

## EGYPT

### SMALL BUSINESSES ASSOCIATION IN ALEXANDRIA

*Employment in small and micro-enterprises is one of the main sources of income for the urban poor. Actions to support such businesses through, for example, specially tailored credit schemes, can be a key strategy for improving the livelihoods of city residents.*

Small and micro-enterprises (SMEs), mainly in the production of wood, metal and leather goods and building materials, are a significant sector in the Egyptian economy, representing at least 40% of total industrial employment. One of the biggest constraints to these businesses in Egypt is limited access to credit. In a survey of 323 SMEs in Egypt in 1992, 95% of male and female respondents singled out a lack of working capital as either the most important, or the second most important, constraint faced when starting a business.

In 1989, the Alexandria Business Association (ABA, a non-profit NGO linked to the Alexandria Chamber of Commerce) addressed this problem by setting up a micro-credit scheme for SMEs in Alexandria, Egypt's second largest city. The American agency USAID contributed a collateral fund of US\$ 8 million to the scheme, as well as a grant of US\$ 2 million to cover ABA's running costs and project management costs until it could become self-sufficient through loan recovery. USAID also contracted a United States and an Egyptian consulting company to provide ABA with technical support.

ABA's approach is tailored to meet the specific credit needs of SMEs. They offer small loans with few collateral conditions, flexible repayments over 6-7 months and practical assistance to clients. Interest rates are set high enough to recover running costs but lower than traditional lending sources such as pawnshops and money-lenders.

One of the keys to the success of ABA's approach is their use of extension officers, who evaluate the size of loan needed, help with paper work and monitor and collect repayments. Extension officers are paid a basic salary supplemented by incentives to encourage a large number of loans and maintain a good repayment rate. This is the key in the growth and stability of the scheme and partly explains the high repayment rate (99.2%).

The personal link between clients and extension officers is backed by meetings with the branch manager, who also helps to ensure that borrowers fully understand and are committed to the scheme. Disbursement of cheques to new clients is carried out at a briefing session by the branch manager.

The scheme is popular in the SME business community. New clients are largely attracted to ABA through word of mouth, and through existing social and business networks in the city. All borrowers who repay on time are guaranteed subsequent finance and qualify for a larger loan. This process is streamlined and efficient, meaning that ABA can offer loans within 14 days for new customers and within 72 hours for returning customers.

The scheme has been a great success, particularly in catering for the smaller (generally lower income) micro-enterprises, which receive 72 percent of loans. ABA covered its operating costs by 1992 (two years ahead of schedule). By December 2000, the project had served over 60,000 clients. It had extended over 170,000 loans, amounting to almost US\$ 125 million. However ABA's share of the SME market is still less than 5%, so significant room for expansion remains.

Since it started work in 1990, ABA has also branched out and founded the Alexandria Small Business Centre (ASBC) to help the non-financial needs of SMEs (giving training in pricing, accounting, quality control, marketing and other business skills). Since March 2000, a new programme ('Towards Self-Employment') has also been set up, targeting poor women and unemployed youth to help them set up small businesses. This explicitly poverty focused programme gives grants of US\$ 50 seed capital. The grants are given in two instalments, half at start up and half if they are working full time, and the business is still running three months later. After this, beneficiaries are eligible for larger loans that are disbursed on a group solidarity basis.

The achievements of ABA have been widely recognised and their approach has been replicated in other provinces in Egypt and abroad (for example ABA has been asked by UNDP to be the technical service provider to their Microstart programme in Bahrain).



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