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A.I.D. Loan No. 492-T-071

A.I.D. Project No. 492-0359

AMENDMENT NO. 2
TO THE
PROJECT LOAN AND GRANT AGREEMENT
BETWEEN THE
REPUBLIC OF THE PHILIPPINES
AND THE
UNITED STATES OF AMERICA
FOR THE
SMALL AND MEDIUM ENTERPRISE DEVELOPMENT
PROJECT

Loan and Grant Agreements

FM/LMD (if Loan)

FM/PAFD

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GC/ANE

ANE Desk

ANE/IR Officer

ANE/PD Officer & File

PPC/CDIE/DI

Dated: September 15, 1988

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT
AMENDMENT NO. 2 TO PROJECT
AGREEMENT NO. 492-0359

THIS AMENDMENT NO. 2, entered into as of the 15th day of September, 1988, between the REPUBLIC OF THE PHILIPPINES (the "Cooperating Country") and the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D.").

WITNESSETH THAT:

WHEREAS, the Cooperating Country and A.I.D. (the "Parties") entered into Project Agreement No. 492-0359 (as amended, the "Agreement") on August 31, 1983, whereby A.I.D. agreed to provide an initial increment of \$15,000,000, consisting of a Loan amount of \$13,500,000 and a Grant amount of \$1,500,000, for the Small and Medium Enterprise Development Project; and

WHEREAS, Amendment No. 1 to the Agreement increased the amount of Grant funds to \$14,818,177.17 and reduced the amount of Loan funds to \$181,822.83; and

WHEREAS, the Cooperating Country and A.I.D. have agreed to reduce the amount of Grant funds by \$8,000,000; and

WHEREAS, the Cooperating Country and A.I.D. have agreed to amend the description of the Project.

NOW, THEREFORE, the Cooperating Country and A.I.D. hereby agree to amend the Agreement as follows:

1. Amendment to Article 3 (Financing).

Section 3.1 of the Agreement, as previously amended, is hereby further amended by deleting the phrase "not to exceed Fourteen Million Eight Hundred Eighteen Thousand One Hundred Seventy-Seven and 17/100 United States ("U.S.") Dollars (\$14,818,177.17) ("Grant")" and inserting the phrase "not to exceed Six Million Eight Hundred Eighteen Thousand One Hundred Seventy-Seven and 17/100 United States ("U.S.") Dollars (\$6,818,177.17) ("Grant")" in lieu thereof.

2. Amendment to Annex I (Project Description).

Annex I to the Agreement, as previously amended, is hereby deleted in its entirety and the Restated Project Description set forth in Annex I hereto is substituted in lieu thereof.

Except as expressly amended herein, the said Agreement, as previously amended, shall continue in full force and effect in accordance with all of its terms.

IN WITNESS WHEREOF, the Parties to said Agreement, each acting through its duly authorized representative, have caused this Amendment No. 2 to be signed in their names and delivered as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

UNITED STATES OF AMERICA

By: 
Solita Collas-Monsod

By: 
Malcolm Butler

Title: Director-General
National Economic and
Development Authority

Title: Mission Director
United States Agency for
International Development

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ANNEX I
SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT
RESTATED PROJECT DESCRIPTION

I. PROJECT GOAL AND PURPOSE

The goal of the Small and Medium Enterprise Development (SMED) Project is to increase productive employment in private sector, non-farm small and medium enterprises (SMEs) located outside Metro Manila.

The purpose of the Project is to institutionalize an effective process, predominantly within the private sector, to accelerate the growth of these labor-intensive SMEs.

II. PROJECT DESCRIPTION

The Project's targeted industry sectors are food processing, metalworking, and gifts and housewares. The targeted geographic regions are Regions I, IV, V, VI, XI and XII. The three project elements are described below.

A. Integrated Sector Support for Food Processing, Metalworking, and Gifts and Housewares.

Under this component, comprehensive services of the four types described below will be provided to develop and support the targeted industry sectors.

1. Extension and Training for Associations. Under the auspices of industry associations, specialists will provide advice to groups of small and medium business owners on how specific technical problems may be overcome, or will train the association members in specific commonly-identified technical procedures. Training activities

and technical and management services will also be extended to associations in the targeted regions by educational institutions, including Small Business Institutes (SBIs).

2. Market Development Activities. Regional and national trade fairs will be funded, as will product display centers, domestic trade missions to bring regional producers to Manila, and the production of promotional brochures.

3. Support for Common Service Facilities. Facilities based in educational institutions and in the existing Food Product Testing Laboratory of the Department of Science and Technology serving the Visayas will be equipped to perform food product testing in major food processing centers in the SMED target regions. Similarly, raw materials testing facilities for the metalworking industry also will be established in educational institutions. Commodities for six food and metal testing laboratories are expected to be provided under the Project. The Project may also fund technical assistance and training to support these facilities.

The Project may also finance detailed needs analyses and pre-feasibility and feasibility studies needed in order to seek financing for additional common service facilities. If any such additional common service facilities are established within the life of the Project, Project funds may also provide technical assistance and technical training in the proper operation and maintenance of the facilities.

B. Studies.

The Project will finance studies toward the formulation of policies promoting the development of SMEs outside of Metro Manila, and toward development strategies and assistance programs for the growth and development of the targeted sectors and of SMEs in general. To the extent possible, DTI will contract with local firms and research institutions for the completion of these studies. Where services of U.S. contractors are required, and when possible, A.I.D. may undertake "buy-ins" with existing A.I.D. centrally-funded projects.

C. Support for People's Economic Councils (PECs).

1. Training. The Project may fund the development and implementation of a training program for People's Economic Councils ("PECs"). The purpose of the training program is to improve the interactions of municipal-level PECs with government agencies, in order to improve the delivery of government services and infrastructure to municipalities. Technical assistance will be used for the design of trainers' training modules and for the conduct of the PEC training sessions. Training participants will be selected by local DTI officials in consultation with the local PEC leadership and elected officials.

2. Investment Seminars. One or more investment forum per Region per year may be funded under the Project. These regional seminars will have as their objective the stimulation of investment outside Metro Manila. The PECs, in coordination with the regional DTI offices, will identify business opportunities, invite the participation of investors, and provide overall management for the events.

3. PEC Assemblies. The Project may also fund regional and national PEC assemblies, on quarterly and annual bases, respectively. Project funding will include the use of facilities, clerical services, promotion and conference materials, transportation, honoraria for private sector resource speakers, and the production of reports.

4. Condition Precedent to Disbursement for PEC Activities. As the new PEC project component represents a significant conceptual departure from the original SMED approach, prior to the disbursement of A.I.D. project funds for activities involving PECs, or to the issuance of documentation pursuant to which such disbursement will be made, DTI will furnish to A.I.D., in form and substance satisfactory to A.I.D., an A.I.D. Project Implementation Order for Technical Services (PIO/T), duly approved by DTI and delivered to A.I.D., authorizing A.I.D. to procure the services of a general contractor to provide technical and management consulting services under an A.I.D. direct contract financed under the Project. If the foregoing condition precedent to the disbursement of funds has not been met on or before November 30, 1988, or such later date as A.I.D. may agree to in writing, A.I.D. may, at its option, terminate all or any part of this Agreement by written notice to the Cooperating Country.

III. IMPLEMENTATION ARRANGEMENTS

A. Relationship of the SMED Project Office to Other Implementing Entities.

The SMED Project Office currently established for the Project will continue to have responsibility for Project implementation. Project implementation activities will require the SMED Project Office to enter

into formal agreements with other private and governmental implementing entities setting forth the responsibilities and obligations of each party.

B. Consolidated Project Implementation Plans.

A consolidated implementation plan will be prepared by the SMED Project Office and will be reviewed and approved by A.I.D. The consolidated implementation plan will provide detailed information on planned subproject activities by Project component covering at least a six-month period. The plan will contain sufficient detail to enable A.I.D. to earmark and commit Project funds.

The consolidated implementation plan will include brief activity descriptions, designation of entities responsible for activity implementation, activity locations, proposed dates and duration of activities, and the detailed budget. The subproject plans developed by the DTI Regional Offices and local industry associations under the Integrated Sector Support component will be attached as supplements to the consolidated implementation plan. Where activities call for collaboration between implementing entities, the consolidated implementation plan will include details on the proposed mechanism for collaboration (contract, memorandum of agreement, etc.).

The subproject activities proposed by the sectoral associations and regional DTI offices will be evaluated for feasibility and completeness by the SMED Project Office prior to the inclusion of the activities in the consolidated implementation plan. The following criteria will be used for the evaluation of subproject proposals: (a) extent to which the proposed activity conforms to Project objectives;

(b) clarity of the proposed activity description, including a well-defined statement of need; (c) reasonableness of cost and acceptable or economic rate of return; (d) subproject sustainability, including technical, social and managerial feasibility; and (e) a well defined, sound evaluation and monitoring methodology.

C. CONTRACTING ARRANGEMENTS.

1. General Contractor: The general contractor referred to in Section II(C)(4) will provide long- and short-term management consultants and technical experts in the targeted sectors who will advise and assist DTI in areas including, but not limited to, the following: (a) assisting the SMED Project Office to work with the DTI Regional Offices and the participating associations in the development of subproject activity proposals, with emphasis on the development of detailed scopes of work for technical assistance and training to be provided under these subprojects; (b) assisting the SMED Project Office to develop the criteria for evaluating subproject proposals; (c) assisting the SMED Project Office in the process of review, refinement and consolidation of subproject proposals; (d) assisting the SMED Project Office and the DTI Regional Offices to develop detailed lists of equipment to be procured for the food and metals testing laboratories; (e) assisting the SMED Project Office in developing and putting in place a system to support implementing entities in the process of procurement of goods and contracting of services; (f) assisting the SMED Project Office in developing and testing a project monitoring system; and (g) assisting the SMED Project Office in conducting needs analyses in the target sectors.

2. Other. Additional expertise in the targeted sectors is expected to be procured under host country contracts, principally with Philippine firms, subject to the requirements of A.I.D. Handbook 11 governing host country contracting. Studies that can be performed by Philippine firms or research institutions are expected to be completed under host country contracts. A.I.D. direct contracts and "buy-ins" to A.I.D. centrally-funded projects will be contemplated for research and short-term technical assistance activities requiring U.S. expertise.

D. Commodity Procurement.

The principal commodity procurements will be food and metal testing laboratory equipment. Equipment procured under the Project will be of U.S. or Philippine source and origin. In the event the equipment is to be procured from the U.S., A.I.D. will contract directly with a U.S. procurement services agent (PSA) to obtain the necessary equipment.

E. Financing Mechanisms and Disbursements.

A.I.D. inputs will be financed using the following financing mechanisms, as appropriate:

1. Direct Payments - Under this method of financing, A.I.D. will make payments directly to suppliers or contractors under A.I.D. or host country contracts or grants.
2. Direct Reimbursements - Under this method of financing, the GOP implementing agency will advance its own funds for Project expenses and subsequently be reimbursed by A.I.D. upon submission of appropriate documentation.

F. Monitoring.

The SMED Project Office will be responsible for monitoring Project progress, and will submit quarterly reports to A.I.D. in a format mutually agreed to by the DTI Undersecretary for Regional Operations and A.I.D. DTI and A.I.D. will develop and jointly agree upon an overall implementation schedule for the Project including clearly identifiable key progress indicators. DTI and A.I.D. will hold periodic reviews to assess Project progress based on this schedule. An overall assessment of Project progress will be completed by DTI and A.I.D. in January, 1989.

IV. EVALUATION AND AUDIT

A. Evaluation.

The final Project evaluation will be conducted in October, 1989. The evaluation will (a) investigate whether the services and institutions are in place and performing as expected; (b) investigate the interactions between and among all institutions involved in implementation, and assess the adequacy of support provided; and (c) determine if each Project component has had effects, direct or indirect, on the intended beneficiaries. A.I.D. and DTI will prepare the statement of work for the final evaluation, which will be completed by an external contractor. The completion of the evaluation will require the assistance of local industry associations, their member firms and SBIs.

B. Audit.

Accounting and financial management reviews, focusing particularly on the implementing agencies' use of local cash advances from A.I.D., will be conducted by USAID/Manila. It is anticipated that audit coverage

will be provided by staff of A.I.D.'s Regional Inspector General for Audit and by the GOP's Commission on Audit. However, additional audit coverage may be needed. Accordingly, Project funds are provided for an independent review by a CPA firm of the financial and compliance aspects of the Project.

V. FINANCIAL PLAN

A. Project Financing.

Total Project costs are estimated at \$12.811 million, covering a six year life of project ending with the December 31, 1989 Project Assistance Completion Date. The planned A.I.D. contribution is \$7 million, which includes \$6.818 million in Grant funding and \$182,000 in Loan funds. The estimated GOP contribution of \$5.811 million, approximately 45 percent of total Project costs, will be provided in kind or in local currency, principally in support of ongoing Project operations.

The Summary Cost Estimates and Financial Plan set forth in Table 1 is illustrative and changes may be made by the representatives designated in Section 9.2 of the Agreement without formal amendment of the Agreement in accordance with Section 2.1 of the Agreement. Table 2 sets forth the allocation of A.I.D. funds earmarked as of July 31, 1988.

B. Requests for Commitment PILS.

Documentation required in order to obtain A.I.D. financing under the Project for activities not included in the first consolidated implementation plan prepared in accordance with Section III(B) above must be received by A.I.D. on or before December 31, 1988 and must pertain to activities completed on or before that date.

TABLE 1

SUMMARY COST ESTIMATES AND FINANCIAL PLAN
(US\$000)

<u>ELEMENT</u>	<u>AID</u>	<u>GOP</u>	<u>AID/GOP TOTAL</u>
1. INTEGRATED SECTOR SUPPORT FOR FOOD PROCESSING, METALWORKING, GIFTS AND HOUSEWARES			
a. Technical Assistance & Training	\$2,410	\$ 508	\$ 2,918
b. Market Development Activities	600	109	709
c. Support for Common Service	515	73	588
d. Commodities (Food and Metal Testing Laboratories)	300	182	482
Subtotals, Integrated Sector Support	<u>\$3,825</u>	<u>\$ 872</u>	<u>\$ 4,697</u>
2. STUDIES	315	182	497
3. PEOPLE'S ECONOMIC COUNCILS	620	0	620
4. OPERATIONS	0	2,180	2,180
5. EVALUATION AND AUDIT	120	36	156
SUBTOTALS	<u>\$4,880</u>	<u>\$3,270</u>	<u>\$ 8,150</u>
6. INFLATION	380	262	642
7. CONTINGENCIES	533	101	634
8. AID EARMARKED FUNDS (as of 7/31/88) ^{1/}	1,207	2,178	3,385
T O T A L S	<u>\$7,000</u>	<u>\$5,811</u>	<u>\$12,811</u>

^{1/} Allocation of AID funds is shown in Table 2.

TABLE 2

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT
Allocation of AID Funds Earmarked as of 07/31/88
(\$000)

Project Element	Amount Obligated Prior to Amendment No. 2			Amount Deobligated Grant	Balance After De-Obligation			Re-align-ment Per Amendment No. 2 Grant	Adjusted Earmarks Per Amendment No. 2		
	Loan	Grant	Total		Loan	Grant	Total		Loan	Grant	TOTAL
1. Technical Assistance	-	1,430	1,430	(360)	-	1,070	1,070	(1,000)	-	70	70
2. Extension/Demonstration	111	8,306	8,417	(5,361)	111	2,945	3,056	(2,150)	111	795	906
3. PVO Programs for Microenterprises	-	1,117	1,117	(1,084)	-	33	33	-	-	33	33
4. Training	55	700	755	-	55	700	755	(692)	55	8	63
5. Workshops and Seminars	-	572	572	-	-	572	572	(551)	-	21	21
6. Commodities	-	150	150	-	-	150	150	(91)	-	59	59
7. Studies and Research	16	1,254	1,270	(1,195)	16	59	75	(58)	16	1	17
8. Evaluation	-	350	350	-	-	350	350	(312)	-	38	38
9. Contingency	-	939	939	-	-	939	939	(939)	-	-	-
TOTAL	<u>182</u>	<u>14,818</u>	<u>15,000</u>	<u>(8,000)</u>	<u>182</u>	<u>6,818</u>	<u>7,000</u>	<u>(5,793)</u>	<u>182</u>	<u>1,025</u>	<u>1,207</u>