

# ALEXANDRIA BUSINESS ASSOCIATION: PROMOTING WOMEN'S ENTREPRENEURSHIP IN EGYPT

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Companies throughout Egypt experienced decreasing profits as consumers grew wary ever since the revolution that overthrew Mubarak. Yet among the organizations that had the capacity to absorb the economic crisis was the Alexandria Business Association (ABA). A nonprofit started in the 1980s, it had grown to include a microcredit division that helped entrepreneurs start or grow their businesses. ABA sought to empower females so they would become more equal members of Egyptian society and experience significantly greater freedom. How could ABA attract more female clients, and what form of support could it offer in order to accomplish its goal of female empowerment?

## Microfinance in Egypt

There were two prominent nonprofit microfinance institutions (MFIs) operating in Egypt: the National Bank for Development (NBD) and the Alexandria Business Association (ABA). The MFI had been a successful socioeconomic development tool for the past 30 years around the world, and was recognized for its impact on sustainable development. Microcredit was the extension of small loans or financial services to poor people who lacked the collateral needed to receive loans through the traditional banking system. Loans would allow people to move out of poverty through their own entrepreneurial efforts.

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Microcredit was provided for business startups and entrepreneurial projects. With well over 1.2 million borrowers, NBD and ABA were the oldest and the largest in Egypt. The penetration rate of these two organizations, in addition to other NGOs and banks throughout the country, was estimated to be only 3.9% of the population living on \$2 a day or less (MAP, 2008).

Typically, NBD and ABA offered individual loans to micro and small enterprises or group lending to poor women (Legal, 2009). Poor clients were reported to receive 24% of these loans, representing 5% of the eligible female poor. Other loan services included: computer, agricultural and educational loans, and micro-insurance.

In 2004, Egyptian enacted the Small Enterprise Development Law which regulated the microfinance sector. The law defined micro and small enterprises (see Exhibit 1) and the role of the social development funds, and provided facilities to micro and small enterprises (MSE).

**Exhibit 1. Criteria for Micro and Small Enterprises**

| Size of Enterprise | Paid Capital         | Number of Employees |
|--------------------|----------------------|---------------------|
| Micro              | 50,000 EGP           | NA                  |
| Small              | 50,000-1,000,000 EGP | Not more than 50    |

The 2004 definition of MSEs enabled MFIs in Egypt to register with the Social Fund for Development to receive assistance and support. It was projected by the Ministry of Investment that the microfinance law would allow roughly 21 million people to benefit from microfinance programs (Daily News Egypt, 2009). The benefits were to include assistance in the form of local funds, credit guarantees, public contracts, technical assistance and “one stop shops.” The “one stop shop” approach allowed representatives from governmental bodies to assist MSEs in registration (Article 3, 10 and 13, SME). The local funds typically came from multiple sources (Article 5, SME). Credit guarantees facilitated access to finance (Article 9, SME). Land allocation provided for at least 10% of government zones for MSE usage (Article 10, SME). Public contracts provided work agreements of a 10% minimum to MSEs (Article 12, SME). Lastly, the

Social Fund for Development provided non-financial service to MSEs including investment information, business plans, and consultation services (Article 14, SME).

In 2006, a network for microfinance was created with the support of the Social Fund for Development and Microfinance Institutions. The Egyptian Microfinance Network (EMFN) represented MFIs for policy purposes. EMFN was developed to provide a formal outlook for the financial sector. The proposed national strategy was to “develop within five years a microfinance industry that provided sustainable financial services for poorer market segments and helped to develop a broad, inclusive and diverse financial sector” (National Strategy for Microfinance, 2005). The plans included credit guarantee mechanisms (SFD/MFS, 2008). Some donor agencies, such as USAID and AFD, launched credit guarantee programs to allow NGOs to operate MFI support programs. However, projections proved to be wildly inaccurate, perhaps because of the 2011 revolution.

### **Alexandria Business Association**

The Alexandria Business Association (ABA) was a non-governmental organization (NGO) founded in 1983 and supported by the Alexandria Chamber of Commerce (Garbero, 2005). ABA’s mission was aimed at economic development by encouraging a positive business climate. ABA was a member-based association that researched, advocated for, and contributed to community development projects, while seeking a favorable business climate. Much of ABA’s community service projects revolved around feeding the poor and assisting with access to primary education. In hopes of ensuring that there were pro-business reforms and policies favorable to the business owners, ABA operated an advocacy arm which studied projects, worked with government ministries, and monitored the progress of reforms.

In 1990, ABA received seed funding from the United States Agency for International Development, the Computer Information Systems Company (CISCO), and the Canadian International Development Fund (CIDF). The money was given to support a new division of ABA

named the Small and Micro Enterprise Division (SME), in effect launching microfinance in Alexandria, Egypt. Within two years of operation, ABA-SME had recovered its operational costs and more. By 1999, both Bahrain and Saudi Arabia had turned to ABA-SME for consultancy services and support in their own microcredit initiatives. ABA-SME grew at least six fold in twenty years.

ABA-SME offered two grant and three credit programs. Each credit program differed in interest rates and loan terms. Clients could graduate from grant programs like the “Step-by-Step” and “Toward Self Employment” to credit programs like the “Blossoms” and the “Development and Small and Micro Credit” program. Once clients reached 100,000 EGP in borrowing, ABA-SME was required to refer them to a bank for larger loans as needed. Repayment rates averaged 99% prior to the 2011 revolution and the total client share represented 10% of the population. It had become one of the most stable microfinance institutions in the region with outreach and funding sources available for years to come. In fact, ABA was one of the few associations that has not declined in profit nor shrunk in assets since the Egyptian revolution. Remarkably, its risk portfolio had been a cushion to the association. Since its inception, credit programs had taken into account socio-economic issues of gender equality, instability in the country, and religious norms. Although the majority of people in Egypt followed Islam, many of ABA’s clients were not discouraged by usury issued on loans.

### **ABA Leadership**

Leadership within ABA consisted of a nine-member board of directors, an executive committee, a director, and deputy directors. The board of directors was selected through annual nominations by prominent business leaders in Egypt, and the executive committee was selected by the board. The executive committee oversaw the Executive Director of the ABA-SME division and monitored internal audits (Garbero, 2005). Three department managers and the general manager of the Middle East Training Center reported directly to ABA-SME’s Executive Director. The marketing manager, the administrative manager, and the financial manager oversaw core programs. Non-core programs of ABA-SME included technical training,

operation of an exhibit showroom, program and database management, and consultancy services. Six regional managers and twenty-eight branch managers reported to the Deputy Executive Director of Operations. Branch managers oversaw the loan officers, who determined and selected prospective clients. Loan Officers were tasked with evaluating clients, determining loan sizes and selecting client repayment schedules. These officers were also responsible for monitoring and collecting payment on all loans. They were salaried and received an incentive for increasing clients and loans. The Deputy Executive Director of IT and International Consultancy was in charge of information technology and international consultancy services.

### **Training and Assessment**

Some of the problems that existed at ABA included loan officers' failure to follow-up to ensure that clients were using their loans for business ventures. Some clients were known to use their loans to pay off personal debts or make purchases for family occasions such as weddings. Thus, many clients remained indebted to ABA and were not self-sufficient. Client loan qualification was left to loan officers.

Training courses offered annually by ABA's METC included client selection, risk management, marketing, and market analysis. How effective these programs were was unknown but could be evaluated by expert training consultants in Egypt (See Appendix A). An effective loan officer was similar to an effective sales representative who could sell prospects on becoming clients, improve outreach, positively affect ABA's portfolio, and mitigate risk based on selection of reliable clients. Loan officers could assist clients by finding appropriate workplaces for the clients to shadow successful business owners. The shadowing experience allowed both clients and loan officers to network with successful entrepreneurs. The extent of this practice was unknown.

ABA has implemented a monitoring system known as "loan tracker." Its main purpose was to track all loans including repayment, penalties, loan write offs, and client histories (RFP, 2012). It

planned to develop a customer care unit to service clients and prepare marketing materials. In addition, two subunits, assessment & training, and monitoring, were thought to be useful in improving ABA's operations. The assessment & training unit could assist clients by tailoring training classes to clients' deficiencies. The monitoring unit could assess clients' use of loans and perceptions of empowerment. This monitoring system was modeled after the Grameen Bank Poverty Index, which included factors such as school attendance and family health (Datar et. al, 2008).

### **Gender Issues**

Top management of ABA was concerned about gender issues for both its staff and its clients. A large percentage of ABA's loan officers were men, although in the past, small branches that only served female clients had exclusively employed female loan officers. However, in an effort to consolidate human resources, these small branches had been merged with larger ones that offered different programs catering to both sexes.

Initially, reports were received of male relatives stealing funds from the Blossoms (female client) Program. To remedy this, in 2006 the Development Path Program was created to incorporate males. Nonetheless, ABA's client base of females had suffered a slow but steady decrease since 2010.

In 2011 Egypt ranked 113 out of 187 on the Human Development Index. Females, particularly in rural parts of Egypt, were susceptible to patriarchy. Male family members had been reported to take their female family members' inheritance, to marry the females off, and even to steal females' loans.

Women made up well over 70% of the world's poorest of the poor and a significant portion of the microfinance client base worldwide. On average, 85% of the poorest clients of microfinance institutions were females. Females were said to have the highest rate of repayment and as a result, MFIs worldwide were increasingly seeking female clients. However, cultural norms in

Egypt placed a female in the household and outside of the labor market. Reputation, class differentiation, and market participation not only defined the female but her entire nuclear family and extended family.

### **ABA's Marketing Strategy**

Egypt had approximately 25 million poor. Microfinance penetrated roughly 6% of the population (1.5 million clients) according to 2010 figures. Studies had shown that 94% of the beneficiaries of microfinance were in non-agricultural businesses. ABA targeted the poor in six northern Egyptian governates. It offered three primary financial services: the SME project, the Blossoms program, and various grant projects. Non-financial services included marketing, training, consultancy, and a library. Financial services first began in the form of individual loans and later ABA adopted a group lending methodology (Garbero, 2005). All non-financial services were supported through client fees with the exception of ABA's showroom, where items could be sold for clients; a 10% fee was imposed.

ABA targeted three client segments: female heads of households with ideas for income generation, male and female heads of households who were developing a micro business, and current entrepreneurs. Loan amounts could be as high as 3,000 EGP for the poorest clients and up to 5,000 EGP for those less poor. Clients seeking a loan would go to their local operations branch and follow the guidelines for filling out forms and sitting in on 45-minute briefings. Exhibits 2, 3 and 4 outline ABA's loan programs.

Exhibit 2 depicts the requirements for clients and guidelines for the SME program. The process required the submission of a loan application to an officer, review of the application by the manager of the branch, and review/approval by senior level management. After approval, clients received a check and signed a promissory note. Through the SME program, individual loans were for business investments in fixed assets or raw materials. The target client was a male or female entrepreneur with a viable business ideas and a proven business track record,

from 21 to 65 years of age. Interest was charged at roughly 13-15% per annum and paid monthly over a 4 to 24 month period depending on the agreement. The grace period before borrowers needed to begin repaying their loans was 30 days. Dispersion and collection occurred at any operations branch.

### Exhibit 2. Small and Micro Enterprise (SME) Credit Program

| Criteria/Requirements | Details   |
|-----------------------|---|
| Location              | Must live in the area near Alexandria, Kafr Sheik, Behera, Matruh, Menufaya governates  |
| Target                | Small and Micro Entrepreneurs   |
| Criteria              | Existing enterprise   |
| Loan Amount           | Micro-1,500 - Large 100,000 EGP   |
| Repayment Rate        | 4-12 months; up to 24 months investment finance   |
| Necessary Paperwork   | Identity Card; Rent; Literate; Social Security; Work Permit; Business Register; Tax Card, Account Bank, Financial Statements (Balance Sheet by outside accredited accountant) |

### Exhibit 3. Blossoms Program

| Criteria/Requirements | Details  |
|-----------------------|--|
| Purpose               | Extend credit to poorest of the poor especially female households    |
| Type of program       | Must adopt a group lending program                                   |
| # of group members    | 3 to 5 members within the same neighborhood                          |
| Required Paperwork    | National ID, Personal Photo, Birth Certificate, Marriage Certificate |

The creation of the Blossoms program sought to empower females by using a group lending methodology requiring at least 3 individuals. The group was typically formed by clients who lived in the same geographical area. The targets were female-only clients between the ages of 21-65 who were able and willing to participate in a group. Upon completion of the program, clients could graduate to the SME program. The loan amounts, ranging from 250 EGP to 1,000 EGP, were repaid in 10 to 40 weekly installments at an interest of 24% per annum.

A third type of loan product was the Development Path. This program required a minimum of three individuals, two of whom were female with one male between the ages of 21-64 who



repaid loans biweekly over a 30-40 week period at a rate of 22%. Loans typically ranged between 750-1,500 EGP.

#### Exhibit 4. Development Path

| Criteria/Requirements | Details  |
|-----------------------|--|
| Purpose               | Extend credit to poorest of the poor especially females to combat gender issues  |
| Type of program       | Individual lending within a group  |
| # of members          | 3 members within the same neighborhood   |
| Required Paperwork    | National ID, Personal Photo, Birth Certificate, Marriage Certificate, Electricity Receipt, land title/rental agreement for home business |

Another program aimed at promoting business activity was a program referred to as the “Toward Self-Employment” program. Essentially, poor individuals were selected by any loan officer in any of the districts where ABA operated, and were given a microloan for a “probationary” period of eight months. Clients received their initial portion of the funds and used them for any type of activity they chose. Clients were then closely monitored and upon creation of a successful business operation, were disbursed a second installment. If the selected entrepreneurs showed that they were able to create a sustainable business, they were eligible to graduate to the Blossoms program.

The steps for receiving a loan from ABA were simple. The entire process took approximately eight days from the time of application to the disbursement of the loans to clients (see Appendix C.) To ensure that future loans were granted, clients needed to repay their loans on time, demonstrate a continued business need, and engage in a continual relationship with the Association by being transparent and accountable. Typically, loan amounts were at the discretion of the loan officer after authorization by the branch manager.

The following were the criteria ABA used to select various types of clients. Clients whose loans fell into the “small business” category (up to 50,000 EGP), were referred to as micro clients, particularly clients who received micro enterprise loans of 9,000 EGP or below. They needed to be entrepreneurial, innovative, and creative and could not simply resell goods or operate a

retail shop. Clients needed to maintain a workshop that employed a minimum of two employees. Preference was given to workshops with 30 to 50 employees. The workshop's profits were expected to be between 30,000 and 50,000 EGP annually. Clients needed to be literate, but there was no specification about education or formal training. They might need training in addition to financial assistance, particularly training in technological communication. Clients needed to be registered with the Egyptian government and have paid all taxes and duties with regard to their business. Clients who reapplied for loans were referred to as "successful clients" who had businesses with positive cash flows.

### **ABA's Female Clients**

#### **Fahima**

**Age:** Late 40s. **Marital Status:** Married. **Education Level:** Primary School Completed.

**Type of community:** Rural. **Program:** Small and Micro Enterprise. **Industry:** Aluminum.

Fahima was a small enterprise owner operating in the Abdel Qader district of Alexandria, Egypt, an impoverished community that lacked adequate electricity and water. She had three children aged eighteen, eleven, and five. Having had no access to education, Fahima married at a young age to a husband who was living and working in Saudi Arabia. She had very little access to a computer and lacked computer skills. She walked miles a day to gather items she needed for work. Fahima began her business after reflecting on her position in life. Her family barely had enough income to sustain itself. She resided in close proximity to her immediate family and learned business principles from her father, who was a peasant landowner.

After assessing her status, Fahima thought about financing from several organizations before settling with the ABA, whom she found after a friend's referral. Fahima began in ABA's Blossoms program with a loan of only 100 Egyptian pounds which allowed her to open her own small retail shop selling snack foods. After a year in the program, she graduated to a higher loan of 200 EGP annually before her loan officer eventually moved her to the next level of 500

EGP. The first loan allowed her to learn about her customers. She realized that her product offerings were limited, and with the second loan she was able to diversify her products with new goods. Once her loan reached 500 EGP, she decided to change her business by turning to handmade commodities. With her third loan, she opened a new shop, bought aluminum from nearby companies, and began to manufacture small umbrella pieces. These pieces functioned to support oversized beach umbrellas by connecting to the metal rod that was inserted into the sand. When her husband returned to Egypt for a visit, he was impressed by the work she had done. In fact, he began assisting with construction of the workshop. As the revenue continued to increase, she recognized a seasonal market trend, as her aluminum umbrella parts sold more frequently in the summer time when umbrella usage typically increased as a result of beach activity.

In her down time, Fahima began making rugs and doing small carpentry work. She gathered the material through a local company and paid 350 pounds for a room full of carpet pieces that were excess material. She used them to sew bags, rugs, and small car placemats. She employed two workers at a time to run the sewing operation while she spent most of her time in the manufacturing workshop where she employed five workers. These workers tended to turnover rather quickly. At times she had to work in the carpet shop alone, after learning the necessary skills from her workers. Unlike her manufacturing workshop, her carpet company was not registered yet because the revenue generated did not exceed the required amount that had to be reported federally.

Fahima's annual loans amounted to 10,000 EGP. With her positive repayment history, she was one of ABA's most valued clients. In her impoverished rural area, it was a traditional taboo for a female to sell products herself in local markets. She hired a male salesperson to distribute her items and relied on word of mouth to get her products known and sold. Fahima hoped to introduce more stable income generating activities with the help of larger loans to purchase more equipment. In addition, she wanted to find dedicated workers to reduce her employee

turnover rate. Exhibit 5 contains Fahima’s responses in an interview by the Entrepreneurs’ Business Forum.

#### Exhibit 5. Fahima’s Interview

|  |  |
|--|--|
| “Do you feel empowered?”   | “Yes, I am a strong female.”   |
| “Does your gender stop you from selling in the marketplace?”         | “No, of course not. I used to sell in the market before I moved here and had kids even though it was a tradition that was usually frowned upon.” |
| “Do you think that market factors limit your business?”              | “No, the market has little effect except for the time of the year.”  |
| “Are your kids in school?”   | “Yes, my three kids were all in school, because I want them to get an education. They need to have something that I did not have before.”        |
| “Are you happy at where you are in your business and personal life?” | “Yes, but I want to grow. I need to change the business to a more solid sustainable business.”   |
| “What does your husband think about this?”                           | “He is very supportive, although he wasn’t here when I began. When he visits he sees what I need and goes out of his way to try and get that.”   |

#### Abir

**Education Level:** College Degree in Secondary Education. **Type of Community:** Rural.

**Program:** Small and Micro Enterprise. **Industry:** Retail.

Abir was a forty year old female residing in a rural community in the Al-Seif District of Alexandria. She was well known for her retail business as she was the first owner of a mobile phone resale outlet in her surrounding area. As a former teacher who elected to own and operate her own business, she was a proud owner. She went to ABA to seek funds to assist with the opening of her business after she gave up her teaching career. Starting with a loan of just three hundred pounds, she has taken out several loans to meet her cash flow needs and continued to do so annually. She consulted with her husband prior to taking the loans and found him very supportive of her decisions.

She plunged into the market with no previous industry experience to open a mobile phone store. She has been successful for the past eight years and continued to add products and services such as prepaid phone charges, photocopying, printing, phone recharges, and repairs. She taught herself how to repair these technical devices, provided excellent customer service, and learned how to manage her employees. Her typical workday lasted sixteen hours or more. She employed help on an as-needed basis. Typically, she used individuals who resided in the same area. She was a mother of two, married to an engineer. Her children were currently enrolled in primary school and she hoped they would attend university.

#### Exhibit 6. Abir's Interview

|  |  |
|--|--|
| "Do you feel empowered?"   | "Yes, I have always felt empowered, but now I view myself as a business owner so it was a different form of empowerment than that which teachers feel. I am more confident now."                             |
| "Does your gender stop you from selling in the marketplace?"           | "No, of course not. I used to sell in the market before I moved here and had kids even though it was a tradition that was usually frowned upon."   |
| "What market barriers have you faced?"                                 | "Competition, because so many similar businesses recently opened; also after the revolt, sales have gone down."  |
| Do you think that political events will continue to affect business?"  | "Initially it did, but my business was less affected because most have phones, from poor to the very rich."  |
| "What was your biggest barrier?"                                       | "Money, the loans have been relatively the same and it was not enough to grow fast, especially because electronics increase in price. Every day, you see newer products and you have to constantly upgrade." |
| "Were there any societal pressures that forced you to come back home?" | "No, it was a personal choice."  |

**Latif**

**Marital Status:** Single. **Education Level:** Primary school. **Type of community:** Rural.

**Program:** Development Path. **Industry:** Retail.

Latif was a thirty-two year old female who had begun participating in ABA's Development Path. She lived in the rural part of Maharam Bey in Alexandria. Since she was not married, she lived with her parents. The purpose of recruiting women for the Development Path was to prepare them for the Blossoms program, or if they were immediately successful, for the Small and Micro Enterprise Program. Presently, Latif had been in the program for ten months participating in group lending. During the interview she appeared very anxious.

**Exhibit 7. Latif's Interview**

|   |  |
|---|--|
| "What made you decide to seek out a loan?"  | "I needed money."  |
| "Why this program? Did someone suggest it to you?"                                    | "No, I looked for ways of getting money and a loan was my only option."  |
| "Did you have much startup capital?"  | "No, not enough money."  |
| "What was your living condition?"   | "I live with family and we need more income."  |
| "Do your parents work? How did you decide that you wanted to change?"                 | "My mother doesn't work and my father is retired from work. So we need income and I wanted to get money to work to make more money." |
| "Do you feel stronger from this program? Has this changed where you are at socially?" | "I just get the money."  |

**Sabrin**

**Marital Status:** Single. **Education Level:** High School. **Type of community:** Rural.

**Program:** Blossoms. **Industry:** Sewing.

Sabrin was in the Blossoms program. She was twenty-two and made clothes to distribute to retail shops. When she joined ABA five months prior in the Development Path program, she received a loan of only 150 EGP. Soon she moved from that program to the Blossoms program

in order to receive a larger loan. She had moved back home to a rural area of Alexandria after her father died, to assist her mother in taking care of the household.

Sabrin was from an impoverished community in Karmouz, known for high theft, small shops, and drugs. She took her first loan to buy material to sew and the second to buy a sewing machine, needles, and thread.

#### Exhibit 8. Sabrin's Interview

|  |   |
|--|---|
| "Why did you seek out a loan?"                                   | "I needed to help take care of the house. I graduated with a high school degree and it was a commercial degree to just go into the market and work."                      |
| "Why did you switch programs?"                                   | "The first program I was in wasn't giving me enough money to work with so I switched to the other program to have larger loans so I could begin working more profitably." |
| "Do you have a lot of work?"                                     | "Yes, even after the revolt against Mubarak retail places want my products."  |
| "How did you find out about the loans?"                          | "The loan officer lives by me and I had heard of her before. So one day I asked her how I could sign up."   |
| "What goals do you have or are you okay with where you are at?"  | "I would like to open my own clothing store."   |
| "Do you feel the market has had a negative effect on your work?" | "No, I can get around and get the material I need."   |
| "Do you feel stronger, personally hanged?"                       | "Yes, of course I feel stronger. Now business owners know me because I make products for them."   |
| "Where do you get the material?"                                 | "Locally, I know people and get deals on material that I use to make products."   |
| "What was your motivation?"                                      | "Money, having enough to support myself and family."  |

### ABA's Issues

In Egypt, college graduates lacked employment, the country's economy had plummeted, and crowds of idle young people filled its two major cities, Alexandria and Cairo. After previously swarming in the streets to demand freedom, what could the people do now? Could their energy for democracy be turned to entrepreneurial activities? Among the protestors were females who faced unparalleled discrimination. In their society, Egyptian women were judged by their social relations, piety, and dress; and often were forbidden from engaging in business activities.

After the most recent uprising, the Social Ministry of Affairs had begun to reduce the number of grants to NGOs in Egypt, equating some of them to "terrorist" organizations. Microfinance programs only penetrated 16% of the impoverished communities in Egypt, leaving the majority of the population without access to credit (ABA, 2012). Without donor and capital support, particularly support of the Ministry of Social Affairs, the microfinance sector was sure to struggle in Alexandria. In addition, traditional norms created obstacles to microfinance for females. Egyptians, including ABA's board members, believed the family was the decision-making nucleus in Egyptian life. Traditional norms existed which equated lending with unethical values, and caused Egyptians to frown upon females who sought to work or run a business instead of staying at home to take care of their families.

It was relatively straightforward to conclude that female MFI clients needed more support than mere financial training if they were to grow sustainable businesses. The leadership of ABA also wondered whether female clients in the Blossoms and Development Path programs felt less empowered than those in the SME program. But the most pressing question was what ABA needed to do to strengthen its services to its female clients? Should it target widows, undereducated young women, or fresh female graduates? Should it include more men or give preference to families? What additional programs and activities should it introduce first to provide greater empowerment of its female clients?





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## **Appendix A. History of Non-Governmental Organizations (NGOs) in Egypt**

Egypt's first NGO was the Greek Association of Alexandria established in 1821, followed by several NGOs with a focus on cultural and religious ideals. Much of the increase in NGOs occurred in the years between 1900 and 1944 and was attributed to the constitutional change which promoted citizens' rights to form associations. Several organizations quickly emerged to support state reforms. NGOs are involved in issues of public interest particularly education, income generation, health care, and small scale agricultural production. There were over 20,000 organizations including associations, foundations and nonprofits) operating in Egypt<sup>2</sup>. Since 1977, many nonprofit organizations had sought to empower women in Egypt. The Integrated Care Society established libraries in poor districts. Through the launch of projects to upgrade access to books in various districts, it promoted the well-being of communities through literacy. Its goal was to encourage good reading habits in children and their mothers, urge government and private officials to expand libraries, contribute to children's literature, and integrate education, thereby contributing to local community development services.

The Egyptian Center for Women's Rights (ECWR) was formed in the early 1980s as a non-profit organization in accordance with constitutional civil law provisions. The ECWR supported women's struggle to achieve full rights through an increase in participation in public life as both voters and candidates for political office. In 1987, The Society of Women Promotion and Development was established. The services it provided included: access to identification cards, assistance to deserted, divorced, widowed and elderly women. Eight years later, in 1995, the Center for Egyptian Women's Legal Assistance emerged. Its purpose, consistent with the ECWR, was to define and solve women's issues in accordance with Egyptian law. Primarily, its work fosters laws to enhance female emancipation. Similarities among all these organizations included support for education, equal legal rights for the sexes, economic development, and greater political awareness and participation of women.

Employment opportunities in Egypt had been scarce for more than 30 years, and as a result many women had become self-employed. As entrepreneurs out of necessity, they sought micro/small business loans. Banks traditionally supplied these; however, in Egypt there were four types of organizations that competed to provide microfinance. Many of these organizations were registered as non-governmental organizations (NGOs) under the Ministry of Social Affairs.<sup>1</sup> There was no legal service lending model enforced by the Egyptian Constitution, and therefore all organizations followed an arbitrary legal framework. This framework labeled microfinance as a non-banking activity, and thus allowed organizations other than banks to lend to clients.<sup>3</sup> There were two types of NGOs: community development associations and specialized NGO-MFIs.<sup>2</sup> Community development associations provided funds to the poor, focused on small scale assistance at the village/district levels, and did not operate in cities. NGO-MFIs provided microloans on a larger scale to include cities, possessed business acumen, and had greater access to donor funds. Typically NGO-MFIs had access to commercial funding through bank loans and a loan cap of 100,000 Egyptian pounds (EGP). Similarly, both types of NGO's purpose was to lend to small business in addition to providing non-financial services. Clients who sought larger loans were referred to banks.

Banks were known to charge higher interest rates to clients and asked for collateral, which many clients lacked. The market share of the largest four banks that provided micro finance loans was approximately 16% of the total number of clients served in Egypt.<sup>3</sup> The two other types of organizations that competed with banks and NGOs were The Social Development Fund (SDF) and the Microfinance Enterprise Service Company (MESOC), both government entities. The SDF, established in 1991, was created by Presidential decree as a social safety net. The SDF supported economic reform programs, small and medium enterprise development, and increasing family income through financial and non-financial services.

In 2005, to support civil service organizations and non-governmental organizations in Egypt, an umbrella entity was created: the Egypt NGO Service Center. The center served as a partnership of Save the Children Federation (USA), America's Development Foundation (ADF) and the Infonex Corporation (ADF, 2012), funded through the USAID, and sponsored by the Ministry of Insurance and Social Affairs (EMSA, 2012). Each organization operated individually but comprised the four departments of the NGO Service Center. For example, Save the Children was responsible for project administration, management and sub-grants, while ADF provided training, consultancy, and technical assistance to support NGOs and sub-grantees (ADF, 2012). The service center aimed at increasing citizen participation and NGOs in large and small cities in Egypt. The center has become the permanent Egyptian entity to sustain the work of CSOs and NGOs in Egypt after the end of the USAID project in 2004. Within each department, services targeted the poor of Egypt. ADF provided many services including community mobilization, civic education, civic society, and small and micro enterprise development. In fact, Egypt ADF provided training on gender advocacy, governance, operations and program management, networking and financial management. The programs provided graduates with certified skills that could be taken back to their employers (ADF, 2012). ABA was eligible to engage ADF's consultancy department. ADF's service center could benefit ABA's targeting of the poor through training, advice on marketing of services, capacity building, and development initiatives (ADF, 2012).

In 2010, The World Bank was developing various programs to address the gap between availability of funds to female entrepreneurs versus males. There was actually no shortage of NGOs who were trying to address women's issues in Egypt. ABA could avail itself of their services as well (Nasr, 2010).

All of the aforementioned organizations were part of Egypt's formal economic sector. There existed a healthy informal sector that the poor used to make money and obtain loans to meet family needs. The most common form was referred to as "gam' iyyaat savings clubs." These clubs allowed women to both save and borrow money outside of the purview of not only the government but of husbands. They were neighborhood clubs led by women of high reputation<sup>4</sup> who generated trust among their participants. Trading among the members of these groups began as bartering but often resulted in cash profits. The clubs differed from microfinance organizations because they were not used for business ventures and were strictly personal.<sup>5</sup>

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1. Information compiled from the Arab Forum for Alternatives in Cairo, Egypt. Copyrighted 2012 by the International Center for Non Profit Law. Razi, Self Employed, why women were self-employed? Cultural Tendency.

2. Law No. 84, Egyptian Constitution. Law regarding registration of organizations in Egypt. Under the Ministry of Social Affairs.

3. Legal and Regulatory Framework Copyright 2009. Article 11, Sub 2002.

4. Egypt is a collectivistic society. High Reputation is typically word of the mouth within a community. The neighborhood is the community.

5. Drolet, Julie (2011) "The same informal club participants, are the same women who use microcredit for starting and growing business".

## Appendix B. Legality of Non-Governmental Organizations

Egyptian law for non-governmental organizations to register with the country included the following requirements:

1. Register as an association with ten or more individuals or legal entities.
2. Be managed by a board of directors (5-15 members).
3. The number of Egyptian members should be equal to or greater than non-Egyptian board members.

To register a foundation:

1. Registered by one or more individuals and/or legal entities wishing to allocate funds and move assets.
2. Be managed by a board of trustees of three to fifteen.
3. No nationality preference for membership.

Foreign NGO-MFIs:

1. Can operate freely in Egypt.
2. Typically must be approved by a minimum of one national individual.
3. Follow the structure of a "limited liability" business model.
4. Must obtain security clearance from the government.
5. Can only receive donations from within Egypt.
6. In addition, banks within Egypt did not typically lend to these NGOs as they had no formal way of pledging their collateral in exchange for bank loans (Article 50, NGO).

The law for all organizations, prior to late 2012, had no changes made since the 1950s. It publicized interest rates, tax treatment, and funding and loan compliance. It allowed organizations who engaged in lending practices a cap of 7%.<sup>1</sup> Any interest charged over this cap was deemed illegal and could be contested in court for violation of the civil code.

As opposed to the banking sector in Egypt, organizations under this law were legally exempt from numerous taxes. These taxes included: income, registration, customs, real estate, and stamp duties.<sup>2</sup> In addition, NGOs were not considered part of the credit bureau system, and therefore often did not share information about their loans, services, size, and costs (I-Score). The Egyptian government had made an attempt at drafting "General Rules for Microfinance Companies" to facilitate a micro-lending framework.<sup>3</sup> The proposed law would implement a pilot project of information sharing to integrate the credit bureau system in these organizations.

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1. Cooperatives Law 1957. Law 317, NGOs.

2. Article 13, NGO Law, 2002 Constitution.

3. GAFI, 2008.

### **Appendix C. Steps to Receive Loans**

The steps for receiving a loan from ABA are detailed below based on an interview with the Deputy Executive Director in 2012. The entire process took approximately eight days from the time of application to the disbursement of the loans to clients.

Step 1. Introductory meeting. This meeting was essentially an orientation of clients to the available products and programs offered. Typically this was a one day long activity.

Step 2. Loan application. Clients were required to fill out paperwork and submit the paperwork to their operations office/officer. Typically this was a one day long activity.

Step 3. Loan evaluations. Evaluation was conducted by the loan officer who verified client data and conducted a field visit to the business/future business.

Step 4. Loan Approval. Lasted up to one day.

Step 5. Loan Disbursements.

Step 6. Loan Renewal/Next Loan. Could take up to three days.

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