

ASBA Egypt - April 2004

Global Rating

Rating Not Assigned
(Lack of sufficient financial information
on all ASBA programs)

The Assiut Businessmen Association (ASBA) was founded as an NGO in 1995. After signing the Cooperative Agreement with USAID in March 1995, ASBA disbursed its first individual loan in June 1996 and its first group loan in December 1999. In March 2004, ASBA had an outstanding portfolio of over 8 million USD for 16,537 individual loan (SME) clients and 29,250 group loan (Bashayer) clients in several governorates.

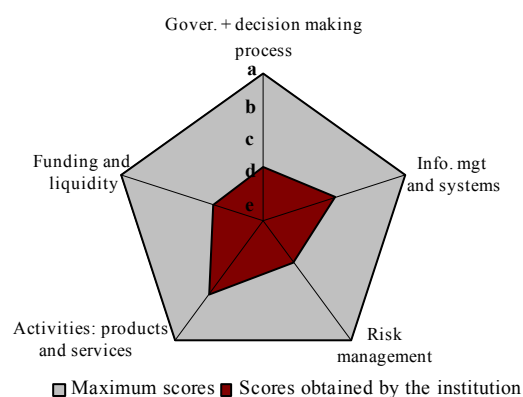
Rating Plus Summary

Environment Unfavorable legal environment, large market and adequate infrastructure
Maturity Scale **Mature:** 7.5 years of operations
Scale **Large:** Portfolio of 8 million USD
Target market **Broad:** Avg. out. loan 22% GNP per capita

Rating scales and formulas may be found on the following page.

Area Scores

Governance and decision making **d**
Information management and systems **c**
Risk Management **d**
Activities: products and services **b**
Financing and liquidity **d**
Efficiency and profitability **---**



	Dec. 2001	Dec. 2002	Dec. 2003		Dec. 2001	Dec. 2002	Dec. 2003
ACTIVITY				PERFORMANCE ^(b)			
Total number of staff	363	474	829	ROE	0.2%	(6.2%)	6.1%
Total assets (K USD)	14,963	17,667	16,245	Liabilities / Equity	64.5%	91.4%	89.7%
(K EGP)	68,832	82,154	100,445	ROA	0.1%	(3.5%)	3.2%
Loan portfolio (K USD)	5,7238	8,068	8,134	Operational self-sufficiency	100.8%	78.6%	132.3%
(K EGP)	26,325	37,514	50,291	Financial self-sufficiency	99.7%	77.8%	125.2%
Number of active borrowers	14,818	26,440	40,220	Portfolio Yield	28.0%	27.3%	28.3%
Number of depositors	n/a	n/a	n/a	Operating expense ratio	15.6%	13.4%	13.2%
Annual effective interest rate		Note (a)		Staff productivity	41	56	49
PAR31	1.6%	12.1%	6.8%	Funding expense ratio	11.4%	10.9%	9.9%
Rescheduled loans	0.2%	1.8%	2.1%	GROWTH (local currency)			
Write-off ratio	0.0%	0.0%	0.0%	Loan portfolio growth	28.3%	42.5%	34.1%
Risk coverage ratio	316.9%	111.6%	127.1%	Savings growth	n/a	n/a	n/a
Exchange rate 1 USD= xx EGP	4.60	4.65	6.18	Asset growth	50.2%	19.4%	22.3%

(a) The individual loan product has a nominal flat 16% annual rate (i.e. rate calculated on initial loan amount) or 28% annual effective interest rate and this product covers approximately 89% of the portfolio. The group loan product has a nominal flat 26% annual rate or 46% annual effective interest rate.

(b) The amount of total assets and total equity are overstated. The USD fixed dollar deposits received as a grant and used as overdraft collateral are recorded on the balance sheet instead of being considered an off-balance sheet item.

Rating Scale

Factors	Area Rating	Global Rating	Explanation
4 to 5	A	A+ A A-	Excellent The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
3 to 4	B	B+ B B-	Good Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
2 to 3	C	C+ C C-	Minimum required Procedures are functional but with certain failings. There are minor risks in the medium term for operations, but these risks are being managed and monitored.
1 to 2	D	D	Insufficient Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
0 to 1	E	E	Immediate risk of default or very insufficient There are immediate or underlying risks for operations or an unacceptable under performance.

Rating Plus: MicroBanking Bulletin categories for Middle East North Africa (MENA)

Scale (Outstanding portfolio USD)	Target Clientele (Avg. out. loan / GNP per capita)	Maturity (Years of operation)
Large: > 8 million Medium: 2 to 8 million Small: < 2 million	Low-end: < 20% OR avg. out. loan ≤ 150 USD Broad: 20% to 149% High-end: 150% to 249% Small Business: 250 %	New: 1 to 3 years Young: 4 to 7 years Mature: over 7 years

Ratio Formulas

Personnel productivity	Active borrowers / Total personnel (end of period)
Loan officer productivity	Active borrowers / Total Loan Officers (end of period)
Return on assets	ROA: Net operating income before donations / Average assets
Adjusted return on assets	AROA: Adjusted net operating income before donations / Average assets
Return on equity	ROE: Net operating income before donations / Average equity
Adjusted return on equity	AROE: Adjusted net operating income before donations / Average equity
Leverage	Debt (savings + debts) / equity (end of period)
Portfolio yield	Portfolio revenue / 13-month average gross outstanding portfolio
Operating expense ratio	Operating expense / 13-month average gross outstanding portfolio
Funding expense ratio	Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
Cost of funds ratio	Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
Loan loss expense ratio	Net loan loss expense / 13-month average gross outstanding portfolio
Adjustment expense ratio	Total adjustments / 13-month average gross outstanding portfolio
Net portfolio as % of assets	Net outstanding portfolio / total assets (end of period)
Operational self-sufficiency	Revenue from operations / (Financial expense + Loan loss expense + Operating expense)
Financial self-sufficiency	Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
Risk coverage ratio	Loan loss reserves / Portfolio at risk (31-365 days)
Write-off ratio	Loans written off / 13-month average gross outstanding portfolio

Executive summary

The microfinance industry started in Egypt in the early 1990s with support from several sources, notably the Social Fund for Development (SFD), the US development agency, USAID, and the Credit Guarantee Corporation (CGC). Most microfinance service providers operate as NGOs under a legal framework not adapted to microfinance. Egypt has the largest potential market for microentrepreneurs in the Arab world with an estimated 1.5 to 2 million non-agricultural private businesses, but only a small percentage of this large market is being covered. Studies estimate that in 2003 approximately 200,000 microentrepreneurs are being served, although this figure is an underestimate as it excludes SFD clients and other providers not reporting to the study.

The Assiut Businessmen Association (ASBA) was founded as an NGO in 1995. After signing the Cooperative Agreement with USAID in March 1995, ASBA disbursed its first individual loan in June 1996 and its first group loan in December 1999. In March 2004, ASBA had an outstanding portfolio of over 8 million USD for 16,537 individual loan (SME) clients and 29,250 group loan (Bashayer) clients in several governorates.

Overall summary:

- ❑ **Key strengths:** ASBA has in place a well-functioning MIS, experienced field staff, and appropriate credit procedures for the target clientele of small loans.
- ❑ **Areas for improvement:** ASBA has numerous areas for improvement, notably problems related to the centralization of decision-making with the Chairman and the lack of sufficient risk identification and planning processes to manage growth. Other areas include the need for a more comprehensive and larger internal audit group, better portfolio quality, a financing plan with more diversified sources, and streamlining of procedures to increase productivity.
- ❑ **Principal risks:** ASBA faces both internal and external risks. External risks include the general macroeconomic environment, fluctuations in EGP/USD exchange rates given that financing comes exclusively from overdrafts backed by USD deposits, and risks of political interference, which have been manifested in the past. Internally, the most notable risks are related to governance as mentioned above, which in turn has negative impacts on other aspects such as risk management and financially sound planning.

ASBA was not assigned a global rating given the lack of sufficient information on all of the different ASBA programs.

Governance and decision-making received the rating **d**:

- ❑ Although ASBA does have a full Board, an Executive Committee, and other ad hoc committees, in practice decision-making is highly centralized with the Board Chairman, even more than what is required by Egyptian law. This approach has limited the role of the management team and created a culture of deference to the Chairman's authority. The Board receives regular information on the SME and group lending microfinance activities to appreciate generally the institution's performance, but information on other programs managed by the Board is not as regular.
- ❑ ASBA does not have a formal business plan beyond the requirements of the USAID Cooperative Agreements. The current strategy of massive expansion of the group loan product has not fully addressed the risks associated with this strategy, notably proper

supervision of distant offices. ASBA also faces a chronic lack of funds, particularly for the SME product.

- ❑ The management team covers all key positions but would benefit from more autonomy in decision-making as the Chairman effectively serves as an Executive Director for decision-making. The team would benefit from trainings to strengthen their capacities in strategic planning and budgeting.
- ❑ ASBA's massive recruitment to achieve a workforce of over 1,000 employees in 2004 has prioritized quantity and administrative policies over workforce development and staff motivation. Some HR policies regarding hiring and incentive policies merit greater clarification. Staff turnover is concentrated with group loan coordinators, a problem typical of the Businessmen's Associations offering this product.

Information management and systems received the rating **c**:

- ❑ ASBA has a well-conceived MIS with remote access to the loan tracking information, managed in EQI's El Mohassil. The separate accounting software meets ASBA's basic needs but is somewhat outdated and does not permit automatic consolidation.
- ❑ Portfolio information is accurate, up-to-date, and sufficiently detailed although the focus is on a limited number of the available indicators. Improvements would include greater analysis of client business data and the market.
- ❑ Financial statements for the SME/group lending program are available monthly, including details by branch and product, albeit not 100% accurate. Information on other ASBA programs is not available with the same frequency. The "borrowings" between programs used in financial statements to reflect donations that are very unlikely to be repaid provide a more optimistic picture of financial performance. The finance department has tools to calculate several financial ratios but does not have any financial targets beyond covering costs.

Risk analysis received the rating **d**:

- ❑ Although the basic systems are in place for an appropriate internal control system (procedures, separation of tasks, etc) the higher layers of control are insufficient given the combination of a lack of formal planning documents and the strong concentration of power with the Chairman. It should be noted that no major acts of fraud were reported to the rating team.
- ❑ ASBA does not have a uniform approach to risk identification, even if some individuals in the institution can clearly identify many of these risks. The internal audit department of five persons is insufficient given the size of the institution (over 1,000 employees across a large geographic area) and its very limited scope of work (document verification).

Activities: Products and Services received the rating **b**:

- ❑ ASBA has appropriate portfolio management procedures, albeit with a very basic financial analysis that has proven successful for smaller loan amounts but insufficient for larger loan amounts. Field staff motivation is not optimal given the current application of the incentive policy.
- ❑ Portfolio quality for the SME product suffered considerably in 2002, reportedly given problems with larger size loans issued from headquarters (PAR31 at 12.1% plus rescheduled loans at 1.8%) and is recovering in 2003 (PAR31 at 6.8% plus rescheduled loans at 2.1%). As with several Businessmen's Associations, the group lending product has no arrears, due to a strong repayment system and strict incentive policy for group loan coordinators.
- ❑ Credit risk coverage is appropriate, with over 100% of loans in arrears covered by provisions and a system of guarantee checks recognized by the courts.

Funding and Liquidity received the rating **d**:

- ❑ ASBA has been financed entirely by USAID operating subsidies and local bank overdrafts backed by USAID provided USD fixed deposits. ASBA has exhausted its funding sources for the last several years, even with the increased overdraft capacity resulting from the 2003 devaluation of the EGP. ASBA remains exposed to risks related to fluctuations in EGP/USD exchange rates as overdrafts carry close to market rates for the USD conversion.
- ❑ It is not clear if any new financing sources will be available in the future, especially for the SME program, and there is no financing strategy in place to address this.
- ❑ Given chronic shortages in portfolio funds for the SME program, ASBA monitors the cash-flow month to month to allocate across branches. ASBA is not able to meet the disbursement needs of all its branches each month.

Efficiency and Profitability was not rated given the lack of sufficient information on all of the different ASBA programs.

- ❑ ASBA's profitability goal is to cover operating costs, but not to generate revenues. ASBA covered costs in 2001 with an operational self-sufficiency of 100.8%, incurred losses due to portfolio problems resulting in a figure of 78.6% in 2002, and then bounced back to 132.3% in 2003, although these 2003 results are due in part to recoveries from loans that were provisioned 100% in 2002. For several reasons, the future profitability of ASBA's activities is difficult to evaluate.
- ❑ ASBA, like several other Businessmen's Associations, has the strange position of having poor productivity ratios (staff productivity at 49 and loan officer productivity at 70) yet a low operating expense ratio, 13.2%, which is attributable in large part to a relatively lower salary scale in Egypt. Compared to several peers in Egypt, ASBA underperforms on productivity.

Funding needs:

- ❑ ASBA is seeking to increase its portfolio size by 25% each year, which would be approximately 2 million USD in 2004.
- ❑ Planet Rating believes that ASBA has a vast market and several good systems in place but the lack of clear checks and balances in decision-making coupled with unstable profitability and the absence of a formal business plan would make it difficult at this time to manage commercial debt without significant guarantees.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Rating Plus

The GIRAFE rating evaluates the financial sustainability of an institution regardless of its operating context (economic and political environment, infrastructure) or its development as measured by MicroBanking Bulleting (MBB) indicators such as maturity, scale, and target clientele. Rating Plus serves to highlight those potential internal and external impediments to achieving financial sustainability.

	Dec. 2001	Dec. 2002	Dec. 2003	June 2004
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Exchange rate: 1 USD = X EGP	4.60	4.65	6.18	6.21
GDP/capita (USD)	1,490	1,300	1,174	n/a
Inflation	2.4%	2.5%	3.4%	n/a
Coface Rating				B

Source: IMF / World Bank / oanda.com.

Operating Context

Economic and Political Environment: Stable

- ❑ After a period of heavy borrowing, Egypt increased its domestic production (GDP growth rate reached 5.2% annually for the 1995-2000 period). Agriculture accounts for 17% of GDP, industry for 34% and services for 49%. The internal political situation is stable. Population growth continues at almost 2% annually.
- ❑ Egypt received a Coface rating of B given expectations that weaknesses in the political and economic environment will likely affect an already poor debt repayment record.
- ❑ Egypt is ranked 120 out of 175 in the 2003 UNDP Report, with a net primary school enrollment at 88% and adult illiteracy nearly 35%.
- ❑ The legal framework for microfinance does not exist, rather MFIs operate as NGOs under the Ministry of Social Affairs, are not permitted to collect savings, have difficulty accessing bank funding without excessive collateral given their legal status, and have governance structures not well suited to microfinance.
- ❑ Middle and Upper Egypt are particularly poor and difficult regions for microfinance activities relative to other parts of the country (region of ASBA's operations).

Infrastructure: Favorable

- ❑ Transportation infrastructure is adequate in the Delta and along the Nile corridor where population density is high, while travel outside of the Nile corridor is more difficult.
- ❑ The telecommunications infrastructure is sufficient for MFIs to be able to work via telephone and leased lines for fluid data communication with only minor exceptions.

Institutional Development (MBB Indicators)

Maturity: Mature Scale: Medium

- ❑ ASBA disbursed its first loan in late 1996 and has therefore been operating for approximately 7.5 years. The Association has microfinance activities and other projects.
- ❑ In the context of the USAID Cooperative Agreement, the Association received "ready-made kit" including branch opening plans, operations manuals, loan tracking software, and a standard chart of accounts. Technical assistance is now limited to occasional trainings.
- ❑ ASBA has relied exclusively on USAID funding to reach an 8 million USD portfolio.

Target clientele: Broad Other Activities: Yes

- ❑ ASBA is in the Broad category overall (20% to 120%) as the average outstanding loan, as a % of GNP per capita is 22% in March 2004. ASBA also provides several community development services and makes loans to physicians (Medical Project)
- ❑ The individual loan clients have significantly higher loan sizes at disbursement. In Dec. 2003, the average SME loan at disbursement was 667 USD (80% of GNP per capita) while the average group loan at disbursement is only 51 USD (6% of GNP per capita).
- ❑ In addition to the group loan product targeted exclusively to predominantly poor woman, approximately 26% of individual loans in the latest month were also for women.

Table of contents

<i>Rating Scale</i>	2
<i>Ratio Formulas</i>	2
<i>Executive summary</i>	3
<i>Rating Plus</i>	6
<i>Table of contents</i>	7
<i>Acronyms</i>	8
<i>Microfinance Environment</i>	9
<i>Institutional Presentation</i>	11
<i>Governance and Decision Making</i>	14
<i>Decision-making</i>	14
<i>Planning</i>	14
<i>Management Team</i>	15
<i>Human Resource Management</i>	15
<i>Information Management Systems</i>	17
<i>Management Information System (MIS) and Equipment</i>	17
<i>Information on Activities</i>	18
<i>Financial and Accounting Information</i>	18
<i>Risk Management</i>	20
<i>Procedures and Internal Controls</i>	20
<i>Internal Audit</i>	21
<i>Activities: products and services</i>	22
<i>Marketing and competition</i>	22
<i>Portfolio Management</i>	22
<i>Portfolio at risk (PAR)</i>	23
<i>Write-off ratio</i>	23
<i>Credit risk coverage</i>	25
<i>Savings Activities</i>	26
<i>Financing and liquidity</i>	27
<i>Financing Strategy</i>	27
<i>Liquidity Management</i>	28
<i>Efficiency and Profitability</i>	29
<i>Appendices</i>	32
<i>Financial statements and notes</i>	32
<i>Adjustments</i>	37

Acronyms

ABA	Alexandria Business Association
ALM	Asset/Liability Management
ASBA	Assiut Businessmen Association
BdC	Banque du Caire
BoD	Board of Directors
CBE	Central Bank of Egypt
CIDA	Canadian International Development Agency
CGC	Credit Guarantee Corporation (Egypt)
DBACD	Dakahlya Businessmen's Association for Community Development
EIR	Effective interest rate
ED	Executive Director
EGP	Egyptian Pound
EQI	Environmental Quality International
ERSAP	Economic Reform and Structural Adjustment Program (Egypt)
ESED	Egyptian Small Enterprise Development Foundation
EU	European Union
FY	Fiscal Year
GNP	Gross National Product
HQ	Headquarters
HR	Human Resources
IAS	International Accounting Standards
IDA	International Development Association
IMF	International Monetary Fund
ITC	Information Technology Center
KfW	German Development Finance Agency
LO	Loan officer
MBB	MicroBanking Bulletin
MIS	Management Information System
MFI	Microfinance institution
NA	Not Applicable
NBD	National Bank for Development
NGO	Non Governmental Organization
PAR	Portfolio at risk
PBDAC	Principal Bank for Development and Agricultural Credit
ROA	Return on assets
ROE	Return on equity
SBACD	Sharkeya Businessmen's Association for Community Development
SEDAP	Small Enterprise Development Foundation of Port Said
SFD	Social Fund for Development
SME	Small and medium sized enterprise
TA	Technical Assistance
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USD	United States Dollar
US	United States

Microfinance Environment

Overview

Social Fund for Development and USAID two of the leading funders of microfinance

The microfinance industry started in Egypt in the early 1990s with support from several sources, notably the Social Fund for Development (SFD) and the US development agency, USAID. The Credit Guarantee Corporation (CGC), a private joint-stock company founded by nine local banks and an insurance company, also promotes the development of micro, small, and medium-sized enterprises through loan guarantees for loans provided directly through banks or other providers such as NGOs. Several of its programs are also supported by USAID. Other actors supporting the sector include CIDA, KfW, Danida, Ford Foundation, and the Egyptian Swiss Development Fund. MicroStart Egypt, a small microfinance sector support project, will be implemented by UNDP and SFD.

The SFD, a quasi-governmental agency, was created to mitigate the negative effects of the IMF and World Bank supported Economic Reform and Structural Adjustment Program (ERSAP) in Egypt. SFD has two programs that provide small and microloans through partner banks and NGOs respectively, with financing from the Egyptian government, the EU, IDA, Arab Fund, Kuwait Fund, KfW and UNDP.

USAID developed a microfinance model through several businessmen associations registered as NGOs with off-site technical assistance from Environmental Quality International (EQI), the local partner of the National Cooperative Business Association. The Alexandria Business Association was the first to disburse loans in 1990, and the program has been replicated in five additional associations covering their respective governorates and, in some cases, neighboring governorates. A program with the National Bank for Development (NBD) was started in 1991 and in 2000 USAID and its contractors began providing technical assistance to the public sector Banque du Caire (BdC). In both cases, the bank units handling microfinance had entirely different procedures than other bank units.

Generally, banking sector not serving the microloan market

Egypt has more than 60 banks with a network of approximately 2,000 branches although they do not meet the vast needs of micro entrepreneurs. The latter figure includes about 1,200 branches of the Principal Bank for Development and Agricultural Credit (PBDAC) that provides micro and small loans focused on agriculture and rural needs, among others, through village banks all over Egypt. Otherwise, Egyptian banks do not typically offer loans below 25,000 EGP. Banks that do offer loans less than 25,000 EGP include the USAID initiated program with the Banque du Caire, NBD, and the SFD partners. With liberalization of the financial sector as part of the ERSAP, the Central Bank of Egypt (CBE) no longer sets a ceiling on the interest rates a bank may charge its borrowers, leaving an opportunity for banks to consider serving this market segment in the future.

Legal and Regulatory Environment for Microfinance

NGO microfinance unregulated, limited MFI financing opportunities

Most microfinance service providers are NGOs that operate in a legal framework not adapted to microfinance. The NGOs are not permitted to collect savings, have difficulty accessing bank funding without excessive collateral given their legal status, and have governance structures not well suited to microfinance given the prescribed roles of Board members. The Ministry of Social Affairs supervises NGOs but does not have special regulations or norms with regards to microfinance. It may inspect the NGOs periodically and, if deemed necessary, replace the Board of Directors.

Bank operators not subject to interest rate caps with a couple of exceptions

For those microfinance providers operating as banks, the bank is subject to the rules and regulations of the CBE. Although there are no CBE-imposed interest rate caps, there are two major microfinance programs subject to special regulations. The PBDAC is occasionally subject to interest rate reductions by sovereign decrees and SFD loans channelled through banks are subject to similar sovereign decrees and have lower interest rates than non-SFD bank loans. PBDAC and SFD are also subject to occasional decrees that affect their collection policies through debt forgiveness and/or debt rescheduling.

Vast market with unmet demand

The Microfinance Market

Egypt has the largest potential market for microentrepreneurs in the Arab world with an estimated 1.5 million non-agricultural private businesses.¹ The current providers serve only a small fraction of the effective demand for such services. Microloans are typically characterized as being under 10,000 EGP or for businesses with fewer than five employees. In a recent survey of MFIs, excluding the SFD and other local actors who did not report their data, it was estimated a total of 140,000 clients at the end of 2002, over 200,000 by the end of 2003, with an expectation to more than double in the next five years. Female borrowers constituted about a third of these clients being served. Data on the programs supported by USAID are presented below, as they account for a significant amount of the microfinance loans provided outside of the SFD.

USAID supported microloan programs in Egypt <i>(as of September 2003)</i>			
Institution	Total active borrowers	% of clients in group loans	Outstanding portfolio (USD)
ABA	43,532	35%	8,714,762
ESED	31,267	32%	7,333,575
SEDAP	3,980	40%	904,892
ASBA	35,452	54%	8,191,254
SBACD	12,470	22%	2,514,476
DBACD	16,322	28%	3,411,479
Banque du Caire	38,757	0%	11,754,791
Other institutions	3,928	0%	1,035,344
Total	185,708	29%	43,860,573

¹ Central Agency for Public Mobilization and Statistics, Census of Establishments, 1996. Some recent studies estimate the number at over 2 million.

Institutional Presentation

Mission The Assiut Businessmen Association takes great pride in its social projects in addition to the microfinance programs that are the most significant activities with over 1,000 employees and a very large balance sheet. The geographic goal is to serve all regions of Egypt that are not already served by others. Projects are currently being serviced in the Assiut, New Valley, El Minia, El Gayioum, Sohag, Kena, and Aswan governorates.

Legal form and supervision ASBA was registered in 1995 as a Non Governmental Organization (NGO) under the Ministry of Social Affairs. The Ministry may at any time inspect the NGO and in the event of unsatisfactory results, the Ministry has the authority to change the Board and management. This has happened in 2004 to another Association in Cairo. The Ministry covers NGOs generally and does not have microfinance-specific knowledge to supervise the quality of these activities.

The governance structure of the Businessmen's Associations, based on local NGO law, is not adapted to lending activities. The NGO law requires Boards to play a very active role in management, including the signature of all checks and hiring approvals, although certain duties may be delegated to an Executive Committee that includes Board members. The nature of these Associations requires strong relationships with the leaders of the local governorates which could prove challenging to the Association, such as requests to assign Board members or recommend staff for hiring.

Ownership The MFI is currently owned by its General Assembly, composed of 71 members. Theoretically, members of the Board of Directors have a six-years mandate with one-third up for re-election every two years. The current Board of Directors is presided by Dr. Gamal Abdel-Motaal since 1996. He was asked to replace the first Chairman as USAID had concerns about the initial Chairman during the first year of operations. Currently, the Board is composed of 15 members, half of whom are professors and the remainder businessmen or consultants. Four of these members have been with the Board at least five years while eight members have joined the Board in October 2003.

The Board has no legal claims to income of the Association. In the event of liquidation by the government, the funds will become government property and may or may not be allocated to support other NGOs.

Products and Services Apart from the Medical Project described below, ASBA provides microcredit through two loan product types, the individual loan for small and micro enterprises (SME) started in 1996 and the group (Bashayer) loan started in late 1999. Both were designed initially by EQI, the technical service provider contracted by USAID. There have been no significant changes to the product terms since the respective programs started.

Loan Product Features	Individual Loan (SME)	Group Loan (Bashayer)
Minimum / Maximum loan amount	Min. 1,000 EGP / 161 USD Max. 20,000 EGP / 3,223 USD	Min. 50 EGP / 8 USD Max. 1,000 EGP / 161 USD
% of total outstanding portfolio	96% Dec. 2001 89% March 2004	4% Dec. 2001 11% March 2004
% of active clients	58% Dec. 2001 36% March 2004	42% Dec. 2001 64% March 2004
Nominal interest rate	16% flat	26% flat
Fees	Late fee = (# days late – 12)*(bank overdraft daily rate)*110%; Note that late fees are not always applied	None
Repayment frequency	Monthly	Weekly
Term (without grace period)	Min. 4 months Max. 18 months	Min. 10 weeks Max. 40 weeks
Grace period	None	None
Guarantees	Collateral checks and a guarantor	Group solidarity and collateral checks
Effective interest rate	28%	46%

Medical Lending Project

This program provides loans to medical doctors or pharmacists for the purchase of fixed assets. These loans are financed by bank overdrafts guaranteed by the CGC. In Dec. 2003, the Medical Program had a staff of approximately 50 persons, five of whom overlap with the SME program, notably the Program Director (SME Operations Manager) and the Finance Manager (SME Finance Manager). The program has been operating at a loss. Planet Rating was not provided with sufficient information on this program. **This program is not considered under the present rating and performance of this product is not taken into account in the quantitative analysis. It appears that risks related to unpaid loans not provisioned for are borne by the CGC. The responsibility for coverage of accumulated operating losses is not clear.**

Other Projects

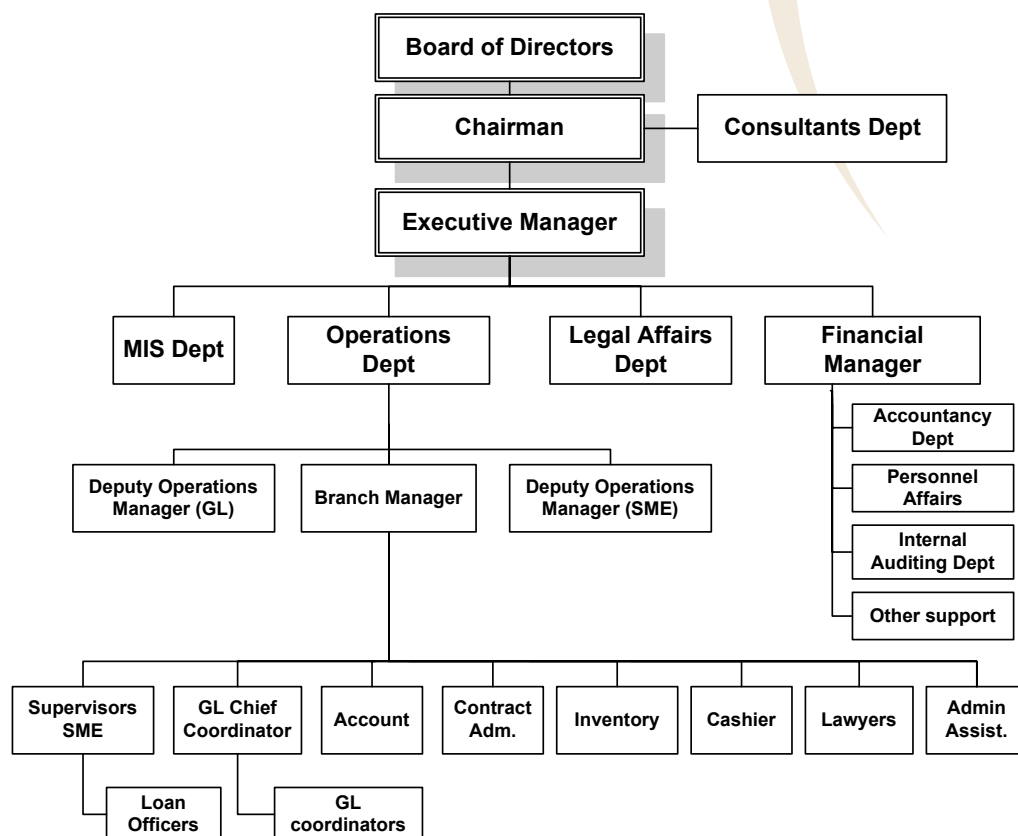
ASBA has a panoply of other social services and community development projects in several governorates around Egypt. These projects include poultry raising, land reclamation, assistance to the handicapped, agricultural projects and female empowerment as a partial list. The number of staff members, the total assets, and the annual deficit for all of these other programs were not available.

Human resources and branches

ASBA now serves two governorates with the SME product and four with the group loan product through a network of nine SME branches and 20 group lending branches. The branches, in some cases serving both SME and group loans from the same office, have a full staff and manage data entry for loan repayments. Client information and all accounting information are centralized at headquarters (HQ), where all loan applications are signed by the Operations Department and the Executive Director.



Human resources	Dec. 2001	Dec. 2002	Dec. 2003	March 2004
Number of personnel	363	474	829	974
% Loan officers	63.1%	63.7%	69.7%	n/a
Turnover (exits/ period average number of personnel)	7.3%	11.5%	14.6%	4.5%



External audits A local firm has been the MFI’s external auditor since inception in 1995 and has certified the accounts without reserve. The auditor currently prepares four sets of non-consolidated financial statements: the SME program, the Group lending program, the Medical program, and ASBA for all remaining programs. The auditor reports spending approximately four non-consecutive person months during the year on the various financial statements. Only the SME/Group programs have special accounting software. The auditor may check one or two clients per month and pull all the associated files as verification. In addition, USAID has sent auditors to ASBA on several occasions to verify use of funds, including Coopers & Lybrand and Grant Thornton – Mohamed Hilal. In both cases the external auditors confirmed the appropriate use of funds per the USAID grant agreement.

Information completeness The Rating Committee did not assign a rating for the E area of the evaluation nor the overall rating. The information available to Planet Rating regarding the programs other than SME/Group lending was insufficient to ensure a full understanding of the financial obligations of ASBA therefore the analysis of the financial performance could not be completed.

Governance and Decision Making

Decision-making

Decision-making highly centralized with Board Chairman

Decision-making process

As described in the Institutional Presentation, the governance of the Businessmen's Associations is not adapted to microfinance activities and subject to political risk. Although ASBA has a Board structure with an Executive Committee and a separate management team for the microfinance activities, in practice the Board Chairman has a determinant role in decision-making, being granted authority to do so in many cases by the Executive Committee and the Board. In practice the Chairman serves as both a Manager and a Board member given the considerable amount of time he dedicates to operations. Other Board members may at times try to moderate the Chairman's enthusiasm for expansion. This approach to decision-making limits the role of the management team in the decision-making process and has created a culture of deference to the Chairman's authority among Board members and staff. The decision-making process results in a "project" oriented rather than "institutional" approach to microfinance activities.

Board members, mainly professors, oversee the SME/Poverty program and are involved in other ASBA projects

Board composition has been changing in favor of university professors, with some professors having prior business experience. Current members of the Board were either elected or appointed by local governors. The Board meets regularly in compliance with legal requirements to meet once per quarter, and often meets closer to once per month. The Executive Committee² will meet in the interim, notably for monthly meetings regarding the allocation of disbursement dollars among branches, to confirm branch openings, etc. The Board has a range of ASBA activities to monitor. Many members have not received any specific training in microfinance. Several Board members are also engaged in operations, as they are paid as consultants for other ASBA projects.

Monthly quantitative information; no narrative analyses

Management information

Monthly financial statements are provided to the Executive Committee of the Board. This information provides a basic picture of ASBA's ability to cover costs for the SME and group lending programs. It is not clear that the information on the other programs provided to the Board gives an accurate picture of the mechanism by which income generating projects at ASBA finance non-income generating projects. The management information is in the form of quantitative data. There are no narrative analyses of these results.

Planning

Lack of planning process problematic given ASBA's context

Relevance of the current strategy

ASBA does not engage in a clear planning process, which is problematic given the current strategy of massive group lending expansion in several local governorates, chronic funding shortages, and a lack of stable operating self-sufficiency. There are no documents or figures to quantify the strategy, but the general goal is to expand the group lending product, and when possible, shift available funds from the SME program to the more profitable group lending product. Given ASBA's vocation of serving all of Egypt not yet served by other providers, the Association will consider group lending branch openings based on relationships with local

² The Executive Committee includes the Chairman, Treasurer, Secretary, two other Board members, and the Finance Manager.

politicians. The lack of a formal planning process also prevents valuable information and innovative ideas generated in the field, suggested by staff during the rating mission, from reaching management.

Budgeting Process

Budgeting based on Cooperative Agreement; no additional budgets

Aside from compliance with the USAID Cooperative Agreement, ASBA has no separate budgeting process or performance targets. Rather, performance is monitored each month to ascertain any major problems. In the event that a branch is having trouble covering costs in a given month, some expenses may be delayed until a later month. Under the Medical Program administered by ASBA, the finance manager does prepare budgets and must follow closely the results as compared to the initial budget but has not been required to do so for the SME/group lending programs.

Management Team

Skills and experience of management team

The core management team includes the Chairman, in practice if not in theory, the Executive Director, Finance Director, and Operations Manager supported by a Lawyer, an MIS Manager and Deputy Operations Managers. Most of these managers have been with ASBA since founding and have been promoted to their current positions.

Management implemented “ready-made” operations

Upon participation in the USAID Cooperative Agreement, ASBA was provided with a “ready-made kit” including product definition, core manuals, a basic organizational structure, control systems, etc. ASBA management therefore was not required to innovate and create the systems although has made some minor adaptations. The implementation has resulted in satisfactory basic field operations thus far.

To truly fulfill management role, managers need technical upgrades and changes in decision-making procedures

The centralization of decision-making and lack of formal planning processes renders it impossible to fulfill the role of true managers. Staff would also benefit from upgrades in technical skills that would allow them to go beyond field operations and think more strategically about their respective roles with planning, risk identification, product development, and internal control and audit. The Executive Director has benefited from microfinance trainings at Boulder and the University of Hawaii and the Operations Manager from the University of Hawaii. At present there is no budget or plan for such technical upgrades. In addition, management would need to be accorded the opportunity to actually implement such knowledge.

Organization of the management team

Management team needs more time for strategic tasks

The management team members do not have overlapping responsibilities but are busy with day-to-day tasks and do not have time for the more strategic aspects of their jobs. In addition, two of the three key managers are also responsible for another microfinance project, the Medical Lending Project, which reduces their time available to manage the SME/group lending products, as they do not all have sufficient time to manage both programs optimally.

Human Resource Management

Organization of human resource management

Administrative oriented personnel management with large staff

ASBA’s human resource staff is focused exclusively on the administrative aspects of human resource policy. The team of eight at headquarters and 25 in the branches is managed by the HR manager who has been with ASBA since 1996. The team monitors timecards and vacations, calculates various benefits and social charges with reporting to governmental agencies, and at headquarters assists with recruitment. Many of the time-consuming aspects of HR administration are related to a lack of automation of timecards. For the headquarters, an automated system is under development.

Skills management and performance evaluation

Massive recruitment a challenge to manage professionally Given ASBA's massive expansion, the number of personnel is a challenge to manage in a fully professional manner, as the quantity of staff hires has taken priority over the investment in staff quality. Since December 2002, ASBA has doubled its staff from 474 to almost 1000 employees.

Recruitment ongoing; hiring policies could be further clarified ASBA has an ongoing recruitment process with expansion but would benefit from greater clarity with respect to certain hiring policies. Recruitment is performed in the community where the staff member will work and is based on the urgency of the hiring request. Grouped recruitments occur upon a branch opening. Candidates obtained, typically via newspaper ad, are interviewed by a committee relevant to the hire, which may require headquarters staff to visit the relevant branch. The Chairman of the Board provides the official decree for all hires. There are no rules prohibiting hiring of members of the same family and it is not uncommon in Egypt for staff hires to be performed in part based on personal connections.

Staff receive bonuses and incentives, although some staff frustrated with system ASBA does provide incentive pay to both field staff and support staff, but the system does not sufficiently motivate field staff. In addition to base salary pay, staff is eligible for incentive pay and bonuses. Annual evaluations for government purposes are not used as a tool to encourage strong performance. Incentive pay is standard for employees and bonuses are assigned based on performance on a specific project.³ The incentive policy requires a high level of repayment rate, 97%, for SME loan officers in order to access the bonus. Staff expressed some frustrations with the bonus system, notably the incentive pay for loan officers when new disbursements are limited by lack of funds. Additionally, ASBA has punitive policies for tardiness or LO underperformance if there is a need to apply them.

Staff turnover increasing over time due to group loan coordinators Staff turnover has been increasing over time with expansion and notably due to group loan coordinators, which account for the vast majority of staff exits in 2003. Like other local programs, ASBA has a difficult time retaining female group loan coordinators given their additional family obligations and the challenges of fieldwork. SME loan officers rarely leave, and ASBA estimates that less than 5% leave during the probation period. Of group lending staff, a significant number leave during the probation period.

Formal training plan and needs assessment not in place Field staff receives the basic skills to perform their duties through trainings but management training needs to be strengthened. Staff training has been largely provided by EQI for both the SME and Group loan program as well as local universities, although there is no formal training plan or assessment of needs. Two managers have received trainings abroad. Middle managers have received several trainings to develop their skills but need additional training support. In addition to trainings, ASBA offers staff an opportunity to participate in a life insurance policy and the opportunity to take an internal loan.

³ The HR officer, based on input from the relevant parties, will submit the bonus evaluation form to the Board Chairman.

Information Management Systems

Management Information System (MIS) and Equipment

Description of the MIS

Infrastructure	<ul style="list-style-type: none">• The HQ and branches are linked via telecommunications connections for the loan tracking system that allows for input and consultation based on predetermined access rights.• ASBA needs additional computers to meet user demand, and currently has approximately 50 computers total with only one or two in each branch office, and ten of which act as servers to store databases.
Accounting	<ul style="list-style-type: none">• Software: AccountMate in FoxPro (in place since 1995 and request submitted to upgrade to another accounting software), excel spreadsheets, paper books.• Branch accountants only enter cash and loan related transactions in the software, all expenses are processed at HQ.• Data for all branches are all directly entered in the same file but in branch-specific accounts.• Accountants reconcile data with banks statements on a monthly basis.• Internal financial statements are generated every month, two weeks later, and include calculations for depreciation and loan loss provision expenses
Activity information	<ul style="list-style-type: none">• Software: El Mohassil (developed by EQI)• The HQ MIS officer inputs client information and disbursement data.• Repayment information is recorded in the branches by the branch accountant.• Data is reconciled at the end of the month with bank statements• Up-to-date information is available every day (with a couple of days delay possible for repayment data) and monthly summary reports are available.

Security

Adequate security system with passwords, regular back-up and secure document storage

ASBA has an adequate security system. Passwords are needed to enter computers and key databases (even if no minimum number of digits has been set, minimizing the effectiveness of the password protection). These passwords determine the access-rights of each individual in the organization to allow data entry and data consultation as appropriate. Regular backups of all data are made at headquarters every three days and monthly and then stored in a fireproof safe. Internet access is limited to certain key managers and Symantec anti-virus software is used to limit viruses. Valuable documents such as the guarantee are kept in fireproof safes while loan documents are typically stored in locked spaces but given their numbers not in fireproof spaces.

Ease of system use

Efficient MIS structure; excessive controls and need for manual accounting consolidation detract from system

The computer stock and software allows for a clear flow of information that is easy for users at HQ and in the branches and allows quality financial and portfolio information. The infrastructure that links the branches to headquarters ensures that all branch and headquarter staff may consult the system via available computers and therefore have access to up-to-date information. A shut down of the lines may occur two or three times per month, so the branch

accountant merely stops temporarily his data input until this is resolved. The loan tracking software facilitates an efficient loan handling processes and provides rich information for branch managers and loan officers. The accounting software provides all needed information but does not consolidate information across branches therefore staff must do this in Excel.

This well conceived information flow is rendered less efficient by ASBA procedures and local law. The production and validation process for loan disbursement is signature-intensive. SME loan application information is checked by at least nine individuals before a loan can be issued. In addition to the accounting software, ASBA also keeps manual accounting for supervisory bodies.

MIS plan and future improvements

Annual plan developed for hardware needs with ad hoc requests

The MIS Manager will prepare a list of needed materials for the year but will make additional requests as needed. It is expected that the request for updated accounting software will be approved. Improvements are regularly added to the software by EQI, the provider, based on its own observations or requests from clients.

Skills of MIS managers

MIS manager with appropriate skills to manage network and hardware

The MIS manager has the requisite skills to oversee the current MIS needs of ASBA, which include maintenance of the computer base and network and oversight of a 10-person data entry team at headquarters. If the contract with the software provider were ever terminated, the MIS manager would need further training on specific software development techniques.

Information on Activities

Information quality

Rich and reliable information but only partially used

Given a useful loan tracking system and common database across the network of offices, ASBA has regular, rich and reliable portfolio and client information. There are numerous useful reports or indicators calculations are already developed in the MIS, and ASBA Branch and operations managers look at a handful of indicators in their own analysis. Client business data is not currently tracked or analyzed systematically. Market information gathered for new branch openings includes basic demographic data obtained by local authorities.

Easily accessible information

Information dissemination

Information may be accessed by all those who need it according to pre-specified access rights.

Financial and Accounting Information

Information quality and financial analysis

Comprehensive financial information but with caveats

ASBA has monthly accounting information by branch, by product and consolidated with frequent bank reconciliations. Full financial statements are produced every month by branch and consolidated. It should be noted that the internal financial statements are not 100% accurate given bugs in the Excel spreadsheet used. ASBA has a stated goal of supporting the non-income generating service projects with revenues from the income-generating projects. However, the accounting practices for this are not clear as they are recorded as “borrowings” from the SME/group programs to other ASBA programs as an item in accounts receivable instead of an expense or transfer from retained earnings. Therefore, the financial statements give a more optimistic picture of the financial health of the SME/group lending programs.

Although several ratios calculated, no financial analysis used to improve efficiency or performance

ASBA also fills out monthly basis internal spreadsheets developed by the technical service provider that calculate several profitability ratios by branch and consolidated, and includes an allocation of HQ costs proportional to each branch revenues. ASBA management does not use nor analyze this information to improve the financial performance in the future. Branch Managers are not accountable for the profitability of their branch. Given the lack of formal planning process, it is difficult for management to develop concrete steps to improve financial performance.

Financial analysis and business planning skills are not yet developed

Skills of finance department

The Finance department includes a Finance Manager, Senior Accountant, nine other HQ accountants, and 20 branch accountants. They manage the accounting work but would benefit from further training on financial analysis and business planning, as neither of these is currently performed for the SME/group lending program. It should be noted that projections are performed for the CGC sponsored Medical Project as required. Additionally, the Finance Department is not sufficiently independent of the Chairman and transfers may be executed between programs by order of the Chairman with the Treasurer's co-signature.

Risk Management

Procedures and Internal Controls

Internal Controls

Adequate internal controls for basic operations but important risks at the top of the internal control chain

ASBA has an adequate internal control system for basic operations but the lack of controls at the top of the chain put the entire internal control system at risk. These insufficient higher-level controls are due to weak internal audit, centralization of decision-making with the Board Chairman, the lack of planning documents and budgets, and no rotation of the external auditor. It should be noted that no major fraud was reported to the Rating Team or documented in an external audit on use of funds as commissioned by USAID. These risks are partially mitigated by the availability of regular financial information on the SME/group lending program, albeit not 100% accurate, and the USAID Cooperative agreement, which includes performance reporting to USAID and the program administrator's EQI.

Manuals cover basic operations, but not all procedures

ASBA has basic manuals for credit operation but other procedures are less well documented, either in the Internal Rules book or not at all. The appropriate credit manuals for the SME/group lending programs, developed by the USAID technical service provider, have not been updated in written form, although positive procedural updates were introduced to improve internal control.⁴ Staff is aware of these procedural changes but the lack of documentation reduces the potential for implementation and standardization across branches.

Clear separation of tasks for key duties

The clear separation of tasks for selecting, approving, cash collection, and cash recording greatly limits basic employee fraud, even with internalized cash handling.⁵ The separation of duties for collection of delinquent loans is perhaps a minor exception, as a lawyer was discovered to have collected delinquent loan payments but he did not report this to ASBA. The process for SME loan approval could be streamlined and decentralized as not all the verifications add value. The loan approval process requires HQ in all cases regardless of the loan amount.

Wealth of data helps identify under-performance, strategies to address this if identified unclear

Given the availability of detailed financial and portfolio data, ASBA could easily identify problems and under-performance, although there are no formal targets established to define good and bad performance. Monthly financial reviews by branch identify if there are any financial issues to address. The remuneration system for loan officers includes key portfolio indicators to encourage performance, but due to the irregularity of disbursements in the SME, the incentive scheme loses some of its efficiency. Other than penalties for late arrival to work, aggressive behavior, or fraud, there are no clear systems in place to address under-performance if identified.

Liquidity security

Internalized cash handling covered by insurance

ASBA has internalized all cash handling but has put in place numerous measures to effectively limit cash risk. Cash handling was internalized in January 2000 because partner banks began charging commission fees to store the guarantee checks that are returned to the client upon repayment. ASBA has its own system of money collectors in the villages for group loans and

⁴ Such changes include a maximum increase of 50% on a SME renewal loan, the requirement of a guarantor with separate income, and relating the loan amount and term to the nature of the business.

⁵ At disbursement meetings for the poverty loan, the contract manager, collector, lawyer, coordinator, and supervisors are present.

cashiers in branches for SME loans. ASBA has insurance to cover cash handling (employee theft), cash transport, and fire up to 100,000 EGP. Money collectors are insured for 30,000 to 50,000 EGP. Cash is transported to the bank on daily basis with appropriate forms and signatures and there are security guards. ASBA reports never to have been the victim of theft or hold-ups.

Internal Audit

Risk identification

No process for risk identification; field staff identify risks but this does not reach the Board

ASBA does not have a clear approach to risk identification nor formal responsibilities assigned to explore such risks. The internal audit department is not charged with the task of risk identification. Management and field staff indicated risks not identified or sufficiently recognized by the Board. Those risks include the lack of funding (the top risk identified) which leads to irregular disbursements and image problems, the risks related to continued expansion, reduced staff motivation, the risk of the general economic situation, and stagnating growth of the SME. Staff does not feel comfortable discussing risks related to governance. The risk identification comes from the experienced middle managers and managers who unfortunately have difficulties in making their findings and feedbacks reach the decision makers given the lack of formal process to discuss such issues.

Internal audit quality

Small internal audit with limited role insufficient for ASBA's large branch network

ASBA has a small internal audit department of five employees, soon six, with a very limited scope of work per the manual. The department is not sufficient to serve an institution of 1,000 employees and over 40,000 clients in a vast regional network that covers hundreds of kilometers. On the accounting level, the audit employees review the calculations of the salaries, the incentives, the purchases, tax payments and after a visit once per year to the branch, year-end inventory and fixed assets. Auditors may make four or five surprise visits during the year to different branches in addition to the year-end visits to check inventory or cash counts. On the operational level, they check all documents in the disbursement process, centralized at headquarters, before a loan check is issued. Other than cash count reports, there are no reports written on findings by auditors. In addition to the internal audit department, ASBA reports that the accountants in the branches perform checks on inventory, human resources, etc. and that the Chairman may assign a "Follow-up Committee" on an ad hoc basis to review branch performance, although there are no formal documents produced by any such audits.

Activities: products and services

Marketing and competition

Competition not a major threat given large market size Until now, ASBA has operated in a relatively easy market since there have been no major competitors and a large population of potential clients. ASBA has begun to experience increasing competition on the SME product from the Banque de Caire office in the city of Assiut, which has virtually the same product, but the potential market is still large in the Assiut governorate. Banque du Caire's key advantages with regards to ASBA are the constant availability of funds and the very quick disbursement process. Apart from an occasional NGO program, there is virtually no competition for the group lending product and ASBA is careful to expand this product only in locations that do not have major competitors.

Marketing easier for group lending under expansion phase, lack of funding limits SME marketing ASBA is also considering potential expansion of SME in the other governorates as new group lending branches are created. Marketing for the new group lending branches comes from loan coordinators hired directly in the villages and more globally from local politicians who must provide their support of the program before ASBA will establish branches. The other ASBA programs may also serve as a means of marketing the name of the Association to the community. The marketing of the SME product is increasingly difficult given the limited loan capital allocated to the product. In addition, ASBA participates in a medical lending program sponsored by the CGC to lend to physicians.

Portfolio Management

Appropriate lending methodology but portfolio quality a major problem in 2002

Lending methodology

ASBA's strong lending methodologies and comprehensive MIS facilitate appropriate portfolio management, albeit with improvements possible in efficiency and the quality of financial analysis for the SME product. This clear methodology does not, however, prevent portfolio quality problems, such as the high level of delinquency in 2002 (See next section).

- ❑ ASBA was provided with an appropriate loan methodologies for both SME and group lending that are adapted to their target clientele and range of loan amount. They are designed to limit the credit risks and help develop a reimbursement culture among clients with appropriate, even if not very sophisticated, evaluation of loan application, limits in loan amounts according to maturity of client or of business, effective guarantees and regular follow up.
- ❑ Client selection is based on reputation checks and informal business analysis and repayment capacity estimation done individually by loan officers since the SME loan application procedures do not include sufficient analysis of client repayment capacity to reduce the risk of over indebtedness. The process of business analysis has not yet been formalized. Follow up visits occur after disbursement to examine how the client used the loan. A client's repayment history, easily obtainable from the MIS, is a key consideration for loan renewals.
- ❑ The policies and procedures are well implemented in the field, such as client visits, repayments, visits to guarantors three days after the repayment is due, even if these are not all updated in the manuals.
- ❑ The delinquency management process starts the first day after the repayment is due, on the third day the guarantor becomes involved and after 30 days the loan goes to the legal department if the operations department considers it as a bad loan. Loan officers and branch

managers assess informally and on an individual basis the reasons that led to the repayment problems, such as over indebtedness or household problems, and try to avoid them in future loans. However these assessments are not formalized or documented to help teach other field staff.

- The incentive system was intended to play a role in supporting this portfolio management, but due to the limits on loan capital in SME, the incentive scheme is not implemented as anticipated and contributes toward reducing staff motivation and productivity.

Loan Officers skills

Dedicated loan officers by product have adequate skills

Loan Officers are dedicated either to SME or group lending and receive an initial training provided by the USAID technical service provider to provide an adequate skill base. In addition to this skill set, loan officers and branch managers have developed good relations with their clients. The limited opportunities for training for more experienced LO do not promote further development of LO skills who should grow to middle management. Moreover, the funding constraints limit SME productivity, as LOs will not pursue aggressively new clients despite the market potential given the disbursement limits.

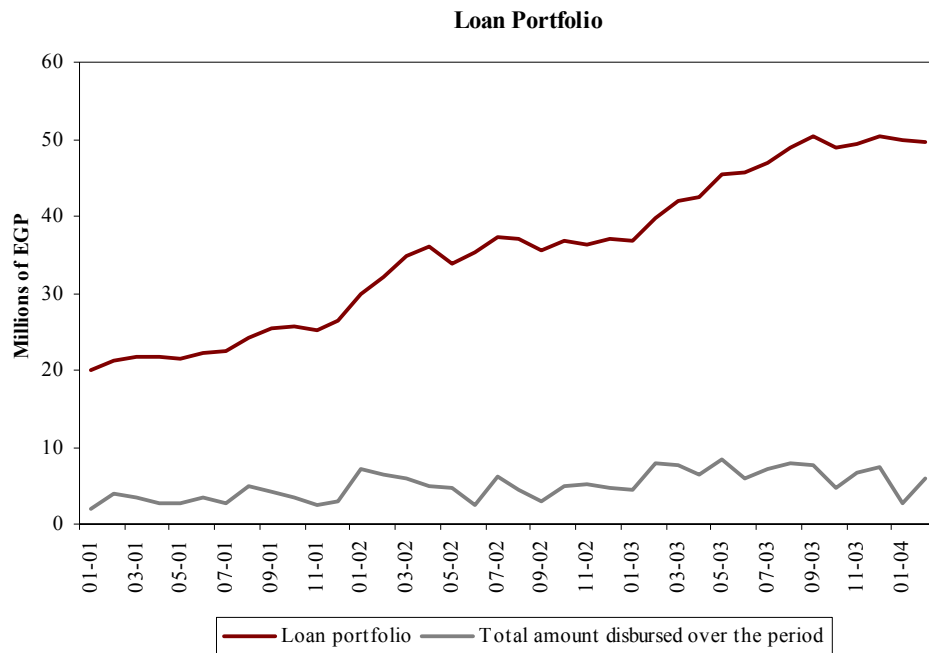
Portfolio diversification policies

No formal portfolio diversification policies, some field staff has informal goals

There are no institution-wide rules governing portfolio composition by product, region, trade, etc., to limit risks. However, the MIS may produce statistics on the portfolio by product, region, and business type. There is an increasing preference by the Board for investment in the group lending product for profitability and public relations concerns. Operations are in several governorates, diversifying geographic risk mainly for the group product. Branch managers informally monitor portfolio diversification for type of business and average loan size to identify potential risks.

Portfolio at risk (PAR)

Write-off ratio



Portfolio growth constrained since 2002 due to lack of funds

ASBA's portfolio growth has been constrained by lack of funding. In 2003, the 34% increase in the loan portfolio in EGP is almost entirely attributable to the devaluation of the EGP. The devaluation increased overdraft facilities in EGP for USD deposits by approximately 30% to

35%. In the first quarter 2004, the SME portfolio actually declined by 1.8% (800,000 EGP), while the group loan portfolio grew by over 13.4% (650,000 EGP). Given donor and ASBA Board priorities, it is expected that the portfolio growth will continue to be a higher rate for the group lending product as the massive expansion for this product continues. The seasonality typical of other Egyptian MFIs, dips mid-year to reach a high just before the end-of-year holidays, is less pronounced at ASBA that displays a greater volatility in disbursements during the year.

PORTFOLIO

USD, unless otherwise stated	Dec. 2001	Dec. 2002	Dec. 2003
Loan portfolio	5,722,838	8,067,601	8,133,609
Loan portfolio (EGP)	26,325,053	37,514,344	50,290,916
Evolution	31.3%	42.5%	34.1%
Average outstanding portfolio	4,982,236	7,419,281	7,262,876
Number of active borrowers	14,818	26,440	40,220
Evolution	44.1%	78.4%	52.1%
Average outstanding loan per client	386	305	202
% of GDP per capita	34.2%	26.2%	22.0%
Average amount disbursed	364	208 ^(a)	188
% of GDP per capita	32.2%	17.8% ^(a)	20.4%
PAR31	1.6%	12.1%	6.8%
Rescheduled loans	0.2%	1.8%	2.1%
Write-off ratio	0.0%	0.0%	0.0%

(a) ASBA reported total loans disbursed in 2002 of 53,498 with 26,200 for the group loans and the remainder of 27,298 from the SME loans. This number of disbursed SME loans does not follow trends and results in an average disbursed loan size in 2002 for the SME program that is half of that in 2001 and 2003. We were not able to clarify this discrepancy.

Performance by product (in EGP)	Dec. 2001	Dec. 2002	Dec. 2003	March 2004
SME				
Loan portfolio	25,373,627	34,139,956	45,422,658	44,621,783
% change	26.5%	34.5%	33.0%	(1.8%)
PAR31 (excluding rescheduled loans)	1.7%	13.1%	7.3%	7.2%
Rescheduled loans	0.2%	2.0%	2.3%	2.5%
Number of active borrowers	8,563	12,990	16,400	16,537
Average disbursed loan size ^(a)	3,946	1,598 ^(a)	4,126	--
Average disbursed loan as a % of GNP per capita ^(a)	76.0%	29.5% ^(a)	72.5%	--
Bashayer				
Loan portfolio	955,658	2,788,766	4,868,258	5,520,715
% change	Start-up	191.8%	74.6%	13.4%
PAR31	0%	0%	0%	0%
Number of active borrowers	6,255	13,450	23,820	29,250
Average disbursed loan size	211	305	316	--
Average disbursed loan as a % of GNP per capita	4.1%	5.6%	5.6%	--

(a) See note in above table regarding the reported number of loans disbursed.

Differences by product notably related to loan size

The overall portfolio statistics are a composite of performance on two very different products. The individual loans account for 89% of the portfolio and the group loans for 11%, therefore overall portfolio size indicators are weighted heavily by the individual loan performance, however client based statistics are increasingly impacted by the group loan product, which accounts now for almost two thirds of the client total. For example, in 2003 the disbursed loan

size is actually lower than the average outstanding loan size given the massive increase in the number of shorter-term group loans disbursed at initial loan sizes less than 10% of the SME loans.

Portfolio at risk only in SME loans; portfolio crisis in 2002

The portfolio quality indicators for the global portfolio are actually all from the SME program as remarkably there are no month-end late payments in the group loan program. The year 2002 was a difficult period for ASBA, as the portfolio quality went from a healthy 1.6% PAR31 in 2001 to a very poor 12.1%. ASBA attributes these portfolio problems to the larger loans issued from HQ, those exceeding 20,000 EGP, and indicated that they had stopped offering these loans given these problems. In 2003, ASBA was able to get that ratio back down to 6.8%. Rescheduling does occur but the MIS Manager is the only party to enter any rescheduled loans in the system, and this is must be approved by the Branch Manager, the Operations Manager, and the Executive Director. In March 2003, 88 loans were rescheduled for a total of 2.46% of the SME loan portfolio.

Write-offs not common in Egypt, policy of declaring loans "in suspense" an alternative to write-offs

ASBA has not approved any loan write-offs, except for an EQI mandated write-off in 1999, which explains the 0% write-off ratio over the past several years. In Egypt the Businessmen's Association Boards do not believe in write-offs and are therefore highly unlikely to approve them. As an alternative, ASBA may classify the loans "in suspense" 30 days after the term date of the loan, as we understand it, but they have been provisioned at 100% and remain in the portfolio.

Credit risk coverage

Coverage by provisions

ASBA has a sufficient provisioning policy, due in large part to the 100% provision of these loans over 120 days late that remain in the portfolio but are not written off.

Risk coverage	Dec. 2001	Dec. 2002	Dec. 2003
Risk coverage ratio	316.9%	111.6%	127.1%
PAR 31 net of loan loss provision / Equity	Reserves cover PAR 31 more than 100%		

Coverage by guarantees

Guarantee checks effective incentive for client repayment

Guarantee checks constitute an effective incentive for clients to repay given that checks not honored can entail jail sentence or civil action eventually, although they are less strong a guarantee than a pledge of actual assets. This system of post-dated guarantee checks includes one for the total loan amount of principal and interest, as well as one check per installment that is returned to the client upon installment repayment. The checks do not compensate, however, for risks of over indebtedness resulting from insufficient analysis. ASBA chose to require a guarantor with a stable income apart from the same household to reduce the risk on the individual loan portfolio. The MIS system prevents the same person from receiving a loan and serving as a guarantor, however ASBA does not enter this information in the MIS therefore it is not possible to determine how many individuals are both loan takers and guarantors for other loan takers. In group lending, women borrowers are very much concerned about their reputation and are even more afraid of court action than individual loan clients.

Implementation of law to eliminate guarantee checks extended

Several Foundations in Egypt responded to the risk of the new government law that could be implemented in two years, as according to the new law, the guarantee checks will no longer be useable. The law has already been postponed three times and its implementation is expected in October 2006. After a consultation with EQI in 2000, some of the Foundations were able to

obtain a memo from the Central Bank that after the implementation of the law, these checks would still be upheld if they were stamped and registered officially. Trust receipts may be another possible alternative, as they are already in use at ABA since 2000.

*Innovative approach
to using guarantees
in legal proceedings*

ASBA's legal team takes an innovative approach to using the guarantees in court proceedings. The Manager of Legal Affairs works with a team of 22 lawyers, three of which at headquarters, who have as part of their responsibilities the court cases for delinquent loans. If the client has a good business but appears to not want to pay, the team will pursue civil court action. If it is deemed that the client truly does not have funds, the case will be referred to criminal court. Give that a check may only be used to file a claim at one address, the team may file claims using different checks for different addresses where the person or his family may be located to increase the chances of reaching him/her through multiple court cases. Cases take one to three months to be heard, and only a couple of days thereafter a judge should give a verdict, but the accused may use loopholes to delay the case for up to a year by claiming check forgery, and in the end only pay a fine of 50 EGP for having falsely claimed a forgery.

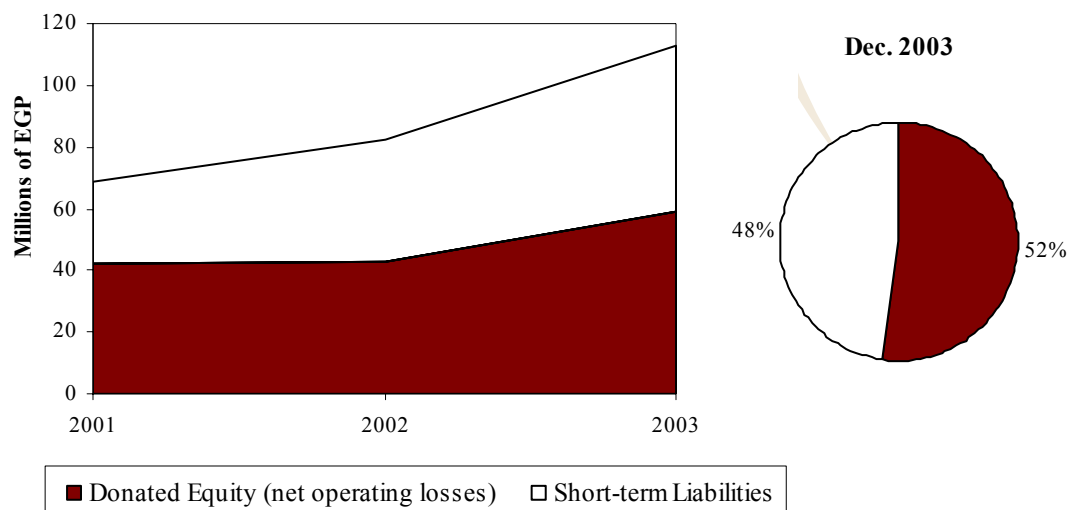
Savings Activities

ASBA is legally prohibited from collecting savings.

Financing and liquidity

Financing Strategy

Description of funding structure



Note: 2003 data based on an estimate by Planet Rating of the appreciation of the value in the short-term investments and donated equity in the form of USD resulting from the 2003 devaluation of the EGP as the internal financial statements from ASBA as shown in the appendices do not include such an adjustment.

Capital structure of USAID grants and the bank overdrafts backed by those grants

ASBA is funded exclusively by equity, in the form of USAID subsidies for operating expenses and collateral deposits to finance the portfolio, and bank overdraft facilities from two banks obtained using these collateral deposits. Between and 2001 and end 2003, donated equity has remained almost constant, apart from the estimated increase in value of between 30-35% due entirely to the devaluation of the EGP. The interest earnings on the collateral deposits per agreement must be capitalized in these deposits. Accumulated retained earnings are almost positive for the first time in 2003.

Asset size overstated with fixed deposits on balance sheet

The amount of equity and thus the amount of total assets is larger than it would ordinarily be given that USD deposits are part of the balance sheet rather than being off-balance sheet items. Without these deposits, the total assets for ASBA would be approximately 59 million EGP (instead of 113 million EGP) end of 2003 and the capital structure 0% retained earnings, 9% donations, and 91% bank overdrafts (instead of 0% retained earnings, 52% donations, and 48% bank overdrafts).

Asset & Liability Management based on overdraft use

Asset & Liability Management Procedures

ASBA does not have any formal ALM policies but per the Cooperative Agreement must finance the portfolio funded by USAID with the bank overdrafts. ASBA has negotiated its overdrafts with two banks, National Bank of Egypt and Bank of Alexandria, for terms comparable to or better than several other local Associations.

- **Interest rate level:** The interest rates on the overdrafts are 9% and 10% with interest earnings on the collateral deposits of 1%.

- ❑ **Overdraft leverage:** Leverage on USD backed overdrafts ranges from 100% to 110% of the fixed deposit amount. Another local Association has reached leverage on the deposits as high as 150%, however this Association had much higher profitability.
- ❑ **Exchange rate:** The exchange rate applied to USD collateral deposits is now closer to market rate at 6.18.
- ❑ **Excess overdraft capacity:** ASBA reported having reached capacity on its overdraft facilities for the last several years, with any additional injections being used up immediately to meet client demand.
- ❑ **Foreign exchange risk exposure:** In the event that the EGP appreciates with respect to the dollar, ASBA is at risk for having its overdraft limits lowered and there is no security margin to protect against such an event. All borrowings and loans to clients are denominated in EGP.
- ❑ **Maturity matching:** Daily overdrafts are used to finance the portfolio of loans ranging from a few months to up to 18 months, however it is unlikely that the banks would revoke these agreements given the collateral backing.
- ❑ **Interest rate type:** Although both borrowings and loans to clients are fixed rate, the bank may change the overdraft rates without prior approval in some cases.

Financing Strategy

No clear strategy to address funding shortages

ASBA has reached capacity on its funding sources for the SME program over the last several years and does not have a clear financing plan for the future. The lack of a clear plan is highly problematic given that ASBA has had funding shortages in the program for the several years and the devaluation in 2003, which increased the capacity on these overdrafts by 30-35%, has not solved the problem. ASBA has been able to increase capacity on these overdrafts from 95% up to 110% and believes it could achieve higher leverage on its collateral deposits but has yet to do so. The highest leverage provided by a local bank on the USD fixed deposits has been 150%. ASBA appears to have some potential sources of funding for the group loan product and is currently discussing a financing mechanism for the loan portfolio of seven new group lending branches. Retained earnings are not a source of funds for portfolio growth given that current performance just barely covers costs.

Liquidity Management

Cash-flow projections

No long-term cash-flow projections despite chronic fund shortages

ASBA has not been able to meet client demand for loans and does not have any formal long-term cash-flow projections. A four-person committee of Board and management staff meets monthly to allocate the limited funds in a given month between branches and therefore monitors closely the short-term cash-flow before approving the next set of disbursements. SME loans are disbursed on the 7th and 21st of each month, facilitating the planning for day-to-day cash-flow. Group loans have much more regular disbursement days but only comprise 11% of the total portfolio.

Resources optimization

ASBA invests most of its unrestricted assets in the loan portfolio, approximately 80%, with cash on hand being less than 3% or 4%. To consolidate funds, ASBA has accounts only with Bank of Alexandria and National Bank of Egypt, with one account per branch for loans and additional accounts for expenses.

Efficiency and Profitability

General Note: These ratios are based on an analysis of the SME and group lending programs financed by USAID only. The Medical Lending Project, a microfinance project sponsored by the CGC, as well as other Association programs, do not appear in this analysis. The information provided to the rating team was insufficient to assign a rating to this factor given the lack of information with regards to the financial relationship between all of the Association's programs.

Profitability analysis⁶	Dec. 2001	Dec. 2002	Dec. 2003^(a)
ROE	0.2%	(6.2%)	6.1%
Liabilities / Equity	64.5%	91.4%	89.7%
ROA	0.1%	(3.5%)	3.2%
Profit generation			
Operational self-sufficiency	100.8%	78.6%	132.3%
Portfolio Yield	28.0%	27.3%	28.3%
Operating expense ratio	15.6%	13.4%	13.2%
Staff productivity	41	56	49
Loan officer productivity	65	88	70
Average outstanding loan per client (USD)	386	305	202
Funding expense ratio	11.4%	10.9%	9.9%
Cost of savings	n/a	n/a	n/a
Cost of liabilities	10.2%	11.4%	9.6%
Loan Loss Provision expense ratio	1.2%	11.1%	(1.5%)
PAR 31-365	1.6%	12.1%	6.8%
Write-off ratio	0.0%	0.0%	0.0%
Asset management			
Outstanding Loan Portfolio / Assets	36.3%	39.6%	45.7%
Investment revenue / Total revenue	0.0%	0.0%	0.0%
Adjusted ratios			
Adjustment expense ratio	0.3%	0.4%	1.2%
AROE	(0.1%)	(6.5%)	5.0%
AROA	(0.0%)	(3.6%)	2.7%
Financial self-sufficiency	99.7%	77.8%	125.2%

(a) Note that Planet Rating made adjustments to the 2003 unaudited statements to account for the devaluation of the EGP that was reflected in the portfolio and bank overdrafts but not in the collateral deposits and equity.

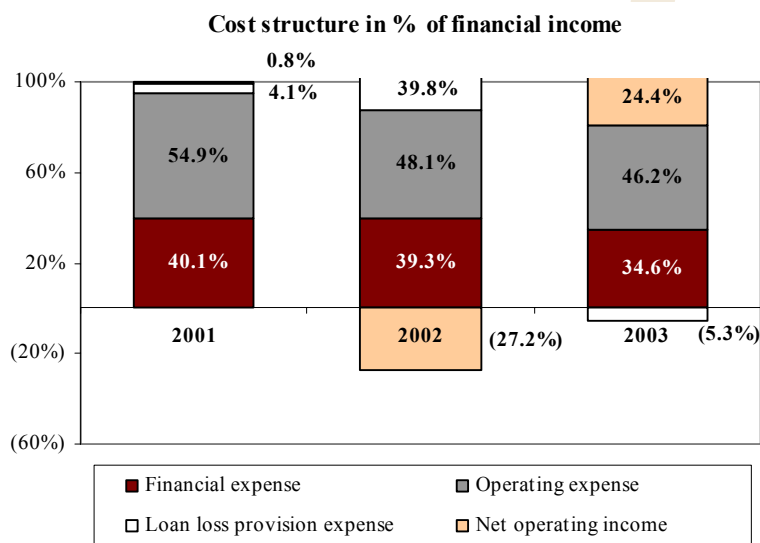
Overview of profitability

ASBA covered basic operating costs two out of the last three years

ASBA has been able to cover its basic operating costs in 2001, operating self-sufficiency at 101% and in 2003, 132%. Massive loan loss expenses in 2002 drove down temporarily that ratio to 79%. The overall pattern is positive, as both operating and funding expenses as a percent of revenues are declining, contributing to a greater profit margin. The 24.4% profit margin in 2003 is more realistically 19.1% when the impact of loan recoveries from the 2002 delinquencies is excluded. In 2002, ASBA performed less well than its regional peers, with a comparable ratio of 113%, as well as several other local peers. The higher ROA of 3.2% and ROE 6.1% in 2003

⁶ Regional peers for the Benchmarking Arab Microfinance Bulletin produced by the MIX Market in December 2003 (2002 data) include: Alexandria Business Associate (ABA), Dakahlya Businessmen's Association for Community Development (DBACD), and the Regional Association for the Development of Enterprises of Egypt (RADE) in Egypt, Al Amana and FONDEP of Morocco, Al Majmoua and AMEEN of Lebanon, FATEN of Palestine, Crenda of Tunisia, and Jordan Microcredit Company (JMCC) and Microfund for Women (MFW) of Jordan.

reflect this greater profit margin. Note that ROA and ROE figures are an underestimate since the balance sheet is overstated with the collateral deposits (See Section F).



Portfolio yield and effective interest rate

Portfolio yield lowered by portfolio quality problems but on the rise with the higher yielding group loan

ASBA has maintained the same interest rate since inception of the group loan product, 26% flat annual rate, 46% effective, and for the SME has a current 16% flat annual rate and 28% effective. The SME interest rate is 16%, although in 1999 ASBA raised the interest rate for loans to the taxi sector only to 17% given the greater risk associated with these loans. The portfolio yield, 28% in 2001, dipped in 2002 with the portfolio quality problems to 27.3% and then rose again to 28.3%. Increasingly, the outstanding portfolio is invested in the higher yielding group loan, which in part counteracted the decreases due to portfolio quality problems in the SME program.

Operating expense ratio

Operating expense ratio relatively low

Operating expenses as a percent of the outstanding portfolio declined from 15.6% in 2001 to 13.4% in 2002 and almost the same at 13.2% in 2003. This ratio is significantly less than the MBB peer group at 38.4% given the lower salary levels in Egypt relative to some other MFIs in other countries in the region and a larger portfolio size to amortize the fixed costs.

Personnel expenses and depreciation comprise 84% of operating costs

Personnel expenses have remained between 70% and 74% of operating expenses over the last three years and therefore have a preponderant impact on this ratio. Depreciation is the second largest single expense item at 11% of operating expenses in 2003, attributable mainly to office equipment, including computers, and buildings. The remaining expense items are only 16% of operating expenses and leave less room for cost cutting.

Productivity ratios could be significantly improved

The productivity figures are very low with respect to international norms and ASBA's actual capabilities, notably given the labor intensive loan disbursement process involving at least nine file reviews before disbursement. The productivity of all staff rose from 41 in 2001 to 56 in 2002 and back down to 49 in 2003. The LO productivity also spiked in 2002, from 65 in 2001 to 88 in 2002 and back down to 70 in 2003. These figures compare with MBB regional peers that have staff and loan officer productivity of 213 and 133 respectively in 2002. The pattern of productivity is due to several factors, notably the expansion process in the group loan product, the funding limitations preventing existing SME loan officers from reaching their full productivity potential, and the staff intensive nature of the loan approval process. Taking into account the population density in the region, expectations for productivity ratios could be much higher for both the group and individual loan products.

Cost of funds has declined

Funding expense ratio

The cost of funds has been steadily declining over time from 11.4% in 2001 to 10.9% in 2002 to 9.9% in 2003. The cost of funds has decreased given a reduction in overdraft rates generally and since ASBA was no longer required to borrow against USD deposits in certain cases to collateralize EGP deposits for overdraft facilities. The Central Bank had issued directives to force liquidation of USD deposits and when ASBA was granted an exemption they were no longer required to follow this system.

2002 portfolio crisis drives up ratio by factor of 10

Loan loss provision expense ratio (cost of risk)

The loan loss provision expense ratio has fluctuated with the dramatic changes in portfolio quality, with 1.2% in 2001, 11.1% in 2002, and (1.5%) in 2003 as loan recoveries from 2002 problem loans were returned. The massive provision in 2002 of 3.8 million EGP resulted in a net loss of 2.6 million EGP for the year. Of the loan loss expenses for 2002, a significant amount was recovered in 2003. Please note that some of the movements in the loan loss reserve could not be reconciled as stated in the notes to the financial statements in appendix.

Asset management

Although ASBA appears to have significant investments, these are exclusively used as collateral for overdraft facilities with interest being capitalized at a rate of 1%. Cash-on-hand has been a consistently low percent of assets, 2% or below, as ASBA has been investing most available assets in the portfolio.

Modest adjustments

Adjusted performance

Even with the Planet Rating standard adjustments, for a modest adjustment expense ratio of 1.2% in 2003, ASBA covers its costs on an adjusted basis with a financial self-sufficiency of 125.2%. Given that ASBA already has bank loans, albeit with excessive collateral, and an appropriate loan loss provision procedure, no adjustments were made for these items. After excluding the bank collateral deposits from equity, the net inflation adjustment was zero. Planet Rating did estimate the value of in-kind donations in the form of trainings by the USAID technical service provider, which accounts for the totality of the adjustment amount.

Future profitability difficult to assess

Evolution of profitability

The future profitability of ASBA is difficult to ascertain. Mature branches are able to cover their costs and new group loan branches are able to cover cash operating expenses within six to eight months. However, there are no formal plans or budgets to guide the institution other than retrospective budget analyses and ASBA has expressed ambitions to continue group lending expansion in several governorates. There is clearly a market for expansion but the lack of funding opportunities has prevented the branches from reaching their potential capacity. Furthermore, the SME and group loan project profits are intended to subsidize the other non-income generating programs in the Association but the mechanism for such subsidy decisions, currently accounted for on the financial statements as assets receivable, is not clear.

Appendices

Financial statements and notes

General notes to financial statements per CGAP Disclosure Guidelines

1. The financial statements provided by the external auditor were complemented by Planet Rating assessments to produce financial statements that follow CGAP disclosure guidelines, although as noted in the report the financial movements between the SME/Group lending microfinance program and the other programs run by the association could be more transparent. If one disaggregates the SME from the group loan financial statements, the allocation is sometimes not entirely accurate, as some SME expenses have been allocated to the group loan financial statements. Data for 2003 is unaudited and does not include adjustments that should be made to for USD denominated accounts following devaluation in early 2003. For analytical purposes, ratios generated in this report include an imputed adjustment for the fixed deposits and associated equity, since those deposits are provided by USAID in USD. Please see discussion in Section F on the overstatement of assets due to the incorporation of donated collateral deposits in the balance sheet.
2. The Financial Statements presented include a balance sheet, income statement, and accompanying notes.
3. The financial statements provided include 3 years of data, although the last year of data is unaudited.
4. Segment Reporting for Multiservice Microfinance Institutions: ASBA provides financial services through the SME and group lending programs under USAID and the Medical Project financed through the Egyptian Credit Guarantee Corporation. Non-financial services include a wide range of social oriented programs. These financial statements represent only the SME/group lending program for income and expenses, although the balance sheet is cumulative and it was not possible to separate these entirely. It is estimated that a breakout of the balance sheet by program would not change materially the information presented.
5. Portfolio reporting
 - (1) Loan loss provision expense: expenses related to actual or anticipated loan losses are shown separately from other expenses in the income statement (“loan loss expense”).

Provisioning Methodology	
Aging	Provision (% outstanding balance)
Rescheduled	50%
<30 days	0%
31-60 days	10%
61-90 days	25%
91-120 days	50%
>120 days	100%
Write off	Per Board approval as needed

- (2) The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated every month by the finance department according to the methodology described in the table. Please note that this table was provided by ASBA but does not match the audited financial statements and is not internally consistent. Per internal figures provided by another source, we understand that between January 1, 2000 and March 31, 2004, 587,893.50 was collected in principal on loans put “in suspense” (see description below) or written off. For loans in suspense, this amount would have simply reduced the outstanding portfolio in arrears.

	2001	2002	2003
Loan Loss reserve, beginning of year	1,161,715	1,348,764	4,990,112
Loan Loss expense during the year	187,049	3,641,348	630,603
Reversal of provision	-	-	(630,603)
Write-off of delinquent loans	-	-	-
Loan Loss reserve, end of year	1,348,764	4,990,112	4,359,509

- (3) Loans are written off from the loan loss reserve but write-offs are very rare. Instead, ASBA will place loans “in suspense” as an intermediate step 30 days after the original term date of the loan per our understanding. These loans are already provisioned at 100% after 120 days since the last payment.
- (4) Accrual vs. Cash accounting: the MFI recognizes interest on a cash basis and therefore does not accrue interest.

6. Portfolio quality

- (1) Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on the standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).
- (2) Renegotiation of loans: ASBA allows rescheduling of loans. This process requires headquarters approval and the loans are tracked separately in the MIS.
- (3) Insider loans: the MFI does allow employees to borrow funds. These amounts outstanding total 1,389,168, of which 141,000 has been provisioned for delinquency in December 2003. Loans to employees are allowable per a policy since 1997 but are not included in the portfolio as they are recorded as an account receivable.

7. Donations

- (1) Revenue from donations is shown separately from income generated by operations in the income statement.
- (2) Current period donations: During the period under evaluation, ASBA had one open grant with USAID, the Cooperative Agreement, to cover loan capital, fixed asset purchase, and operating subsidies. All of these donations are recognized in the financial statements.
- (3) Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the balance sheet. Grants for fixed assets were recorded directly in the balance sheet with amortization of such assets passing through the income statement. Grants for loan funds are recorded directly in the balance sheet.
- (4) In-kind donations: Please refer to the Appendix on Adjustments for details on in-kind donations that Planet Rating has identified.
- (5) Cumulative amount of all prior period donations: ASBA has participated in two Cooperative Agreements with USAID in total, the cumulative impact of which is recognized in the financial statements.

8. Details of liabilities

- (1) ASBA has overdrafts from two providers as detailed in the table below.

Overdraft Provider	Interest Rate on loan	Collateral Interest Rate	Conversion Rate	Guarantee
National Bank of Egypt	10%	1%	1 USD=6.18 EGP	USD Collateral Fund
Bank of Alexandria	9%	1%	1 USD=6.18 EGP	USD Collateral Fund

- (2) Deposits: ASBA is prohibited from collecting deposits.

9. Other significant Accounting Policies

- (1) Accrual or deferral income/expense accounting: none.
- (2) Depreciation of fixed assets: The depreciation of fixed assets on a flat basis using the following schedule:

Asset Class	Useful Life	Depreciation Rate
Building and real estate	50	2%
Vehicles	10	10%
Fixtures and equipment	10	10%
Furniture	10	10%
Computers	5	20%

- (3) Inflation accounting: none
- (4) Currency mismatch: please refer to the F area. Note that all transactions are done in EGP except for the fixed deposits backing overdraft facilities.
- (5) Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: All transactions are recorded in EGP. Foreign transactions are recorded based on the exchange rate in the free market and re-evaluated at year-end when preparing the financial statements.

Specific notes to the financial statements

Balance Sheet

1. These amounts are predominantly USD denominated fixed deposits used to guarantee bank overdrafts per a USAID Cooperative Agreement.
2. In the unaudited financial statements for 2003, ASBA has not made any adjustments to the USD fixed deposits nor the equity provided in USD since the devaluation of the EGP in early 2003.
3. This amount includes all loans, regardless of final term date. ASBA typically grants loans of up to 18 months. The amount of principal falling due beyond 12 months is estimated to be considerably less than half of the outstanding principal.
4. Interest is only recognized when collected.
5. Per the Cooperative Agreement with USAID, interest on the USD fixed deposits is capitalized in the collateral fund and therefore ASBA may not withdraw these interest earnings and recognize it as income.
6. This amount in 2003 is attributable mainly to the following purposes: 1,389,168 in loans to employees, 141,000 as a provision for loans to employees in arrears, and 2,571,760 in funds expected from USAID for expansion of operations to Minya region.
7. Short-term overdraft facilities.
8. Funds received from USAID to cover operating costs and fixed assets totaling 5,404,608.87 and to cover loan collateral, including capitalized interest on these loan collateral deposits, totaling 39,461,746.36 in EGP equivalent on December 31, 2003.
9. The retained earnings in 2003 are 4,957 less than the sum of prior year retained earnings and 2002 earnings. We do not have an explanation for this very minor discrepancy.

Income Statement

10. Per Cooperative Agreement with USAID, all interest earned on dollar deposits related to the grant must be capitalized directly and not recognized as revenue.
11. Includes a variety of small fees charged to potential suppliers with tenders and other minor revenues.
12. This amount is a loan loss provision expense for employee loans and was therefore not classified as a loan loss expense for the portfolio.
13. The following are the net amounts expensed for loan loss reserves. The detail reconciling the movements in the loan was not available as described above in the CGAP notes.

ASBA Balance sheet	EGP			USD			% Change	
	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2001	Dec. 2002	Dec. 2003	2002/ 2001	2003/ 2002
ASSETS	68,831,972	82,153,657	100,444,839	14,963,472	17,667,453	16,245,061	19.4%	22.3%
Short Term Assets	64,565,442	77,371,312	93,654,853	14,035,966	16,638,992	15,146,909	19.8%	21.0%
Cash and Due from Banks	1,095,930	1,158,674	2,319,898	238,246	249,177	375,200	5.7%	100.2%
Short Term Investments	1,2 37,125,295	40,812,725	41,629,482	8,070,716	8,776,930	6,732,785	9.9%	2.0%
Short Term Net Loan Portfolio	24,976,289	32,523,979	45,933,453	5,429,628	6,994,404	7,428,871	30.2%	41.2%
Short Term Gross Loan Portfolio	3 26,325,053	37,514,344	50,290,916	5,722,838	8,067,601	8,133,609	42.5%	34.1%
(Loan Loss Reserve)	1,348,764	4,990,365	4,357,462	293,210	1,073,197	704,737	270.0%	(12.7%)
Interest Receivable	0	0	0	0	0	0	-	-
On loan portfolio	4 0	0	0	0	0	0	-	-
On investments	5 0	0	0	0	0	0	-	-
Accounts receivable and other assets	6 1,367,927	2,875,934	3,772,019	297,375	618,480	610,053	110.2%	31.2%
Long term assets	4,266,531	4,782,345	6,789,986	927,507	1,028,461	1,098,152	12.1%	42.0%
Long Term Net Investments	0	0	0	0	0	0	-	-
Long Term Gross Loan Portfolio	0	0	0	0	0	0	-	-
Net Fixed Assets	4,266,531	4,782,345	6,789,986	927,507	1,028,461	1,098,152	12.1%	42.0%
Other Long Term Assets	0	0	0	0	0	0	-	-
LIABILITIES AND EQUITY	68,831,972	82,153,657	100,444,839	14,963,472	17,667,453	16,245,061	19.4%	22.3%
Liabilities	26,987,117	39,228,080	54,072,802	5,866,765	8,436,146	8,745,258	45.4%	37.8%
Short term liabilities	26,987,117	39,228,080	54,072,802	5,866,765	8,436,146	8,745,258	45.4%	37.8%
Short Term Borrowings	7 26,883,916	39,087,779	53,203,250	5,844,330	8,405,974	8,604,624	45.4%	36.1%
Interest payable	0	0	0	0	0	0	-	-
Accounts Payable and Other Short Term Liabilities	103,201	140,301	869,552	22,435	30,172	140,634	35.9%	519.8%
Long term liabilities	0	0	0	0	0	0	-	-
Long Term Borrowings	0	0	0	0	0	0	-	-
Other Long Term Liabilities	0	0	0	0	0	0	-	-
Equity	41,844,856	42,925,577	46,372,037	9,096,708	9,231,307	7,499,804	2.6%	8.0%
Paid-In Capital	0	0	0	0	0	0	-	-
Donated equity	2,8 42,528,153	46,217,332	46,534,199	9,245,251	9,939,211	7,526,030	8.7%	0.7%
Retained earnings without donations and reserves	9 (736,536)	(683,297)	(3,296,711)	(160,116)	(146,946)	(533,181)	(7.2%)	382.5%
Current year	53,238	(2,608,457)	3,134,549	11,574	(560,959)	506,954	--	(220.2%)
Other equity accounts	0	0	0	0	0	0	-	-

ASBA		EGP			USD			% Change	
Income Statement	Notes	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2001	Dec. 2002	Dec. 2003	2002/ 2001	2003/ 2002
Financial Revenue (a)		6,514,061	9,585,620	12,839,523	1,416,100	2,061,424	2,076,551	47%	33.9%
Financial Revenue from Loan Portfolio		6,422,790	9,415,269	12,697,433	1,396,259	2,024,789	2,053,571	46.6%	34.9%
Interest on Loan Portfolio		6,330,388	9,266,662	12,460,614	1,376,171	1,992,831	2,015,270	46.4%	34.5%
Fees and Commissions on Loan Portfolio		0	0	0	0	0	0	-	-
Penalty Revenue on Loan Portfolio		92,403	148,607	236,819	20,088	31,958	38,301	60.8%	59.4%
Financial Revenue from Investments	10	0	0	0	0	0	0	-	-
Other Operating Revenue	11	91,271	170,351	142,090	19,841	36,635	22,980	86.6%	(16%)
Financial Expense (b)		2,611,599	3,771,408	4,443,142	567,739	811,056	718,595	44.4%	17.8%
Interest paid on borrowings		2,611,599	3,771,408	4,443,142	567,739	811,056	718,595	44.4%	17.8%
Interest paid on deposits		0	0	0	0	0	0	-	-
Net Inflation Adjustment Expense		0	0	0	0	0	0	-	-
Other Financial Expenses	12	0	141,000	0	0	30,323	0	-	-
Financial income [c=a-b]		3,902,462	5,673,211	8,396,381	848,361	1,220,045	1,357,956	45.4%	48.0%
Net Loan Loss provision expense (d)	13	270,154	3,671,477	(675,602)	58,729	789,565	(109,266)	1,259.0%	(118.4%)
Operating expense (e)		3,579,070	4,610,191	5,937,434	778,059	991,439	960,268	28.8%	28.8%
Personnel Expense (includes fringe)		2,634,795	3,262,130	4,293,496	572,781	701,533	694,392	23.8%	31.6%
Administrative Expense (non-staff expenses)		944,275	1,348,061	1,643,937	205,277	289,906	265,876	42.8%	21.9%
Depreciation and amortization		475,292	546,648	633,777	103,324	117,559	102,502	15.0%	15.9%
Consulting fees		62,828	36,981	67,963	13,658	7,953	10,992	(41.1%)	83.8%
Others		406,155	764,433	942,197	88,295	164,394	152,383	88.2%	23.3%
Net Operating Income Before Taxes and Donations [f=c-d-e]		53,238	(2,608,457)	3,134,549	11,574	(560,959)	506,954	(4,999%)	(220%)
Income Taxes (g)		0	0	0	0	0	0	-	-
Net Operating Income Before Donations [h=f-g]		53,238	(2,608,457)	3,134,549	11,574	(560,959)	506,954	(4,999%)	(220%)
Non Operating Revenue (i)		0	0	0	0	0	0	-	-
Non Operating Expense (including related taxes) (j)		0	0	0	0	0	0	-	-
Net Income Before Donations [k=h+i-j]		53,238	(2,608,457)	3,134,549	11,574	(560,959)	506,954	(4,999%)	(220%)
Donations (l)		0	0	0	0	0	0	-	-
Net Income (after Taxes and Donations) [m=k+l]		53,238	(2,608,457)	3,134,549	11,574	(560,959)	506,954	(4,999%)	(220%)

Adjustments

	Data in EGP		
	Dec. 2001	Dec. 2002	Dec. 2003
Adjustment for the cost of funds = (a*b-c)	0	0	0
a. Average amount of borrowings	23,724,666	32,985,847	46,145,514
b. Shadow price of borrowings	Market rate paid on all borrowings		
c. Interest expense on borrowings	2,611,599	3,771,408	4,443,142
Adjustment for inflation = (a -b) * c	0	0	0
a. Avg. Equity (see note below)	3,037,520	3,416,206	3,427,704
b. Average fixed assets	4,242,445	4,524,438	5,786,166
c. Inflation rate	2.4%	2.5%	3.4%
Adjustment for in-kind donations	73,600	129,038	548,750
a. Staff and technical assistance	73,600	129,038	548,750
b. Other	0	0	0
Adjustments for provisions	0	0	0
Loan losses	0	0	0
Other risks	0	0	0
Other adjustments	0	0	0
Total adjustments	73,600	129,038	548,750
Net income before donations	53,238	(2,608,457)	3,134,549
Adjusted net income before donations	(20,362)	(2,737,495)	2,585,799
Adjusted net income before donations (USD)	(4,426)	(588,709)	418,204

The following adjustments were applied:

- ❑ **Adjustment for inflation** is performed to account for the effect of inflation on equity and fixed assets. In this case, the equity is composed of operating subsidies as well as fixed USD deposits provided by USAID for the sole purpose of guaranteeing bank overdrafts used to finance the portfolio. Therefore, this adjustment excludes the amount of equity attributable to such collateral deposits that in other cases could be considered an off-balance sheet item.
- ❑ **Adjustment for cost of funds** is performed to estimate the cost that the institution would pay if using commercial financing. This adjustment accounts for the cost savings received from donated funds or concessional loans. In this case, the portfolio is financed entirely from overdrafts offered by banks so no adjustment was performed.
- ❑ **Adjustments for in-kind donations** are performed to account for services that ordinarily would be a cost to the institution but are not reflected in the financial statements. In this case, ASBA benefited from trainings offered by the USAID technical service provider, EQI. Planet Rating estimated the value of these trainings to be the equivalent of 50 USD per person day of training. Without the exact number of person days available, Planet Rating estimated five person days for each additional net staff member hired during the year.
- ❑ **Adjustment for loan loss provisions** are performed to account for the cost of risk related to the portfolio if the institution's policy is not sufficient and to better compare performance across MFIs. In this case, the institution's loan loss policy was sufficiently conservative that no adjustment was made.