DBACD
Egypt - April 2004

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

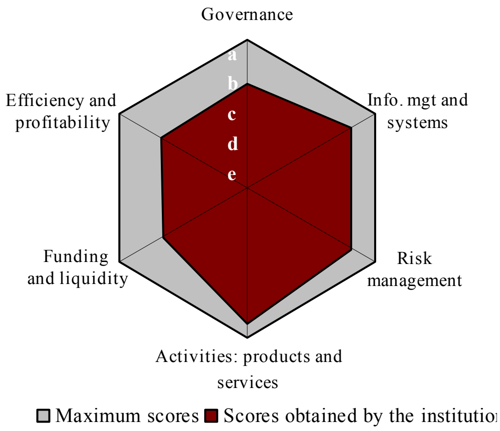
Global Rating

B+
Trend: Positive

The Dakahlya Businessmen's Association for Community Development (DBACD) was founded as an NGO in March 1995. After signing the Cooperative Agreement with USAID in October 1997, DBACD disbursed its first individual loan in late 1998 and its first group loan in 2001. In March 2004, DBACD had an outstanding portfolio of 4.1 million USD for 15,050 individual loan (SME) clients and 7,360 group loan (Bashayer) clients in the Dakahlya governorate.

Area Scores

G overnance and decision making	**b**
I nformation management and systems	**a**
R isk Management	**a**
A ctivities: products and services	**a**
F inancing and liquidity	**b**
E fficiency and profitability	**b**



Rating Plus Summary

Environment	Unfavorable legal environment, large market and adequate infrastructure
Maturity	**Young**: 5 years of operation
Scale	**Medium**: Portfolio of 4.1 million USD
Target market	**Broad**: Avg. out. loan 20% GNP per capita

		Dec. 2001	Dec. 2002	Dec. 2003
ACTIVITY				
Total number of staff		140	185	253
Total assets	(K USD)	9,154	10,566	11,760
	(K EGP)	42,106	49,133	72,710
Loan portfolio	(K USD)	3,016	3,476	3,828
	(K EGP)	13,873	16,164	23,666
Number of active borrowers		9,693	12,689	19,606
Number of depositors		n/a	n/a	n/a
Annual effective interest rate			Note (a)	
PAR 31-365		1.0%	0.1%	0.0%
PAR > 365		0.0%	0.0%	0.0%
Write-off ratio		0.0%	2.8%	0.3%
Risk coverage ratio		299.8%	283.2%	11,786.4%
Exchange rate 1 USD= xx EGP		**4.60**	**4.65**	**6.18**

	Dec. 2001	Dec. 2002	Dec. 2003
PERFORMANCE (b)			
ROE	3.3%	2.8%	1.5%
Liabilities / Equity	39.0%	54.9%	64.3%
ROA	2.2%	1.9%	0.9%
Operational self-sufficiency	125.2%	124.4%	111.4%
Financial self-sufficiency	119.4%	120.0%	107.3%
Portfolio Yield	30.0%	29.8%	28.2%
Operating expense ratio	13.2%	17.3%	15.7%
Staff productivity	69	69	77
Funding expense ratio	9.4%	7.2%	9.8%
GROWTH (local currency)			
Loan portfolio growth	(3.0%)	16.5%	46.4%
Savings growth	n/a	n/a	n/a
Asset growth	18.8%	16.7%	48.0%

(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 95% 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.

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Rating Scale

Area Rating	Global Rating	Explanation
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.
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.
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.
d	D	**Insufficient** Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
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 microentreprenuers 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 Dakahlya Businessmen's Association for Community Development (DBACD) was founded as an NGO in March 1995. After signing the Cooperative Agreement with USAID in October 1997, DBACD disbursed its first individual loan in late 1998 and its first group loan in 2001. In March 2004, DBACD has an outstanding portfolio of 4.1 million USD for 15,050 individual loan (SME) clients and 7,360 group loan (Bashayer) clients in the Dakahlya governorate.

Overall summary:

- **Key strengths:** DBACD is a leading microfinance institution in the region with a Board that has provided sufficient autonomy of operations (a challenge in the Egyptian context), successful management of operations, an effective MIS, appropriate internal control and internal audit procedures, excellent portfolio quality and stable profitability.
- **Areas for improvement:** DBACD could improve governance (key person risk with the Executive Director, more strategic Board), formality with respect to business planning, streamlining of operations to improve productivity, and the diversification of financing.
- **Principal risks:** DBACD faces risks related to the general macroeconomic environment, fluctuations in the EGP/USD relationship, and risks of political interference or an over-intrusive Board in the event of a change in the Chairman and Executive Director. The limited financing sources for NGOs in Egypt is an additional risk.

DBACD received a final rating of B+ with a Positive trend, if funding for the future is assured.

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

- DBACD has maintained a stable Board since it began operations that has provided sufficient autonomy to the Executive Director for operational issues, despite the legal environment in Egypt that encourages active Board involvement in issues considered operational for microfinance. The Board receives regular and reliable information to make appropriate decisions.
- Although not recorded in a formal business plan, DBACD has a feasible strategy of continuing expansion in the Dakahlya governorate through the existing branch network, as well as adapting and marketing products to new market segments. To achieve this plan, DBACD must seek additional funding in an environment with limited possibilities.
- The management team covers all key positions with the exception of an Operations Manager, although this is partially covered by a Deputy Operations Manager. The management team is clearly capable of managing a successful operation but would benefit

from additional training in more advanced topics in strategic planning and risk management.
- Despite the environmental pressure to hire based on personal relationships, DBACD has proven very successful in preserving a fair and professional employment process and cultivating a strong culture of work ethic. 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 **a:**
- DBACD has an effective MIS managed through a Wide Area Network. Both the loan tracking software, EQI's El Mohassil, and the accounting software satisfy needs. In the future, DBACD is seeking to upgrade the accounting software and perhaps even transition to a Virtual Private Network.
- Portfolio information is accurate, up-to-date, and sufficiently detailed. Improvements would include greater analysis of client business data and the market.
- The accounting and finance information is accurate and up-to-date with monthly financial statements. The finance department has the tools necessary to evaluate finance performance. In the future, it is expected that this capability will be applied to more formal business planning.

Risk analysis received the rating **a:**
- DBACD has an appropriate internal control system with clear procedures, a separation of tasks for loan disbursements, and strategies to mitigate cash handling risk.
- The internal audit department performs regular and appropriate audit missions to minimize internal risks, visiting an unusually large sample of clients in the process. The analysis of risks beyond basic operations could be more formalized.

Activities: Products and Services received the rating **a:**
- DBACD has appropriate portfolio management procedures and authority levels to limit credit risk. The financial analysis would need to be improved for larger loan amounts.
- Portfolio quality has been very strong, especially relative to Egyptian counterparts. Although there were a number of loans put "in suspense" in 2002 (2.8%) and rescheduled loans (1.5%), by March 2004 the PAR31 is 0% and the loans rescheduled only 0.5%. It should be noted that according to DBACD analysis, rescheduled loans are typically paid back and 38% of the loans put in suspense since 2002 have been recovered. As with several Businessmen's Associations, the group-lending product has virtually 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 **b:**
- DBACD has been financed predominantly by USAID operating subsidies and local bank overdrafts backed by USAID provided USD fixed deposits. DBACD is expected to reach its capacity on existing agreements by the end of 2004, but could negotiate a greater leverage on the overdrafts that are currently at 95% of fixed deposits. Given that current overdrafts have been renegotiated to take into account the devaluation of the EGP, DBACD does remain exposed to risks related to fluctuations in the EGP/USD relationship.
- DBACD does not have a clear financing plan, but it is expected that it will be able to find additional resources either through increased overdraft leverage (ABA has achieved up to 150%) and potentially additional donor funds or, if governmental approval obtained, international investors.
- DBACD has had ample overdraft resources and therefore has not produced detailed cash-flow projections and kept cash-on-hand to a minimum.

Efficiency and Profitability received the rating **b:**

- DBACD was able to cover its costs within a very short timeframe after start-up. Since then, DBACD has maintained its profitability although expansion in 2002 and 2003 resulted in a drop in operational self-sufficiency from 125% in 2001 to 111% in 2003. With no new plans to open offices, it is expected that profitability will regain its prior levels if not exceed them, if funding for portfolio growth is secured.
- DBACD, like several other Businessmen's Associations, has the strange position of having poor productivity ratios (staff productivity at 77 and loan officer productivity at 132) yet a low operating expense ratio, 15.7%, which is attributable in large part to a relatively lower salary scale in Egypt. DBACD outperforms several other Businessmen's Associations in terms of productivity but not in operating expense efficiency.

Funding needs:

- DBACD seeks to grow the portfolio size over 9 million USD by 2006 predominantly through additional USD fixed deposits to back overdrafts from USAID and increased overdraft leverage on all agreements.
- Planet Rating believes that DBACD is a very strong organization with stable profitability and therefore could support external commercial rate debt.

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.

Operating Context

	Dec. 2001	Dec. 2002	Dec. 2003	June 2004
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.

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 difficultly accessing bank funding without excessive collateral given their legal status, and have governance structures not well suited to microfinance.

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: Young   Scale: Medium

- DBACD, created to focus on microfinance activities, disbursed its first loan in late 1998 and has therefore been operating for approximately 5.5 years.
- 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. External assistance is now limited to occasional trainings.
- DBACD has relied exclusively on USAID funding to reach a 4.1 million USD portfolio.

Target clientele: Broad   Other Activities: Yes

- DBACD is between the MBB Low-end (<20%) and Broad (20% to 120%) categories, as the average outstanding loan as a % of GNP per capita is 20.1% in March 2004.
- The individual loan clients have significantly higher loan sizes at disbursement. The average SME loan at disbursement is 402 USD or 44% of GNP per capita while the average Bashayer loan at disbursement is only 45 USD or 5.5% of GNP per capita.
- In addition to the group loan product targeted exclusively to women, predominantly poor, approximately 14% of loans disbursed to SME clients in the latest month were for women.
- Individual loans are 67% in trade, 15% in manufacturing, 10% in services, and 8% other.
- DBACD also provides training and computing services through Information Technology Center (ITC) to the community.

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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, 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. 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 (BdC), 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 difficultly 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.

The Microfinance Market

Vast market with unmet demand

Egypt has the largest potential market for microentreprenuers 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 business 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
(as of September 2003)

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

DBACD's mission is to support community development through managing major development and welfare projects. Per the Bylaws, the scope of work is broad and covers economic, social, cultural, religious, health-related, environmental, and technological projects. In practice, DBACD is focused almost exclusively on the provision of financial and technical services to small and micro enterprises and the provision of social economic services to the Dakahlya community, mainly through and an Information Technology Center (ITC) since 2001 that provides Internet resources and trainings to the community.

Legal form and supervision

DBACD 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 Foundation 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

DBACD is governed by a General Assembly, composed of 19 members who elect a nine-member Board. Members of the Board of Directors have a six-year mandate with one-third up for re-election every two years. 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. The current Board is presided by Mr. Samir Ahmed Saad El-Gamal, an import/export local businessman who has been the president since inception. Other Board members include owners of import/export companies, construction companies, an audit firm, and a private school. All the members have been with the board since inception and therefore have eight years of experience.

Products and Services

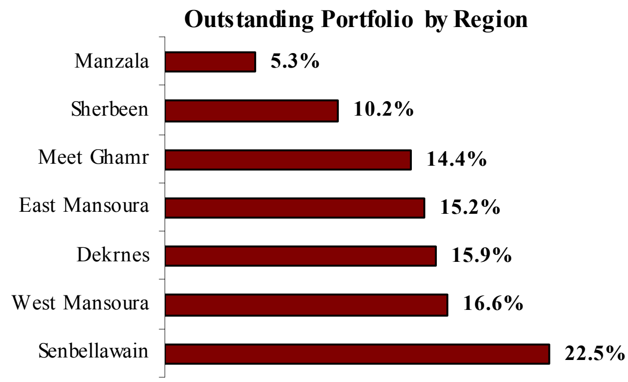
DBACD provides microcredit through two loan product types, the individual loan for small and micro enterprises (SME) started in 1998 and the group (Bashayer) loan started in 2001. Both were designed initially by EQI, a USAID contractor. Adaptations made by DBACD include longer loan terms, larger loan amounts, and for the group loan, less restrictive criteria for group formation.

In addition to such loans, DBACD maintains the Information Technology Center (ITC) to provided Internet access, web-site design and hosting, classes on predominantly technology, business and language related topics, and a state of the art conference facility available to the community for rental. The center has trained over 1,700 people in the various courses thus far. The ITC does not yet cover its costs.

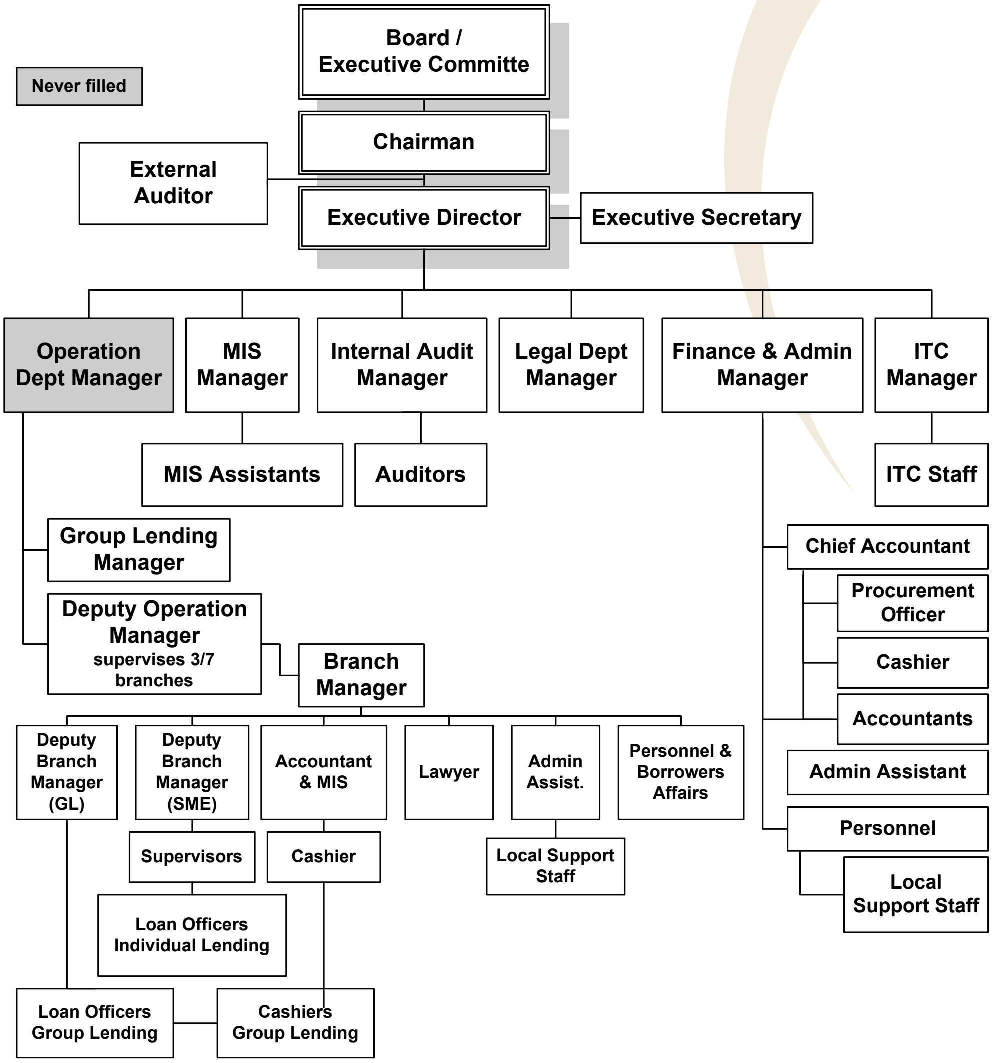
Loan Product Features	Individual Loan (SME)	Group Loan (Bashayer)
Minimum / Maximum loan amount	Min. 500 Max. 5,000 (first loan) 25,000 (returning clients)	Min. 50 Cycle 1: Max 300 Later Cycles: Max. 800
% of total outstanding portfolio	95%	5%
% of active clients	67%	33%
Nominal interest rate	16% flat	26% flat
Fees	None	None
Repayment frequency	Monthly	Weekly
Term (without grace period)	Min. 4 months Max. 24 months (returning clients)	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%

Human resources and service area

DBACD has a headquarters (HQ) and seven branch offices to cover the 13 districts of the Dakahlya governorate. Loan approval for smaller loan amounts is decentralized, the level of approval authority being based on branch experience. Even if certain approvals are decentralized, the finalization of disbursement documents for all loans is performed at HQ. Branches manage data entry for loan data while accounting for everything but loan repayments is centralized at HQ. Each branch has a full staff of a branch manager, accountant/MIS officer, cashier and group loan money collector, lawyer, client affairs officer, secretary, administrative assistant, deputy branch manager/supervisor for the group loan program with group loan coordinators supervised by individual loan officers (LOs), deputy branch manager for the SME program/supervisor with LO supervisors and individual loan officers.



Human resources	2001	2002	2003	March 2004
Number of branches	4	6	7	7
Number of employees	140	185	253	263
% Loan officers	43.6%	50.3%	58.9%	58.6%
Turnover (exits/ period average number of employees)	6.7%	9.8%	10.5%	1.6%



External audits

A local firm, Mohammed Hassaan and Company, has been DBACD's external auditor for the past three years. The auditor produces statements that cover DBACD's microfinance activities and the ITC combined. The Association, apart from these activities, only has three employees for other projects. The Association's general revenues come from from membership fees (one third of the fees are allocated to the association, two-thirds to the microfinance activities). The auditor has an active presence with a visit for one person-day per week during the year and goes beyond simple accounting verification to consult up to 50% of client files and to verify the status of client guarantee checks not returned. The auditor has certified the accounts without reserve. There are no written management letters as all suggestions were provided directly to DBACD during the auditing process. Additionally, DBACD has been subject to audits by USAID to ensure proper use of grant funds by Grant Thornton Mohammed Hilal, and the results were issued without reserve.

Governance and Decision Making

Decision-making

Combination of Executive Director and Board Chairman allows for clear decision-making

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. DBACD has a strong combination of an Executive Director with effective management skills and a highly respected Chairman who serves as a "buffer" against potential external political risks and prevents the Board from being overly involved in management activities. The Board could review management proposals more critically with a goal of providing value-added suggestions. There are only minor expectations when the Board has not approved a management request. This separation between management and the Board has enabled DBACD to adopt a more "institutional" as opposed to "project" approach to its microfinance activities. In the event of departure of the Executive Director or Chairman, there is a risk that this balance may not be preserved at the same level.

The Board, comprised of local businessmen, understands basic business issues if not the specificities of microfinance operations. They meet at least quarterly and often monthly. The Treasurer and Chairman are present at least once per week. The Board approves all policy changes, an annual budget, albeit simplified, and loan disbursements. The Board does not review each loan application but receives a grouped list of loans for informational purposes and official approval.

Monthly up-to-date quantitative information; no narrative analysis

Management information

Monthly up-to-date financial and portfolio information is available to the Board members. This information provides a clear picture of DBACD's ability to cover costs with existing operations for both the microfinance and ITC activities. The management information is restricted to quantitative data and does not include narrative analysis of performance or the market. Management uses additional analyses for their daily work related to productivity, portfolio quality, and other financial calculations.

Planning

Feasible strategy to offer individual and group loans throughout governorate

Relevance of the current strategy

DBACD does not have a formal business plan nor consolidated quantitative objectives for all the branches, although Branch managers are asked to provide their plans for number and value of loans for the following year. They have a perception of the market size, areas under their jurisdiction with growth potential, and market share vis-à-vis competitors. In practice, the basic strategy has been straightforward, to extend SME loans and subsequently group loans through a network of seven branches already linked by a useful loan tracking system to serve the entire Dakahlya governorate. DBACD used a business-planning model prior to each branch opening. The possibility of expansion into a neighboring governorate has been discussed but there are not yet any concrete plans. Given the lack of strong competition, the large market, sufficient funding capacity thus far, and success in covering operating costs, the lack of a plan was not as detrimental as it would have been in a different context.

Going forward, DBACD will need to formalize its business planning approach to achieve more optimal performance and think more systematically about both internal and external risks, *Lack of formal plan to be remedied in future as planning becomes increasingly important*

notably access to funding and governance issues. DBACD anticipates developing a plan for 2005. Based on 2004 estimates, DBACD expects to reach 18,000 individual loan and 10,000 group loan clients for a portfolio size of 35 million EGP, using up all excess funding capacity on existing overdrafts and the remaining funding under the existing USAID Cooperative Agreement. No major changes are expected in operating methods or MIS, aside from a potential improvement on the already satisfactory accounting software and network infrastructure. DBACD does plan to target more explicitly different client segments with the SME loan based on business sector. DBACD's basic financial projections to USAID through end of 2006 estimate a branch network remaining stable at seven branches with approximately 53 million EGP in SME loans to 26,000 borrowers and 5.4 million EGP in group loans to 19,500 borrowers.

Budgeting Process

Informal budgeting process

Aside from a basic budget with estimates for revenue and expenses, there is neither institution-wide planning nor formal targets for performance. The branch managers speak to the Executive Director about their goals and performance is closely monitored through monthly reports but there are no written targets to be compared formally to actual results. The timeliness of information does enable DBACD to readjust operations if they chose to. Along with business planning, DBACD hopes in 2005 to render the budgeting and monitoring process more formal.

Management Team

Skills and experience of management team

Management team achieved satisfactory field operations

The core management team includes an Executive Director, a Finance Director and a Senior Accountant supported by an Internal Auditor, a Lawyer, an MIS Manager and a Deputy Operations Manager. Most of these managers have been with DBACD since its founding six years ago. The Executive Director, Senior Accountant, and Group Lending Manager have improved their skills through participations in international trainings. The combination has contributed to satisfactory field operations thus far.

Management implemented "ready-made" operations with some adaptations

Upon participation in the USAID Cooperative Agreement, DBACD was provided with a "ready-made kit" including product definition, core manuals, a loan tracking system, control systems, etc. DBACD management therefore was not required to create the systems, but has advanced in its capacity to adapt the models based on their own experiences, whether it be changing product parameters, developing a more client-oriented internal audit, or creating special management reports. Staff would benefit from upgrades in technical skills that would allow them to go beyond field operations and think more strategically about their respective roles for planning, risk management, and new product development.

Emphasis on branch management

Branch managers at DBACD play an important role in the operations. They are dynamic and have been promoted from the field to their current positions. Branch managers have authority to approve loans up to predetermined amounts, as decided by the Executive Director. They are also evaluated based on their ability to resolve problems without needing to consult headquarters.

Key person risk with the Executive Director, notably in the absence of an Operations Manager

Organization of the management team

The management team lacks an Operations Manager, which places greater key person risk with the current Executive Director. His tasks therefore include the overall management as well as product design, delinquency tracking, and the coordination of branch managers, although the branch supervision workload is lessened by the fact that DBACD emphasizes strong branch management and that the Deputy Operations Manager more closely monitors the newer branches. On a day-to-day basis, the frequent absences of the Executive Director do not slow the operations process. However, his English language skills and presence in the international microfinance community are unique within DBACD and there is no internal staff with this same skill set that could easily replace him at this time. The senior accountant also has an extensive workload performing both accounting and financial analysis tasks.

Human Resource Management

HR management centralized at headquarters with a Personnel Officer

Organization of Human Resource management

DBACD has centralized all Human Resource (HR) management to headquarters with an administrative Personnel Manager to monitor recruitment as well as salaries and benefits for staff and the Executive Secretary who also coordinates the training needs for staff. The Executive Director plays an active role in HR management by interviewing job candidates and reviewing all performance evaluations. Although there are no stated goals with regards to HR in a strategic plan, the general vision is to create a motivated workforce.

Strong culture of work ethic and professional approach to hiring despite environment

Skills management and performance evaluation

DBACD's professional approach to hiring and strong culture of work ethic have built a predominantly young and dynamic team. Like other local Associations, staff turnover is concentrated in the group lending program, for 70% of staff departures in 2003. Although it is not uncommon in Egypt for hiring to often be based on personal relations, the Board Chairman and Executive Director have laid clear guidelines to prevent DBACD from hiring unqualified staff. Given the success of basic field operations, the key improvements possible for skills management would be more advanced training for managers in their respective areas.

- Recruitment begins first with internal advertisement and if no suitable candidate is available then ads are placed in newspaper and appropriate prior applicants listed in an internal database are contacted. The Executive Director, appropriate department head, Finance and Administration Manager, and Personnel Officer review job candidates. For LOs an additional selection is made after the training program, and this final selection is simply reported to the Chairman.
- All staff is evaluated annually and the evaluation considers productivity, cooperation with colleagues, penalties if arriving to work late, etc. There are individual level goals established per person. The legal requirement for salary increases is 7%, however a very good or good score on the evaluation can result in up to a 10% annual salary increase. Staff may also be promoted either to a higher level position or to a higher base salary within the same job position.
- In addition to base salary pay, field staff participate in an incentive scheme that, upon meeting minimum targets, considers productivity and repayment rates. For other administrative field staff, there are additional incentives based on the number of clients/groups. Incentives constitute the bulk of a LO's monthly income. The minimum accepted rate of repayment for eligibility to incentives is 98% and 100% for SME lending and group lending respectively.
- If a member of the field staff does not perform well, he/she has another year to improve or, if not already a manager, may be transferred to a lower level job. In difficult cases, legal affairs will review the matter.
- Additional employee benefits to staff include performance awards, personal credit cards, mobile phone lines at business rates, and access to loans with an additional guarantee from another staff member of the Association.
- DBACD has successfully internalized many trainings on a wide range of topics, although would benefit from more formal training plans. Training has been largely provided by a

technical service provider in the past for the SME loan officers in anticipation of a branch opening and is now internalized for a one-month period with sessions at headquarters in addition to field work. If the new hire is not part of a grouped recruitment, he/she is trained mainly by the branch manager. The group lending loan officers are trained by the technical service provider and DBACD’s Group Loan Manager. Additional trainings are determined periodically based on request and typically include computing and English language, both of which can be provided by DBACD’s own ITC. DBACD is also seeking to address some of the more “soft” skills such as communication.

Information Management Systems

Management Information System (MIS) and Equipment

Description of the MIS	
Infrastructure	• The HQ and branches are linked through a Wide Area Network for the loan tracking and accounting systems allowing for input and consultation based on predetermined access rights. • DBACD has sufficient computer stock of quality, approximately 80 computers, for HQ and the seven branches for microfinance projects.
Accounting	• Software: Alpha, Excel, 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 directly entered in the same file but in branch-specific accounts. • Accountants reconcile data with banks statements on a regular basis. • Internal Financial statements are generated every month, and include calculations for depreciation and loan loss provision expenses.
Activity information	• Software: El Mohassil (developed by EQI) • The branch level accountant inputs client information and disbursement data • Repayment information is recorded in the branches by the branch accountant based on data from the partner bank. • Data is reconciled at the end of the month with computerized bank statements. • Up-to-date information is available every day and summary reports are available monthly.

Security

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

DBACD has an adequate security system. Passwords are needed to enter computers and key databases. These passwords, of at least six characters, 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 day on a separate server and every week by tape, although tapes are not stored in a fireproof safe. To limit the potential for viruses, Internet access is limited to only two computers, Norton anti-virus software is used, and branch computers have no CD nor floppy drives. Valuable documents such as the guarantee checks are adequately kept in safes or in the bank and are inventoried. The client affairs officer typically keeps loan contracts in locked cabinets, although not necessarily fireproof.

Ease of system use

Efficient MIS structure

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 network infrastructure that links the branches to HQ 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 a couple of days per month, and data transmission problems after such cut-offs have been resolved with the loan tracking software provider. The loan tracking software facilitates efficient loan handling processes and provides rich information for branch managers and loan officers. The accounting software provides all needed basic information. There are several accounting items tracked in Excel or Access (incentive pay calculation, inventory management, depreciation calculations, and vacation tracking) and then input into the accounting system. DBACD is seeking a more advanced accounting software to handle such additional modules. All accounts are computerized and supporting documents are kept in hard copy.

MIS plan and future improvements

No formal MIS plan needed but future improvements under discussion

The MIS Manager does not have a specific written MIS plan but does anticipate future needs for infrastructure and software with the appropriate departments. Possible changes anticipated include an upgrade of the already satisfactory Alpha accounting software and the transition from a Wide Area Network (WAN) to the more performing and secure Virtual Private Network (VPN). Based on its own observations or requests from clients, the provider regularly adds improvements to the loan tracking software.

Skills of MIS managers

MIS manager with appropriate skills to manage network and staff training

The MIS manager has the requisite skills to oversee the current MIS needs of DBACD, which include maintenance of the computer base and network and some programming skills. In an attempt to generalize computer skills, the MIS manager has been training accounting staff in the branches about the concepts related to database construction through Access classes.

Information on Activities

Information quality

Rich and reliable information

Given a useful loan tracking system and common database across the network of offices, DBACD has regular, rich and reliable portfolio information in addition to key client information. There are numerous useful reports and indicator calculations already developed in the MIS. DBACD uses a range of these indicators and the branch managers are well aware of both their portfolio and financial performance. Client repayment history for each loan is readily available. Client business data is not currently tracked or analyzed systematically. The market information used at present is basic demographic data. General market surveys are conducted prior to opening a new branch.

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

Accurate and complete financial information

DBACD has accurate monthly accounting information by branch, product and consolidated with frequent bank reconciliations. Full financial statements are produced every month by branch and consolidated.

Numerous reports to provide financial ratios and indicators

DBACD also fills out on a 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. DBACD analyzes performance with respect to all costs of operation. In addition, DBACD uses additional reporting tools to monitor performance on a monthly basis, that include loan officer profitability and funding access by account among other reports. Branch managers are responsible for the profitability of each branch and this will be further strengthened in the future. Although there are no written goals, DBACD has a clear sense of start-up costs for a branch, profit margins by branch maturity, etc.

Skills of finance department

Financial analysis skills could be applied to business planning

The Finance department includes a Finance Manager, Senior Accountant, five other HQ accountants, and one accountant for each of the seven branches. The team has a clear division of tasks and successfully manages its accounting and financial monitoring tasks. As DBACD engages in a more concerted business plan process, the financial analysis skills can be applied to more formal tools for planning and monitoring of progress towards these goals. It is expected that in the future DBACD will be developing such targets to track formally.

Risk Management

Procedures and Internal Controls

Internal Controls

Strong internal control system

DBACD has a strong internal control system with clear manuals, an appropriate separation of tasks to limit fraud, available information to identify under-performance, and additional checks on this process through internal and external audits.

Key manuals adapted to DBACD needs and include all key forms

DBACD has a series of manuals to cover most areas of operations and administration. The manuals include credit policy, finance and accounting, and a comprehensive administration manual covering job descriptions and departments not covered by other manuals. These manuals include copies of the appropriate forms to be used for each procedure. The operations manuals for both the individual and group loan programs are clear and comprehensive, initially provided by outside consultants but updated in spring 2004 by DBACD.

Clear separation of tasks for loan approval

The clear separation of tasks for selection, approving, cash collection, and cash recording by separate actors greatly limits many forms of fraud. The loan approval process requires signatures from the LO, the LO supervisor, the branch manager, the Deputy Operations Manager (in case of the 3 new branches that report to him) and the Executive Director (ED). For older branches, loans under 3,000/5,000 EGP may be approved by the branch manager and for newer branches loans under 1,000/2,000 EGP. The Board Executive Committee approves disbursement lists, often post-fact, and is not involved in individual loan approvals.

Wealth of data helps identify under-performance, even if some performance targets not always written

Given the wealth of detailed financial and portfolio data, DBACD has an opportunity to identify problems and under-performance, although most areas of performance do not have formally defined targets. The overall budget is a general guideline but does not serve as a detailed management tool for such purposes. Branch managers are asked to provide their plans for number and value of loans for the following year but there is no written exercise of comparing 'actual' versus 'target' productivity. Monthly financial reviews by branch identify if there are any financial issues to address. The incentive system encourages strong portfolio performance while personnel evaluations and staff management policies serve to address potential weaknesses.[2]

Liquidity security

Mix of partner banks, strong procedures and insurance mitigate cash handling risks

DBACD ensures the security of its cash through a number of internal practices. The SME program cash handling is managed through partner banks, and uses internal staff for group loan cash handling. Group loan collectors carry up to 30,000 EGP at a given time. The cashier carries the staff monthly salaries from HQ and the petty cash and for group loans carries the cash from the bank to be used for loan disbursements by the group loan team. Both the cashier and the collector are insured. All cash is delivered to the bank daily. Cash deposited or collected after bank working-hours stay in the safe overnight; the maximum is 3,000 EGP and only the cashier has access to the safe.

- Under the SME program, disbursements are made by check drawn on one of the partner banks. Cash repayments are made at the bank, by the client, whereby he is returned the

[2] An additional strategy of management to address cases of poor LO (or branch) productivity, and/or high client dropout is to assign one or two LOs from another branch on a temporary basis to support them and ascertain if the under-performance is due to the individual or to the market.

guarantee check corresponding to the particular installment that he repaid. Certain late payments and occasional other collections are made directly to the DBACD branch cashier.

- Under the group loan program, both disbursement and collection are made on a cash basis. On the day of disbursement, the cashier goes with the group loan coordinator (equivalent of loan officer), the supervisor of the coordinators, and sometimes the branch lawyer to a locale in the village. On-site collection is done by the collector and witnessed by the coordinator or the supervisor.

Internal Audit

Risk identification

Operational risks well identified, macro risks could be more formally discussed

The lack of a formal process of risk identification by the Board has been partially addressed by the fact that DBACD has had minimal competition, ample funds, and strong operations until now. They are concerned with the key-person risk associated with the ED and with credit risks. The Executive Director is the most risk conscious within DBACD, who is also concerned about the legal structure of NGOs and the potential for government interference. The risks related to minimal funding opportunities appear to be underestimated. Thus far competition is not deemed to be a major issue. To address operational risks, the ED gathers all suggestions and submits to the Board policy amendments to address them.

Internal audit quality

Internal audit team well experienced with operations

The internal audit department is sufficiently experienced to perform appropriate audits. The internal audit department is led by a Manager who has been with DBACD since inception and has over 15 years experience, mostly in accounting and audit, in addition to several training courses. He reports to the ED who acts promptly to any findings. The only disadvantage of this reporting line is the inability to audit the work of the ED. The Manager has a team of four auditors who perform both interchangeably financial audit and operational audits. The team visits at least one branch per month. The seven branches are checked about 1.5 times per year on average. The team will focus more on branches with higher amounts of overdue loans. The Director of Internal Audit has autonomy in planning his schedule of visits unless the ED sees a problem in one of the branches and asks him to check it.

Financial verifications and significant number of client visits

The quality of internal audits is more than satisfactory, as they include financial audits, which are complemented by credit file reviews, and by a considerable number of client visits. DBACD visits a significantly higher sample of clients than other best practice MFIs. The team verifies whether policies and financial procedures are adhered to, checks whether fixed assets are in good condition and well maintained, conducts periodical inventory counts, reviews financial bookkeeping, cashier, bank reconciliation and customers' accounts, and checks procurements prior to disbursement. For SME lending, the auditors visit about 90% of the clients to ensure loan usage according to the specified loan purpose. For group lending, they visit about three out of five members per group, for about 70% of the groups for an effective sample of 40%. For group loan clients, the auditors pay special attention to clients whose successive loans increase in value rather fast to confirm correct usage of loan funds. They also check to see if a group member has turned over her loan to another member, which has occurred in a minimal number of cases.[3] The external auditor visits DBACD on a weekly basis throughout the whole year for ongoing audit review, although this work is not performed in conjunction with the work done by the internal audit department.

[3] In one unusual case, all of the women who took loans in a give village turned over their loans to one man in the community. Upon discovering this problem, DBACD took active measures to ensure that the responsible party was held accountable. He therefore continues to repay the entirety of this loan without payment delays.

Reports on findings are translated to policy changes

The internal auditor will produce reports on shortcomings, and writes reports per ED's request on the strengths and weaknesses of a new policy before implementation. The report findings are then translated into policy changes. For example the auditors noticed that use of the group loan coordinator or client home for disbursing loans led to a misconception by the public whereby some thought that the program is owned by the coordinator. As a result, loans are now disbursed in a local public facility. The Board members do review the internal and external auditor reports. The external auditor, changed three years ago, provides his comments on an on-going basis throughout the year.

Activities: products and services

Marketing and competition

Competition from Banque du Caire not yet a threat

DBACD's potential market is vast with a population of more than 5 million in the current service area. DBACD has experienced increasing competition since 2002 on the SME product from the Banque de Caire, but does not consider this a threat given its good reputation in the community, flexible collateral requirements, closer client relationships gained by hiring LOs from the regions served, and large market potential, notably in the villages outside of the district capital. BdC has a much quicker disbursement process, within just a couple of days, but DBACD feels it could increase the frequency of its twice-monthly disbursements if this proved a serious competitive disadvantage. BdC has a very similar SME product at the same interest rate, 16% flat, and was also provided with technical assistance from EQI. BdC's microfinance program has been in operation for almost two years, but DBACD indicates that it does not feel the impact of this program on its figures. BdC has a more limited scope on SME lending with a focus on loans between 3,000 and 10,000 EGP whereas DBACD has the group loan product for loans under 800 EGP and serves individual loan clients up to 25,000 EGP in practice, 50,000 theoretically for repeat clients. Other competitors are not a major concern at present given restrictive collateral size or small scale. [4]

Proactive approach to adapting products to meet market demand

DBACD has taken a proactive approach by adapting its existing products to market needs and by introducing new loan products. The field feedback acquired by LOs that could improve products is continuously relayed to the branch managers and ED, in the absence of an Operations Manager. Consumer loans were introduced for employees for a maximum of 10% of the branch portfolio, as well as car-repair, animal fattening and home renovation loans. Loans for craftsmen with no enterprise, such as plumbers or painters, were introduced for up to 5,000 EGP. DBACD is also considering the provision of non-financial services to its borrowers including trainings for a modest fee on how to deal with the government departments such as the Labor Office, the Tax Authority, the Social Insurance Office, etc. In addition, DBACD became more flexible with regards to required legal and business documentation for lower SME loan amounts, increased loan terms and loan sizes, and eased restrictions to allow two same-family members in a group if each had a separate business.[5]

Portfolio Management

Strong lending methodology and delinquency management

Lending methodology

DBACD's strong lending methodologies and comprehensive MIS facilitate appropriate portfolio management, albeit with improvements possible in the financial analysis of SME clients.

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[4] Other competitors include Nasser Social Bank and the Social Fund for Development but they have restrictive guarantee requirements (government employees who are required to assign their salary and have it transferred on monthly basis to the creditor for possible deduction). The State Agricultural Bank requires land possession as loan collateral. Other competitors tend to have lower effective rates but may have additional demands of job creation.

[5] DBACD is seeking to attract the vast segment of 'informal' micro-enterprises through its flexible policy whereby the business legal documents (e.g. commercial registry, tax card, social security for employees, etc) are only required on a graduating scale and when the customer's successive loans grow in size.

Client business information not always recorded in applications

LOs select borrowers based on client reputation and business analysis. LOs visit the client's business to estimate the value of inventory, fixed assets, revenues and expenses. However many clients are reluctant to discuss openly their finances and very often the LO will not record financial information in the client application. Many LOs will informally estimate the debt repayment capacity of the client. Branch managers will also visit clients requesting large loans. The LO records his recommended loan terms and then the file is approved consecutively by the LO, his supervisor, the branch manager and if exceeding his limits, the Deputy Operations Manager/ED. This process seems less effective for loan applications that do not have written financial information.

Repayment discipline is an integral part of DBACD's policy. LOs visit the client after only one day of delay to check the reasons and induce the client to repay. Client monitoring is performed by the LO, the supervisor, the branch manager, and the branch lawyer. The rate of repayment is an important component of the staff incentive system.

Strong delinquency management

The strong delinquency management involves several actors and starts early. The supervisor accompanies the LO to the delinquent client during the first few days of delay. Delay penalties are charged starting the fifth day of delay. After a week, DBACD sends a written warning to the client, and later a legal warning, which could lead to court action and a possible jail sentence. As of March 2004, only 45 cases were in court. Re-scheduling is allowed in selected cases but must be approved by headquarters and the repayment of these individuals is tracked separately in the MIS and additional worksheets.

DBACD also tracks dropout clients. The reasons for dropout are discussed with the LO. At times, the branch manager or the Deputy Operations Manager (for the three branches that he is in charge of) may discuss with the client opportunities to retake a loan in the future. Clients not entitled to an immediate successive loan due to repayment delinquency may receive advice to be eligible for a loan in the future.

Loan Officers skills

Loan officers specialized by product with the requisite skills

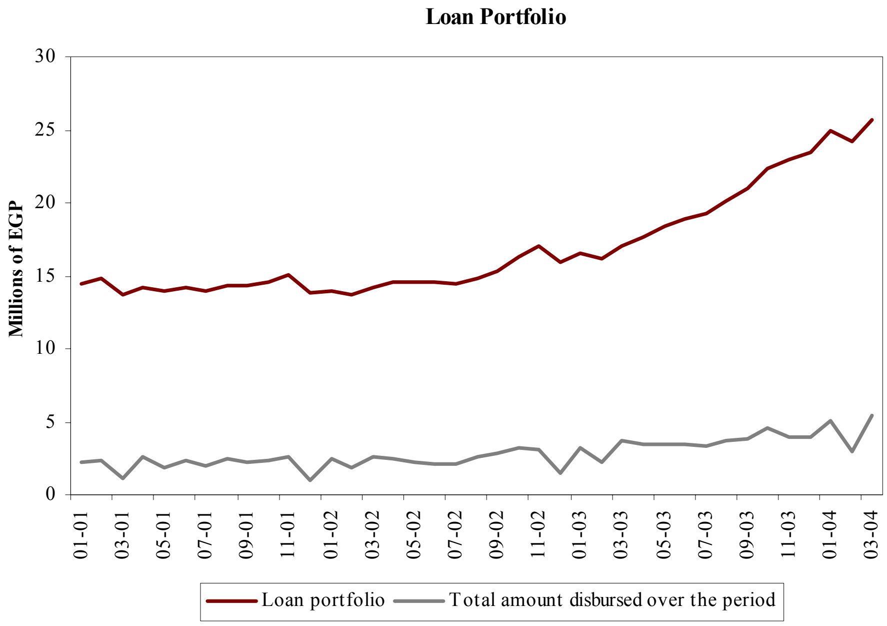
SME LOs have the requisite skills. Loan officers have university education, in priority a commerce background. The main criteria for LO, who are recruited as young graduates, are communications skills, marketing and fieldwork experience, language and computer skills. A second and third filtering are done after meeting the ED, then after training. Training includes both in-class courses for two weeks and on-the-job training in the field for one week. Group loan coordinators do not need a university education. Coordinators are hired from the villages they will serve as they are then better placed to assess client reputation.

Portfolio diversification policies

Portfolio risk by sector monitored

DBACD does have a couple of portfolio policies to limit risk. The SME loans used for consumption purposes may not exceed 10% of the portfolio and the business sector of the business is also tracked in the MIS. LOs are discouraged from lending to certain riskier sub sectors, such as poultry and cyber cafes. As the group loan product expands, it will become an increasing part of the portfolio but thus far is only 5%.

Portfolio at risk (PAR)
Write-off ratio



Portfolio growth in 2003 driven by three new branches and one of the four older branches

DBACD experienced stagnant portfolio growth in 2001 as well as deterioration in portfolio quality relative to its typical rates. The growth by year-end 2002 was still modest and in 2003 annual growth reached over 46%. The opening of three new branches and the older Senbellawain branch has driven this growth, as three of the older branches have considerably lower growth rates from January 2003 through March 2004 (2% for West Mansoura, 12% for East Mansoura, and 15% for Meet Gameer). DBACD attributes this lower than desired growth to saturation in the urban markets and client drop-out and is seeking to target new business sectors and loan purposes in order to better attract and retain clients. Funding capacity on the overdraft facilities also increased during the year by over 30% to fund that growth. The outstanding portfolio typically dips during the year to reach a high at the end of the year as disbursements pick up after the summer until just before the end-of-year holidays.

PORTFOLIO

USD, unless otherwise stated	Dec. 2001	Dec. 2002	Dec. 2003	Mar. 2004
Loan portfolio	3,015,834	3,476,184	3,827,565	4,119,254
Loan portfolio (EGP)	13,872,839	16,164,258	23,666,217	25,692,611
% change	(3.0%)	16.5%	46.4%	8.6%
Average outstanding portfolio	3,105,788	3,229,795	3,220,915	3,956,810
Number of active borrowers	9,693	12,689	19,606	22,410
% change	29.2%	30.9%	54.5%	14.3%
Average outstanding loan	311	274	195	184
% of GDP per capita	27.6%	23.5%	21.2%	20.1%
Average amount disbursed per loan	402	329	200	172
% of GDP per capita	35.7%	28.3%	21.8%	18.9%
PAR 31-365	1.0%	0.1%	0.0%	0.0%
PAR 365	0.0%	0.0%	0.0%	0.0%
Rescheduled loans	4.3%	1.5%	0.5%	0.5%
Write-off ratio[a]	0.0%	2.8%	0.3%	0.0%

(a) This calculation includes loans put “in suspense” 30 days after the final due date of the delinquent loan that are provisioned at 100% but not officially written off as well as in 2002 loans written off totaling 91,762 EGP. Please refer to the discussion below on portfolio quality.

Performance by product (in EGP)	Dec. 2001	Dec. 2002	Dec. 2003	March 2004
SME				
Loan portfolio	13,655,324	15,377,391	22,496,050	24,480,941
% change	(4.5%)	12.6%	46.3%	8.8%
PAR31-365	1.1%	0.1%	0%	0%
Rescheduled loans	4.4%	1.6%	0.5%	0.6%
Number of active borrowers	7,718	8,789	13,476	15,050
Average disbursed loan size	2,713	2,799	2,564	2,510
Average disbursed loan as a % of GNP per capita	52.3%	51.7%	45.0%	44.1%
Bashayer				
Loan portfolio	217,515	564,328	958,365	1,211,670
% change	Start-up	159.4%	69.8%	26.4%
PAR31-365	0%	0%	0%	0%
Number of active borrowers	1,975	3,900	6,130	7,360
Average disbursed loan size	152	257	248	283
Average disbursed loan as a % of GNP per capita	2.9%	5.0%	4.8%	5.5%

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 95% of the portfolio and the group loans for 5%, 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 for one third of active clients. Internal loans to employees are not included in these portfolio figures and are accounted for as an account receivable.

Portfolio at risk entirely from individual loan product

The portfolio quality indicators for the global portfolio are actually all from the SME program as amazingly there are no month-end late payments in the group loan program. The year 2001 was a more difficult period in terms of portfolio quality with 4.4% rescheduled loans, 1.0% PAR31 and 0% loans placed in suspense. DBACD attributes this portfolio degradation not to the external environment but to internal policies and the lack of write-offs for late loans that were accumulating from the four prior years.

DBACD rarely writes off loans given the reticence of the Board to declare a loan unrecoverable, however 30 days after the last installment due date DBACD will place loans in suspense and remove the loans from their PAR calculations, and could therefore be considered as a proxy for a more regular write-off policy. These loans were already provisioned at 100% after being overdue by 120 days. These figures have all improved for a PAR31 of less than 0.02%, a rescheduled rate of 0.5% for 52 loans and a proxy write-off ratio of virtually 0% in March 2004. It should be noted that DBACD defines any loan where a loan installment has been delayed as rescheduled, even if the final term date remains the same. These loans have received headquarters approval and are tracked closely. DBACD even keeps separate statistics to document that those with rescheduled loans do typically pay back.

Credit risk coverage

Provisions for loans at risk more than sufficient

Coverage by provisions

DBACD applies a standard provisioning methodology that provides more than sufficient risk coverage for loans in arrears (details on the provisioning methodology can be found in the appendix). The figure in 2003 is exceptionally high because the loans at risk dropped to virtually nothing although the reserve was maintained at nearly the same level.

Risk coverage	Dec. 2001	Dec. 2002	Dec. 2003
Risk coverage ratio	299.8%	283.2%	11,786.4%
PAR 31 net of loan loss provision / Equity	Reserves cover PAR 31 more than 100%		
Note: Provisions at 100% of loans in suspense were excluded from this calculation.			

Guarantee checks main incentive for client repayment

Coverage by guarantees

Guarantee checks are the main incentive for clients to repay, given that checks not honored can entail jail sentence or civil action eventually. 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. DBACD also requires for the individual loan product a guarantor with a stable income from the same household or a third party to further reduce the risk, although this income is not recorded on the form. The guarantor is used more for additional pressure on the client in the event of non-repayment. 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

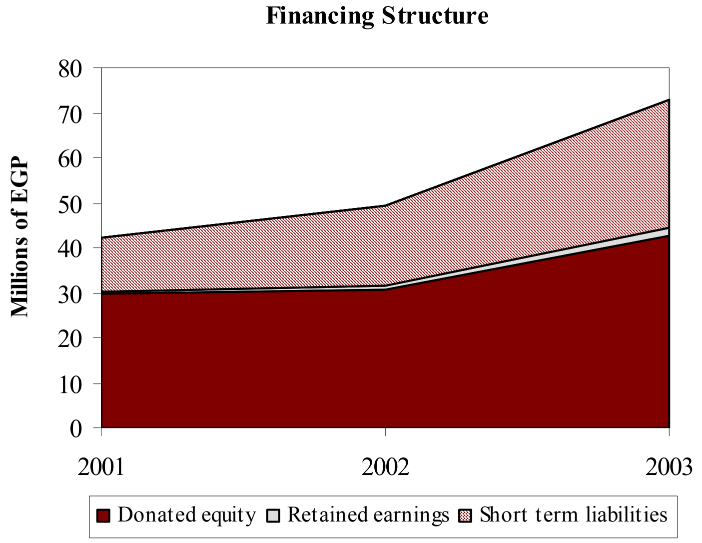
Several of the Foundations in Egypt responded to the risk of the new government law that could be implemented in two years, as according to the new law, the guarantee checks will no longer be useable. The law has already been postponed three times and its implementation is expected in October 2006. After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

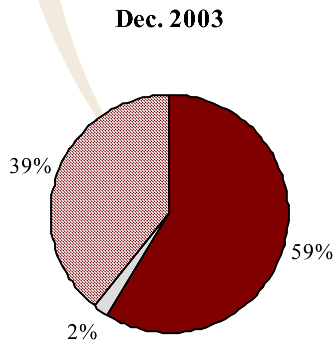
Savings Activities

DBACD is legally prohibited from collecting savings.

Financing and liquidity

Financing Strategy





Capital structure of equity from USAID and overdrafts

Description of the funding structure

DBACD is funded almost exclusively by equity, in the form of USAID subsidies for operating expenses and collateral deposits to finance the portfolio, and bank overdraft facilities obtained using these collateral deposits. Interest earnings on the collateral deposits must be capitalized in these deposits per the grant agreement. Retained earnings comprise only 2% of assets and are not a reliable source of portfolio funding.

Asset size overstated with fixed deposits on balance sheet

The amount of equity and thus the amount of total assets is overstated given that the donated USD collateral deposits are part of the balance sheet as opposed to remaining off balance sheet items. Without these deposits, the total assets for DBACD would be 31.7 million EGP (instead of 72.7 million EGP) and the capital structure 5% retained earnings, 6% donations, and 89% bank overdrafts overdraft (instead of 2% retained earnings, 59% donations, and 39% bank overdrafts).

Asset & Liability Management based on overdraft use

Asset & Liability Management Procedures

DBACD does not have any formal ALM policies but per the Cooperative Agreement must finance the portfolio funded by USAID with the bank overdrafts. DBACD has negotiated its overdrafts with several banks,[6] although it could increase its leverage effect on the collateral deposits.

- **Interest rate level:** The interest rates of between 10.5% and 12.5% per annum in addition to interest earnings on the collateral deposits of between 1% and 2.5%. Overdrafts backed by Egyptian pounds carry interest rates of between 7.75% and 8%.
- **Overdraft leverage:** Leverage on USD back overdrafts is 95% of the fixed deposit amount, although another Association has reached as high as 150% and DBACD should be able to as well in the future. For EGP denominated deposits, that leverage is only 90% of the deposit.

[6] The bank overdrafts are from several banks, including Bank of Alexandria, National Bank of Egypt, United Bank of Egypt, Alwatany Bank of Egypt, and Bank Misr. DBACD has been withdrawing from relationships with Banque du Caire given that it has become a competitor on the individual loan product.

- **Exchange rate:** The exchange rate applied to USD collateral deposits has been renegotiated to approach market conditions, therefore current agreements are between 6 and 6.14 EGP per USD.
- **Excess overdraft capacity:** As of March 31, 2004, the excess capacity on both deposits is approximately 10 million EGP but it is expected this cushion will be used up before the end of the year.
- **Foreign exchange risk exposure:** In the event that the EGP appreciates with respect to the dollar, DBACD is at risk for having its overdraft limits lowered and there is no security margin to protect against such an event. All borrowing 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 or 24 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

Unclear financing strategy for the future problematic

DBACD has thus far been able to meet all financing needs through overdraft facilities obtained through the USAID Cooperative Agreement, but does not have a clear financing plan for the future. The lack of a clear plan is problematic given that DBACD plans to exhaust current overdraft facilities for 10 million EGP, in addition to a planned 1.6 million USD drawdown by the end of the year from an existing USAID grant. DBACD anticipates additional funds from USAID to finance growth in the future. The devaluation in 2003 increased the capacity on these overdrafts by 30-35%, temporarily putting off the need for seeking alternative financing sources. DBACD does have an opportunity to renegotiate the leverage on the current bank overdrafts to increase funding capacity but the level of any possible increased leverage has yet to be negotiated. They may also pursue loans backed by their own assets, notably several buildings. Retained earnings are not a sufficient source of funds for portfolio growth. The highest leverage provided by a local bank on the USD fixed deposits has been 150%. DBACD would consider pursuing international funding sources, but would need government approval for such transactions.

Liquidity Management

Cash-flow projections

Cash-flow planning will need to be more precise in future

DBACD does not perform precise cash-flow projections, mainly because there has been ample capacity on the overdrafts and because there is not a formal institution-wide planning process to generate precise data. As the funding capacity is exhausted, DBACD will need more rigorous planning to avoid disbursement delays. Day-to-day cash-flow planning is facilitated by the regular disbursement days for the individual loans on two days per month. Disbursements and collections for the group loan product, only 5% of the portfolio, are twice weekly. The Finance Department does produce three-month projections with regards to use of USAID funds as required.

Resource optimization

Minimal cash and investments beyond bank collateral

Given the reliance on bank overdrafts as the main funding, DBACD maintains very little cash on hand and has no additional investments beyond bank collateral. DBACD has some flexibility to take advantage in priority of those overdrafts with the best conditions.

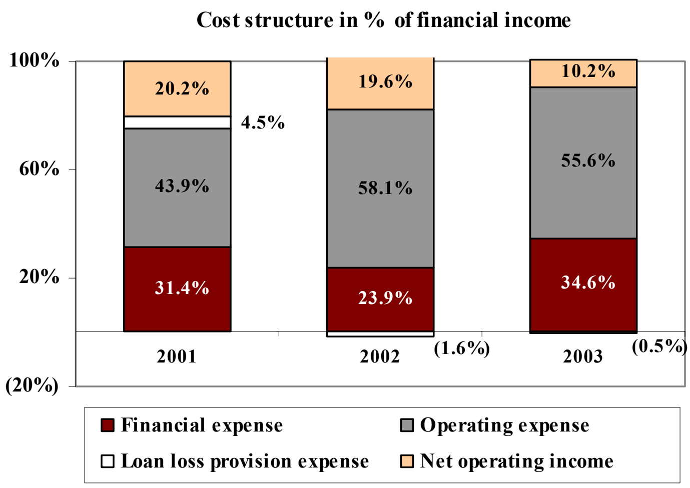
Efficiency and Profitability

Profitability analysis[7]	Dec. 2001	Dec. 2002	Dec. 2003
ROE	3.3%	2.8%	1.5%
ROE (includes Information Technology Center)	2.8%	2.1%	0.8%
Liabilities / Equity	39.0%	54.9%	64.3%
ROA	2.2%	1.9%	0.9%
ROE (includes Information Technology Center)	1.9%	1.4%	0.5%
Profit generation			
Operational self-sufficiency	125.2%	124.4%	111.4%
Portfolio yield	30.0%	29.8%	28.2%
Operating expense ratio	13.2%	17.3%	15.7%
Staff productivity	69	69	77
Loan officer productivity	159	136	132
Average outstanding loan per client (USD)	311	274	195
Funding expense ratio	9.4%	7.2%	9.8%
Cost of savings	n/a	n/a	n/a
Cost of liabilities	10.9%	7.4%	8.6%
Loan Loss Provision expense ratio	1.4%	(0.5%)	(0.1%)
PAR 31-365 (excludes rescheduled loans)	1.0%	0.1%	0.0%
Write-off ratio	0.0%	0.6%	0.0%
Asset management			
Outstanding Loan Portfolio / Assets	31.9%	32.4%	32.2%
Investment revenue / Total revenue	0.0%	0.0%	0.0%
Adjusted ratios			
Adjustment expense ratio	1.2%	0.9%	1.0%
AROE	2.6%	2.4%	1.0%
AROA	1.8%	1.6%	0.6%
Financial self-sufficiency	119.4%	120.0%	107.3%

DBACD gas been operationally sustainable for several years but with a decline in profitability during expansion

Overview of profitability

DBACD has covered operating costs for the last several years, with an operational self-sufficiency of approximately 125% in 2001 and 2002 and a decline to 111% in 2003. The profit margin has been halved from 20% down to 10% over the same period. This temporary decline is due to several factors, a constant to slightly declining portfolio yield coupled with a higher operating expense ratio and cost



[7] 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.

of funds. This trend is related in large part to the opening of three new offices, two in 2002 and one in 2003. In 2002, DBACD performed somewhat better than its regional peers that had an operational self-sufficiency average of 113%. The ROA has declined from 2.2% in 2001 to 0.9% in 2003. Note that when incorporating the losses of the ITC, this ROA declines further to 0.5%. The ROE has also declined even though the leverage ratio has increased, as a result of this decline in profit margin. Note that ROA and ROE figures are an underestimate since the balance sheet is artificially larger with the collateral deposits.

Portfolio yield and effective interest rate

Constant portfolio yield

The portfolio yield has remained relatively constant, at approximately 30% in 2001 and 2002 and 28.2% in 2003. DBACD has not changed its interest rates, 16% flat / 28% effective for the individual loan product since inception in 1998 and 26% flat / 46% effective for the group loan since inception in 2001. The rates were set in conjunction with USAID at the beginning and have simply never been changed. DBACD's interest rates are similar to those charged by its main competitor, Banque du Caire, and other similar MFIs in Egypt, although significantly less than regional peers (average effective rate at 40%).

Operating expense ratio

Operating expense ratio spiked in 2002 but on the decline and lower than regional peers

Operating expenses as a percent of the outstanding portfolio spiked from 13.2% in 2001 to 17.3% in 2002 with new branch openings and then dropped somewhat to 15.7% in 2003. This ratio at its high in 2002 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, a larger portfolio size than several peers, and a lower non-personnel expense ratio.

Productivity ratios considerably lower than peers

With expansion, loan officer productivity has dipped but is trending upward, with a ratio of 159 year-end 2001, to a low of 132 year-end 2003, and back up to 146 in March 2004. Staff productivity has steadily increased from 69 in 2001 and 2002 to 85 in March 2004, without a dip, given that the percent staff as loan officers has increased from 44% to 59% over the same period. These productivity ratios are significantly lower than regional peers (213 and 133 respectively) reporting to the MBB 2002, although higher than some in-country peers, given the expansion process and 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.

One impediment to higher productivity ratios is the loan approval process that could be streamined. Although less labor intensive than several other local Associations since approvals under certain limits are delegated to the branch level, at least six people will review a loan application prior to approval.

Personnel and depreciation account for almost 90% of expenses

Personnel expenses have remained between 70% and 75% of operating expenses over the last three years and therefore have a preponderant impact on this ratio. With the purchase of several offices and the associated computer stock, depreciation has been a consistently high expense, 14% of operating expenses in 2003. The remaining expense items are only 11% of operating expenses and leave less room for cost cutting.

Funding expense ratio

Cost of fund increases related to interest rate levels and problems with USD deposits

DBACD finances its portfolio entirely with overdraft facilities from local banks backed by either USD or EGP deposits. As a percent of the average outstanding portfolio, this ratio dipped from 9.4% in 2001 to only 7.2% in 2002 jumping back up again in 2003 to 9.8%. A Central Bank directive to encourage the liquidation of USD deposits forced DBACD to use overdrafts from the existing contracts to take loans and in turn deposit those Egyptian pounds in other banks to take an additional overdraft. DBACD has obtained approvals from the Central Bank so that it no longer is required to follow this inefficient funding strategy.

Loan loss provision expense ratio (cost of risk)

Low loan loss expense ratio

Loan loss provisions are not a significant cost for DBACD, even with a conservative provisioning policy that results in 100% provision for all loans over 120 days. In 2001, DBACD did expense provisions higher than usual at 1.4%, but since that time DBACD has been recovering funds on loans provisioned, resulting in a negative provision expense in 2002 and 2003.

Asset management

Fixed deposits required

Although DBACD appears to have significant investments, these are exclusively used as a guarantee for overdraft facilities with interest being capitalized at a rate of 1 to 2%. Cash on hand has been consistently low, less than 1%. Because DBACD has had additional capacity in its overdraft facilities, there has been no need for considerable cash on hand.

Adjusted performance

Details concerning the specific adjustments are included in the annexes.

After adjustments, financial self-sufficiency over 100%

Even with the Planet Rating standard adjustments, for a modest adjustment expense ratio of 1%, DBACD still displays good performance. Financial self-sufficiency has been over 100% during the last three years, although the absolute values have declined with the general decline in profitability due to expansion, from 119.4% in 2001 to 107.3% in 2003. Given that DBACD already has bank loans, albeit with excessive collateral, and an appropriate loan loss provision procedure, no adjustments were made for these items. The remaining adjustments include inflation, net of the bank collateral deposits for minor amounts in 2001 and 2002, as well as adjustments for the in-kind donations of trainings by the USAID technical service provider.

Evolution of profitability

Profitability outlook positive as new branches achieve economies of scale

DBACD does not have any stated profitability goals other than to cover the costs of its operations. DBACD has proven its ability to cover such operational costs, even while financing the portfolio entirely with borrowings and undergoing a period of expansion. Over the next couple of years, DBACD expects the overall profit margin to be restored to levels at or around the pre-expansion phase (between 15% and 20%).

- In March 2004, of the seven branches, only one new branch from 2003 did not cover its costs as it has been open only nine months but is expected to cover all costs by the end of the year. The others cover their own costs in addition to an allocation of headquarters costs.
- The ITC project actually continues to have a negative net income, excluded from the ratios above unless indicated, and it is not clear when this project will become self-sufficient, as it was expected to already have done so. The losses will continue to weigh down the net earnings of DBACD in the future, especially with a large infrastructure investment that results in significant depreciation expenses that account for over 40% of its expenses. DBACD will not allow ITC losses to become so significant that it would hurt the long-term viability of their activities.
- The cost of funds is expected to decline given Central Bank approvals allowing DBACD to maintain USD deposits.
- Although DBACD has discussed reductions in the interest rate charged to clients, there are no plans for any such reductions in the near future.

Appendices

Financial statements and notes

General notes to financial statements per CGAP Disclosure Guidelines

The financial statements provided by the external auditor and the internal financial statements used by DBACD included sufficient detail to obtain financial statements that follow CGAP disclosure guidelines. Please see discussion in Section F on the overstatement of assets due to the incorporation of donated collateral deposits in the balance sheet.

1. The Financial Statements presented include a balance sheet, income statement, and accompanying notes.
2. The financial statements provided include 3 years of data.
3. Segment Reporting for Multiservice Microfinance Institutions: The non-financial services provided through the Information Technology Center are listed as non-operating income in the income statement per Note 14. A breakout of the balance sheet by program would not change materially the information presented.
4. 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").
   (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.

Provisioning Methodology SME program	
Aging	Provision (% outstanding balance)
Rescheduled	50% if in default 1-30 days and 100% if in default more than 30 days.
<30 days	0%
31-60 days	10%
61-90 days	25%
91-120 days	50%
>120 days	100%
Write off	Per Board approval

   (3) Loans are written off from the loan loss reserve and the loans outstanding upon Board approval. This is a very rare occurrence given the reticence to formally write-off loans. Instead, DBACD will place loans in suspense as an intermediate step 30 days after the original term date of the loan. These loans are already provisioned at 100% after 120 days since the last payment.

   (4) The following table reconciles movements in the loan loss reserve:

	2001	2002	2003
Loan Loss reserve, beginning of year	239,232	433,461	268,141
Loan Loss expense during the year	194,229	0	39,190
Recovered amounts on provisioned loans	0	73,558	56,340
Write-off of delinquent loans	0	91,762	0
Loan Loss reserve, end of year	433,461	268,141	250,992

   (5) Accrual vs. Cash accounting: the MFI recognizes interest on a cash basis and therefore does not accrue interest.
5. 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) Renegociation of loans: DBACD allows rescheduling, but not refinancing of loans. This process requires headquarters approval and the loans are tracked separately and provisioned at the rates above.

(3) Insider loans: the MFI does allow employees to borrow funds. In December 2003, these loans total 106,350 EGP and 11,350 EGP in other employee advances. Loans to employees are formalized in a contract between the MFI and the employee that state the amount granted and repayment schedule. This amount is not included in the portfolio as it is recorded as an account receivable.

6. Donations
   (1) Revenue from donations is shown separately from income generated by operations in the income statement.
   (2) Current period donations: DBACD has received donations from USAID in the context of a Cooperative Agreement and its amendments totaling approximately 6.7 million USD, over the last several years, the majority or 4.2 million of which was destined exclusively for fixed deposits to back overdraft facilities.
   (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: Please refer to note on current period donations.

7. Details of liabilities
   (1) The following table includes all bank liabilities as of December 2003.

Loan Provider	Overdraft	Amount LE	Interest Rate	Currency	Guarantee
United Bank of Egypt	17,000,000	13,485,193	11.5%	EGP	USD Collateral Fund
Bank du Caire	12,000,000	9,247,020	11%	EGP	USD Collateral Fund
Alexandria Bank	2,370,000	2,187,209	11%	EGP	USD Collateral Fund
Bank Misr	3,600,000	3,258,144	11% minus 2.5% in earnings	EGP	EGP Collateral Fund
Total		28,204,566			

   (2) Deposits: DBACD is prohibited from collecting deposits.

8. 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%
Fixtures, photocopiers, fixed tools, and equipment and stationery	5	20%
Furniture	10	10%
Computer software	3	33%

   (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 based on the declared exchange rate at the date of preparing the financial statements. The differences, if any, are capitalized in equity.

Specific notes to the financial statements

Balance Sheet

1. Mainly USD denominated deposits part of the USAID Cooperative Agreement used as collateral for local currency loans but in 2002 and 2003 also includes deposits in Egyptian Pounds. In 2003, 32,683,041 EGP equivalent in USD deposits.
2. This amount includes all loans, regardless of final term date. DBACD typically grants loans of up to 18 months but the final term date possible was recently extended to 24 months. The amount of principal falling due beyond 12 months is estimated to be less than half of this amount.
3. Interest is only recognized when collected.
4. Interest on deposits. Per the Cooperative Agreement with USAID, interest on the USD fixed deposits is capitalized and therefore DBACD may not withdraw these interest earnings and recognize it as income.
5. This amount includes advances to employees for 65,116 in 2001, 116,964 in 2002, and 117,700 in 2003. Most of this amount is in the form of formal loans to employees with contracts.
6. Short-term overdraft facilities.
7. Interest on the borrowings is payable daily so there is no accrued interest.
8. Includes grants from USAID for operating expenses, USD deposits to serve as loan collateral, and interest earned on these USD deposits.
9. In 2002, 100,000 EGP and in 2003 13,500 EGP were removed from retained earnings and used as a donation to the community service projects of DBACD. The other activities of DBACD are minor and are reflected in separate financial statements.

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 small fees charged to potential suppliers with tenders and other minor revenues. In 2002, the total amount is the liquidation of a guarantee. In 2003, almost entirely legal fee recovery.
12. DBACD rarely writes off loans, however it does put loans "in suspense" after 120 days with a 100% provision. This revenue represents principal collected on loans put "in suspense."
13. This amount includes legal and audit fees.
14. Revenue and expenses related to the Information Technology Center managed by the Association to provide such services but this is not directly linked to the microfinance activity.

DBACD Balance sheet	Notes	EGP Dec. 2001	EGP Dec. 2002	EGP Dec. 2003	USD Dec. 2001	USD Dec. 2002	USD Dec. 2003	% Change 2002/2001	% Change 2003/2002
ASSETS		**42,106,227**	**49,133,327**	**72,710,487**	**9,153,528**	**10,566,307**	**11,759,552**	**17%**	**48%**
Short Term Assets		**36,112,584**	**43,192,067**	**65,809,453**	**7,850,562**	**9,288,617**	**10,643,440**	**20%**	**52%**
Cash and Due from Banks		51,659	132,567	624,100	11,230	28,509	100,936	157%	371%
Short Term Investments	1	21,993,305	26,439,841	40,977,947	4,781,153	5,685,987	6,627,411	20%	55%
Short Term Net Loan Portfolio	2	13,439,377	15,896,117	23,415,225	2,921,604	3,418,520	3,786,972	18%	47%
Short Term Gross Loan Portfolio		13,872,839	16,164,258	23,666,217	3,015,834	3,476,184	3,827,565	17%	46%
(Loan Loss Reserve)		433,461	268,141	250,992	94,231	57,665	40,593	(38%)	(6%)
Interest Receivable		77,361	44,193	186,532	16,818	9,504	30,168	(43%)	322%
On loan portfolio	3	-	-	-	-	-	-	-	-
On investments	4	77,361	44,193	186,532	16,818	9,504	30,168	(43%)	322%
Accounts receivable and other assets	5	550,882	679,348	605,650	119,757	146,096	97,953	23%	(11%)
Long term assets		**5,993,643**	**5,941,260**	**6,901,034**	**1,302,966**	**1,277,690**	**1,116,112**	**(1%)**	**16%**
Long Term Net Investments		-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-
Net Fixed Assets		5,993,643	5,941,260	6,901,034	1,302,966	1,277,690	1,116,112	(1%)	16%
Other Long Term Assets		-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		**42,106,227**	**49,133,327**	**72,710,487**	**9,153,528**	**10,566,307**	**11,759,552**	**17%**	**48%**
Liabilities		**11,811,019**	**17,416,766**	**28,453,633**	**2,567,613**	**3,745,541**	**4,601,839**	**47%**	**63%**
Short term liabilities		11,811,019	17,416,766	28,453,633	2,567,613	3,745,541	4,601,839	47%	63%
Short Term Borrowings	6	11,759,423	17,275,823	28,204,566	2,556,396	3,715,231	4,561,557	47%	63%
Interest payable	7	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		51,596	140,943	249,067	11,217	30,310	40,282	173%	77%
Long term liabilities		-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	-	-	-	-	-	-
Other Long Term Liabilities		-	-	-	-	-	-	-	-
Equity		**30,295,208**	**31,716,561**	**44,256,854**	**6,585,915**	**6,820,766**	**7,157,713**	**5%**	**40%**
Paid-In Capital		-	-	-	-	-	-	-	-
Donated equity	8	29,625,056	30,495,088	42,734,910	6,440,230	6,558,083	6,911,567	3%	40%
Retained earnings without donations and reserves	9	(64,688)	570,152	1,207,973	(14,063)	122,613	195,367	(981%)	112%
Current year		734,840	651,321	313,971	159,748	140,069	50,779	(11%)	(52%)
Other equity accounts		-	-	-	-	-	-	-	-

DBACD Income Statement	Notes	EGP Dec. 2001	Dec. 2002	Dec. 2003	USD Dec. 2001	Dec. 2002	Dec. 2003	% Change 2002/ 2001	2003/ 2002
Financial Revenue (a)		**4,284,999**	**4,486,167**	**5,625,765**	**931,521**	**964,767**	**909,862**	**5%**	**25%**
Financial Revenue from Loan Portfolio		4,284,774	4,470,203	5,619,353	931,473	961,334	908,825	4%	26%
Interest on Loan Portfolio		4,191,761	4,360,843	5,518,436	911,252	937,816	892,503	4%	27%
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		93,013	109,360	100,917	20,220	23,518	16,321	18%	(8%)
Financial Revenue from Investments	10	-	-	-	-	-	-	-	-
Other Operating Revenue	11	225	15,964	6,411	49	3,433	1,037	6,995%	(60%)
Financial Expense (b)		**1,346,952**	**1,074,433**	**1,947,304**	**292,816**	**231,061**	**314,940**	**(20%)**	**81%**
Interest paid on borrowings		1,346,952	1,074,433	1,947,304	292,816	231,061	314,940	(20%)	81%
Interest paid on deposits		-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-		
Other Financial Expenses		-	-	-	-	-	-	-	-
Financial income [c=a-b]		**2,938,047**	**3,411,733**	**3,678,461**	**638,706**	**733,706**	**594,922**	**16%**	**8%**
Net Loan Loss provision expense (d)		**194,229**	**(73,558)**	**(27,012)**	**42,224**	**(15,819)**	**(4,369)**	**(138%)**	**(63%)**
Loan loss provision expense and write off		194,229	-	39,190	42,224	-	6,338	(100%)	-
Recovery from loans written off or “in suspense”	12	-	73,558	66,202	-	15,819	10,707	-	(10%)
Operating expense (e)		**1,880,133**	**2,604,328**	**3,129,958**	**408,725**	**560,071**	**506,212**	**39%**	**20%**
Personnel Expense (includes fringe)		1,357,644	1,825,864	2,352,347	295,140	392,659	380,448	34%	29%
Administrative Expense (non-staff expenses)		522,488	778,464	777,612	113,584	167,412	125,764	49%	(0%)
Depreciation and amortization		274,712	459,789	448,340	59,720	98,879	72,511	67%	(2%)
Consulting fees	13	32,207	41,592	35,769	7,001	8,945	5,785	29%	(14%)
Others		215,570	277,083	293,502	46,863	59,588	47,468	29%	6%
Net Operating Income Before Taxes and Donations [f=c-d-e]		**863,685**	**880,963**	**575,514**	**187,758**	**189,454**	**93,079**	**2%**	**(35%)**
Income Taxes (g)		-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		**863,685**	**880,963**	**575,514**	**187,758**	**189,454**	**93,079**	**2%**	**(35%)**
Non Operating Revenue (i)	14	62,536	272,029	377,225	13,595	58,501	61,009	335%	39%
Non Operating Expense (including related taxes) (j)	14	191,381	501,671	638,768	41,605	107,886	103,309	162%	27%
Net Income Before Donations [k=h+i-j]		**734,840**	**651,321**	**313,971**	**159,748**	**140,069**	**50,779**	**(11%)**	**(52%)**
Donations (l)		-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]		**734,840**	**651,321**	**313,971**	**159,748**	**140,069**	**50,779**	**(11%)**	**(52%)**

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	12,341,154	14,517,623	22,740,194
b. Shadow price of borrowings	Market rate paid on all borrowings		
c. Interest expense on borrowings			
Adjustment for inflation = (a -b) * c	**48,612**	**20,546**	**0**
a. Avg. Equity (see note below)	6,844,722	6,789,311	4,277,814
b. Average fixed assets	4,819,233	5,967,452	6,421,147
c. Inflation rate	2.4%	2.5%	3.4%
Adjustment for in-kind donations	**120,290**	**111,600**	**193,222**
a. Staff and technical assistance	120,290	111,600	193,222
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	**168,902**	**132,146**	**193,222**
Net income before donations	863,685	880,963	575,514
Adjusted net income before donations	694,783	748,817	382,292
Adjusted net income before donations (USD)	**151,040**	**161,036**	**61,829**

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, DBACD 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 reported by DBACD.
- **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.