote-ref-15)
18. Poverty ranking based on the poverty map used by SFD. 1= poorest; 27=wealthiest. [↑](#footnote-ref-16)
19. 'National Impact Survey of Microfinance in Egypt' (2008) by Planet Finance, Agha Khan Agency for Microfinance/First Microfinance Foundation, CIDA, Ministry of Finance, GTZ, IDRC, Planet Finance, SMEPOL, SFD, UNDP. [↑](#footnote-ref-17)
20. 'World Bank Impact Study, 2006' (in Presentation by SFD's Central Microfinance Sector Deputy Director) [↑](#footnote-ref-18)
21. Central Microfinance Sector, SFD. [↑](#footnote-ref-19)
22. Central Microfinance Sector, Deputy Director, SFD. [↑](#footnote-ref-20)
23. Presentation prepared by SEDO, Oct. 2011 [↑](#footnote-ref-21)
24. SFD Data Dept. [↑](#footnote-ref-22)
25. Summary Report of SFD Achievements Jan. 2005 – July 2011, Data and Reports Dept., Sept. 2011 [↑](#footnote-ref-23)
26. Meeting with SEDO's General Manager [↑](#footnote-ref-24)
27. Poverty ranking based on the poverty map used by SFD. 1= poorest; 27=wealthiest. [↑](#footnote-ref-25)
28. Eng. Khaled Abdel Meguid, Senior Manager, Data and Reports Department, SFD. [↑](#footnote-ref-26)
29. Meeting with Mr. Youssef Fatthy Qelada, Manager of the Zones Credit [↑](#footnote-ref-27)
30. Source: SFD' Data Report Number 206, dated Oct. 24, 2011 [↑](#footnote-ref-28)
31. Head of the Central Sector for Credit Risk Assessment, SFD [↑](#footnote-ref-29)
32. UNDP and SFD 'Study on Assessing the DL Model' Final Report, July 2011, by MEGACOM (Management and Business Consultations). The number of start- ups reported by the Study was as of end of March 2011 (active borrowers). [↑](#footnote-ref-30)
33. Head of the Central Sector for Credit Risk Assessment, SFD [↑](#footnote-ref-31)
34. Head of the Credit Follow Up Dept for Direct Lending, SFD [↑](#footnote-ref-32)
35. Head of the Central Sector for Credit Risk Assessment, SFD [↑](#footnote-ref-33)
36. General Manager, SEDO, SFD. [↑](#footnote-ref-34)
37. Meeting with the Head of the Credit Follow Up Dept for Direct Lending, SFD [↑](#footnote-ref-35)
38. ibid. [↑](#footnote-ref-36)
39. Data in the Table are based on information availed by the Central Sector for Settlements and Follow-up and the Credit Risk Assessment Central Sector [↑](#footnote-ref-37)
40. As mentioned elsewhere in this report, the Credit Insurance Society (CIS) is guaranteeing 80% of the value of loans. [↑](#footnote-ref-38)
41. For instance, it was noted from a review of a repayment report dated mid-Oct. 2011 that loans outstanding (without interest) amounted to LE 414 million. Total repayments due were LE 184 million. Yet the amount repaid was LE 189 million with an arrears total stated as LE19.4 million and an arrears ratio of 4.7%. The fact that the 'amounts repaid' were more than 'amounts due' was discussed with the Head of the Central Sector for Credit Risk Assessment who said this was because:

    1. The three-months’ rescheduling of debt allowed by SFD after the Revolution (instalment due dates were extended i.e. amounts due decreased, but amounts repaid did not fully follow suit because some borrowers did not need to reschedule); and
    2. Prepayments by some borrowers for other reasons.

    Yet it is noted that the report dated Dec. 31, 2010 (i.e. before the Revolution) also had 'repaid amounts' in excess of 'amounts due'; LE 128 and LE 124 million respectively. [↑](#footnote-ref-39)
42. UNDP and SFD 'Study on Assessing the DL Model' Final Report, July 2011, by MEGACOM (Management and Business Consultations) [↑](#footnote-ref-40)
43. The study assumed that a lending officer can handle 50 customers thereby determining that the current 85 staff members including those in all governorates was inadequate. [↑](#footnote-ref-41)
44. Donor Group meeting, SFD, Oct. 2011 [↑](#footnote-ref-42)
45. Basel Committee, Prevention of Criminal Use of the Banking System for the Purposes of Money-Laundering, A Statement of Principles, December 1988. [↑](#footnote-ref-43)
46. 'SFD Strategic Orientation', June 2011, SFD Technical Office, Azmy, Raafat, Ayman, [↑](#footnote-ref-44)
47. It was about 17% at end of June 2011. [↑](#footnote-ref-45)
48. Presentation by the Director of the NFS Director, SFD. [↑](#footnote-ref-46)
49. Discussion with the Director of the NFS Sector [↑](#footnote-ref-47)
50. The data on SFD's financial sustainability indicating each sector as a separate profit centre was availed by the General Manager of the Financial and Administration Group [↑](#footnote-ref-48)
51. Discussion with the Director of the NFS Sector [↑](#footnote-ref-49)
52. See the section on Focus Groups [↑](#footnote-ref-50)
53. Meeting with the Governor of Beni Suef [↑](#footnote-ref-51)
54. Meeting with Prof. Heba Handoussa, Director of Egypt Human Development Report [↑](#footnote-ref-52)
55. See the Chapter on Focus Groups [↑](#footnote-ref-53)
56. Discussion with the Director of the NFS Sector [↑](#footnote-ref-54)
57. ibid. [↑](#footnote-ref-55)
58. SFD Annual Report, 2009 [↑](#footnote-ref-56)
59. ibid. [↑](#footnote-ref-57)
60. Meeting with the Head of Franchise Sector, SFD [↑](#footnote-ref-58)
61. ibid. [↑](#footnote-ref-59)
62. ibid. [↑](#footnote-ref-60)
63. Meeting with the Head of Franchise Sector, SFD [↑](#footnote-ref-61)
64. ibid. [↑](#footnote-ref-62)
65. Head of Franchise Sector, SFD [↑](#footnote-ref-63)
66. ibid. [↑](#footnote-ref-64)
67. Meeting with Head of Credit, SEDO, SFD [↑](#footnote-ref-65)
68. ibid. [↑](#footnote-ref-66)
69. Meeting with SEDO Sector Head [↑](#footnote-ref-67)
70. Manager of SEDO [↑](#footnote-ref-68)
71. SEDO, SFD [↑](#footnote-ref-69)
72. Manager of SEDO [↑](#footnote-ref-70)
73. Meeting with the Head of Credit, SEDO, SFD [↑](#footnote-ref-71)
74. ibid. [↑](#footnote-ref-72)
75. Meeting with CIS [↑](#footnote-ref-73)
76. ibid. [↑](#footnote-ref-74)
77. ibid. [↑](#footnote-ref-75)
78. CIS Balance Sheets and reports. [↑](#footnote-ref-76)
79. Ibid. [↑](#footnote-ref-77)
80. Meeting with CIS [↑](#footnote-ref-78)
81. Meetings with some bank officials to discuss SFD lending for purposes of this study [↑](#footnote-ref-79)
82. Credit Risk Dept., SFD [↑](#footnote-ref-80)
83. Credit Follow Up Dept., for Direct Lending, SFD (part of SEDO) [↑](#footnote-ref-81)
84. Most of the information in this section is collected through a meeting with Mr. Magdy Amin, EAHRD's Managing Director [↑](#footnote-ref-82)
85. SFD RO’s in Daqahlia governorate. [↑](#footnote-ref-83)
86. IT Sector Progress Report of 31/10/2010 [↑](#footnote-ref-84)
87. Meeting with SEDO Sector Head [↑](#footnote-ref-85)
88. ibid. [↑](#footnote-ref-86)
89. In 2007, the Government declared its intention to target the poorest 1,000 villages, each of which have in excess of 75% of their population living below the poverty line according to Egypt’s 2006 poverty map development by the Ministry of Economic Development. [↑](#footnote-ref-87)
90. Social Contract Centre, The Social Responsibility Map: A Dignified Life for Every Egyptian (www.srmap.net.eg) [↑](#footnote-ref-88)
91. Meeting with SCC and SCC, Monitoring and Evaluation System of the Government Initiative to Develop the Poorest 1,000 Villages: Phase I – 150 Villages, Information and Decision Support Centre, Social Contract Centre, Research, Monitoring and Governance Unit, March, 2010. [↑](#footnote-ref-89)
92. SCC, The Egyptian Government Initiative to Develop the Poorest 1,000 Villages, Poor By Design, Vulnerable at Best: Findings of the Baseline Assessment for Phase-I of the Initiative, Information and Decision Support Centre, Research, Monitoring and Governance Unit. [↑](#footnote-ref-90)
93. According to SFD staff, this percentage does not necessarily reflect the reality as the women often provide cover for the husband or a relative who is a government salaried employee and is therefore not legally allowed to have another job or a business. [↑](#footnote-ref-91)
94. The Planning and International Cooperation Group is responsible for monitoring the progress of projects against the agreement with the donor. [↑](#footnote-ref-92)
95. The SFD used to have a gender unit until 2004; however, with the change in leadership and resignation of the gender officer, the unit was dismantled and the staff was redirected to the various departments [↑](#footnote-ref-93)
96. e.g. in estimating wage expenses, monthly salary of the project manager and the workers were estimated to be as low as LE 100 and LE 250 respectively. [↑](#footnote-ref-94)
97. IT Sector Progress Report of 31/10/2010 [↑](#footnote-ref-95)
98. Meeting with SEDO Sector Head [↑](#footnote-ref-96)
99. ibid. [↑](#footnote-ref-97)
100. See the section on Focus Groups [↑](#footnote-ref-98)
101. Chart presented by the Sector Head, Planning and International Group [↑](#footnote-ref-99)
102. By contrast, contracts with bank intermediaries up-to LE 50 million are approved by the Credit and Risk Committee then the Higher Committee for Credit and Project Evaluation, while those above LE 50 million need Managing Director (MD)'s approval, but do not need to go to the Board of Directors. [↑](#footnote-ref-100)
103. Meeting with Head of the Central Sector for Credit Risk Assessment, SFD [↑](#footnote-ref-101)
104. Field visit to NBE, Beni Suef branch [↑](#footnote-ref-102)
105. Meeting with the Settlement and Follow Up Dept, SFD [↑](#footnote-ref-103)
106. see the section on Focus Groups [↑](#footnote-ref-104)
107. Donor Group meeting, SFD [↑](#footnote-ref-105)
108. Field visits to ROs [↑](#footnote-ref-106)
109. Presentation by Central Microfinance Sector Deputy Director [↑](#footnote-ref-107)
110. Data and Reports Dept. [↑](#footnote-ref-108)
111. Presentation by Central Microfinance Sector Deputy Director, Oct. 2011 [↑](#footnote-ref-109)
112. To the extent that internal audit assesses management performance at al, it rates organizational performance through periodic visits to each business unit according annually to categorize and define the business performance as (High- Medium-Low). [↑](#footnote-ref-110)
113. Based on interviews with the Internal Audit Sector. [↑](#footnote-ref-111)
114. Source: Internal Audit Sector. [↑](#footnote-ref-112)
115. Although the official organisational chart for SFD is as presented here, it is understood by the Review Team that the Microfinance Sector is now an independent cluster and not under the Small Enterprise Development Organisation (SEDO). [↑](#footnote-ref-113)
116. See Strategy Planning and Coordination Mechanism (unpublished) by the SFD. [↑](#footnote-ref-114)
117. There is a separate section on this association. [↑](#footnote-ref-115)
118. Data Dept Head [↑](#footnote-ref-116)
119. Microfinance Central Sector, Deputy Director. [↑](#footnote-ref-117)
120. Beni Suef RO, SFD [↑](#footnote-ref-118)
121. Visits to delinquent borrowers are naturally more frequent than those to regular borrowers (Daqahlia RO, SFD) [↑](#footnote-ref-119)
122. Presentation by Microfinance Central Sector, Deputy Director. [↑](#footnote-ref-120)
123. Estimation by SEDO's General Manager. [↑](#footnote-ref-121)
124. Meeting with the General Manager, Finance and Administration Group and MIS [↑](#footnote-ref-122)
125. Information provided by the General Manager, Finance and Administration Group and MIS [↑](#footnote-ref-123)
126. The data in the Table were provided by the General Manager, Finance and Administration Group [↑](#footnote-ref-124)
127. Presentation by Central Microfinance Sector Deputy Director [↑](#footnote-ref-125)
128. Meeting with the Credit Risk Assessment Sector Head [↑](#footnote-ref-126)
129. Namely the Alexandria Business Association Loan Tracker [↑](#footnote-ref-127)
130. Meeting with the Executive Director of El Mobadra Association [↑](#footnote-ref-128)
131. Meeting with the Credit Risk Assessment Sector Head [↑](#footnote-ref-129)
132. UNDP and SFD, "Study on Assessing the Direct Lending Model" Reference No. 3/UNDP, by MEGACOM (Management and Business Consultations), July 2011 [↑](#footnote-ref-130)
133. Presentation by SFD's Internal Audit Sector [↑](#footnote-ref-131)
134. ibid. [↑](#footnote-ref-132)
135. Meeting with the Head of Treasury & Dealing Affairs Sector [↑](#footnote-ref-133)
136. ibid. [↑](#footnote-ref-134)
137. ibid. [↑](#footnote-ref-135)
138. Meeting with the General Manager, Finance and Administration Group, SFD. [↑](#footnote-ref-136)
139. ibid [↑](#footnote-ref-137)
140. Ibid. [↑](#footnote-ref-138)
141. SEDO, SFD [↑](#footnote-ref-139)
142. The General Cooperative Society for Animal Wealth Development. [↑](#footnote-ref-140)
143. SEDO's General Manager, SFD [↑](#footnote-ref-141)
144. Technical Office, SFD, Azmy, Raafat and Ayman "SFD Strategic Orientation" June 2011 [↑](#footnote-ref-142)
145. Meeting with Head of the Credit Risk Assessment Central Sector, SFD [↑](#footnote-ref-143)
146. Meeting with SEDO's General Manager, SFD [↑](#footnote-ref-144)
147. based on SEDO's data [↑](#footnote-ref-145)
148. NBE's field visits have been arranged by SFD [↑](#footnote-ref-146)
149. Presidential Decree No. 40/1991. [↑](#footnote-ref-147)
150. Data obtained from the General Manager, Finance and Administration Group, SFD [↑](#footnote-ref-148)
151. For more details on FX revaluation, see the section on FX Risk under 'Risk Management' [↑](#footnote-ref-149)
152. Discussion with the NGO in Beni Suef [↑](#footnote-ref-150)
153. Discussion with the Director of the Central Microfinance Sector [↑](#footnote-ref-151)