PD-ABF-522

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

SMALL & MICRO

ENTERPRISE DEVELOPMENT

EGYPT

263-0212

PROJECT PAPER

AMENDMENT

Dated signed: 08/05/92

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number 1

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Egypt

3. PROJECT NUMBER: 263-0212

4. BUREAU/OFFICE: Near East

5. PROJECT TITLE (maximum 40 characters): Small & MicroEnterprise Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 97

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 88 B. Quarter 4 C. Final FY 97

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 88 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(10,000)	( )	(10,000)	(39,700)	(4,300)	(44,00
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	10,000		10,000	39,700	4,300	44,00

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1)	270	110		20,000		24,000		44,000	
(2)									
(3)									
(4)									
TOTALS				20,000		24,000		44,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 150, 840

11. SECONDARY PURPOSE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To establish a viable credit delivering system for small & Micro Enterprise in Egypt using non-profit foundations as financial intermediaries.

14. SCHEDULED EVALUATIONS

Interim MM 12 YY 91 MM 12 YY 94 Final MM 03 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☒ 000 ☐ 941 ☒ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment)

The amendment will expand the geographic scope of project activities to include areas outside of Cairo and Alexandria.

USAID/EGYPT Controller concurs with the proposed method of implementation and financing.

Douglas L. Franklin

Douglas Franklin FM/AD

17. APPROVED BY

Signature

Title: Henry Bassford, Mission Director

Date Signed: MM 03 DD 15 YY 94

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

TABLE OF CONTENTS
Small and Micro Enterprise Development Project Paper Amendment

Executive Summary . . . . . i-v

I. Project Rationale and Description
- A. Rationale 1-6
- B. Goal and Purpose 6
- C. Outputs and Indicators. 7
- D. Project Activities 7-9

II. Cost Estimate and Financial Plan
- A. Summary Cost Estimates and Financial Plan 10-11
- B. Methods of Implementation and Financing. 11-13

III. Implementation Plan
- A. Management and Administrative Arrangements. 13-14
- B. Technical Assistance Procurement Plan 14-16
- C. Commodities Procurement Plan 16
- D. Training Plan 16-17
- E. Implementation Schedule 17
- F. Pre-Implementation Activities 17-18

IV. Monitoring and Audit Plans
- A. Monitoring Plan. 18
- B. Audit Plan. 19

V. Summaries of Analyses
- A. Technical Analysis 19-21
- B. Site Analysis 21-24
- C. Financial Analysis 24
- D. Economic Analysis 24-25
- E. Social Soundness Analysis 25-26
- F. Administrative Analysis 27
- G. Environmental Assessment 27

VI. Conditions and Covenants. 27

VII. Evaluations and Audits. 28
- A. Evaluation and Review. 28
- B. Audits 29

TABLE OF CONTENTS (continued)
ANNEXES

Log Frame ..... Annex A
Technical Analysis ..... Annex B1-B16
Financial Analysis ..... Annex C1-C2
Charts ..... Annex C.1.-C.7.
Economic Analysis ..... Annex D1
Charts ..... Annex D.1.-D.2.
Social Soundness Analysis ..... Annex E1-E6
Administrative Analysis ..... Annex F1-F2
Environmental Assessment ..... Annex G1-G3
Illustrative Implementation Plan ..... Annex H1-H6
Source/Origin Waiver I1-I3

LIST OF ACRONYMS

ABA	Alexandria Businessmen's Association
AID	Agency for International Development
CGC	Credit Guarantee Corporation
CP	Condition Precedent
EEC	European Economic Community
ESED	Egyptian Small Enterprise Development Foundation
FSN	Foreign Service National (Host Country Employee of USAID)
GOE	Government of Egypt
GTZ	German Agency for Technical Assistance
LE	*Livre Egyptienne* (usually translated as "Egyptian Pound") 1992 US$1=LE 3.35
LOP	Life of Project
MIC	Ministry of International Cooperation
MIS	Management Information System
NBD	National Bank for Development
NFA	Non-Federal Audit
OMB	Office of Management and Budget
PACD	Project Assistance Completion Date
PP	Project Paper
PPA	Project Paper Amendment
PVO	Private Voluntary Organization
RSSE	Rural Small Scale Enterprise (Pilot Credit Project)
SEC	Small Enterprise Credit
SME(s)	Small and Micro Enterprise(s)
SMED	Small and Micro Enterprise Development Project
TA	Technical Assistance
TI/FI	USAID's Office of Trade and Investment/Finance and Investment
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

This Amendment will add $24 million and extend the LOP two years expanding project assistance to as many as five additional geographic areas. This will bring the Project total to $44 million with a LOP of nine years.

A. Background

There are hundreds of thousands of small and micro enterprises (SMEs) throughout Egypt, with the highest concentrations in the more densely populated urban areas. (The definition of SMEs will remain the same as in the original Project Paper. Small enterprises have 6-15 employees; micro enterprises have 5 and less employees. It is assumed that their fixed assets, excluding land and buildings, is less than $10,000 equivalent.) They all face constraints that include marketing, quality control, and the standard vagaries of a recession-affected economy, but the greatest constraint to their survival and expansion is access to formal credit. Local banks have not yet comprehended the methodologies required to provide credit to this target clientele on a profitable basis.

In response to this situation, USAID initiated the Small and Micro Enterprise Development Project (SMED) in 1988. This project has been notably successful in delivery and recovery of short-term credit. The project is utilizing two private, non-profit Foundations that act as intermediate credit institutions. The two Foundations, the Alexandria Businessmen's Association (ABA) in Alexandria, and the Egyptian Small Enterprise Development (ESED) Foundation in Cairo, function as a bridge between existing banks and the SME clients. USAID provides start-up capital to the foundations for initial training and operational expenses, headquarters and branch office establishment, and disburses a dollar denominated collateral fund with right of offset into local banks. This collateral fund yields a credit line available to the foundations that they onlend to the SMEs.

Loan volumes under the project are expanding rapidly, particularly now that both the Foundation Boards of Directors and the staff have become more experienced. After approximately 20 months of end-use lending in Alexandria and 12 months of end-use lending in Cairo, more than LE 14 million has been lent to over 4,000 active borrowers. There have been almost no defaults, with delinquent payments representing less than 2% of the total portfolio. Repeat loans are provided to on-time borrowers in less than two days. The ABA's revenues now exceed their expenses and the ESED is covering approximately 50% of their costs from interest income. As a tribute to the respective managers of the Foundations, they appear to be reaching breakeven under the best case scenario of the projections in the original Project Paper.

It is clear that small and micro entrepreneurs are low-risk borrowers, if their needs are properly serviced. There has been no default by borrowers, and late payments are generally less than 3% of the outstanding portfolio. There is still a great deal of unmet demand; loan volumes continually increase and borrowers are very willing to pay interest rates that are market based. Effective interest rates at this time are about 36% per annum. There is a core of talent readily available to serve as loan officers and support staff. There is now a growing realization by the Government of Egypt and the population in general that this approach of credit delivery and recovery can benefit many more people.

B. Modifications for Future Implementation

Even though the SME project is the first project in Egypt to deliver market interest rate credit to small and micro entrepreneurs on a large scale, the project has generally met or exceeded the design specifications. Because of this success, and the growing demand, this amendment will continue with the original design with two modifications.

Two important lessons have been learned during the initial phases of this project:

1. The project will only work with excisting organizations that are already registered as Foundations. Experience has shown that these organizations are clearly easier to deal with and more successful in initial implementation of the project. Several groups of businessmen have already formed themselves into non-profit Foundations that fit the criteria that AID negotiated with the GOE in 1990.

2. Risk of loan loss cannot be shared by a group in the Egyptian environment. The project methodology of dealing with each of the borrowers as individuals, rather than trying to form solidarity groups, is just as efficient as grouping. This is largely a product of a very comprehensive and efficient management information system that was developed in the early phases of the SMED project, where individual loan histories are developed and are accessible to Foundation management almost instantaneously.

C. Project Goal and Purpose

The Project Goal and Purpose, as stated in the text of the original Project Paper, will remain the same. The Project goal will continue to be to expand economic output of the small and micro enterprise subsector of the economy, and thereby increase employment and income among low income Egyptians. The purpose of the project is to establish a viable credit delivery system for

small and micro enterprises in Egypt using non-profit foundations as financial intermediaries.

D. Expected Achievements/Accomplishments

Under the original Project, two self-sustaining foundations are being established, one each in Alexandria and Cairo. This Amendment will increase the number of foundations by three to five, for a total of up to seven foundations. As with the first two foundations, the additional foundations will increase access to credit, marketing, and technical know how in order to increase productivity, income, and employment in participating firms. It is anticipated that five new foundations will provide loans to an additional 28,000 borrowers over the LOP, bringing the Project total to 60,000. The measure of project success will be when 5 to 7 foundations are providing credit to up to 60,000 SME borrowers and are functioning on a sustainable basis.

E. Project Activities

The Project will support efforts by additional foundations in order to increase geographic coverage. This Amendment will expand upon the major activity of the original Project, *i.e.*, the development of functioning foundations that can manage the delivery and recovery of short term credit to small borrowers. The credit/TA/training initiatives will provide support for business growth and employment growth. Direct involvement of the SME business sector and financial institutions in implementing the project will cause them to become active and responsible advocates of the policies needed for self-sustaining growth.

The Small and Micro Enterprise Development Project has financed the establishment of foundations in two locations (Alexandria and Cairo) and provided capitalization for credit and initial operating expenses. This Amendment will build on those efforts and establish foundations in up to five additional governorates, initiated in two phases.

In an attempt to obtain broad geographic coverage, the Mission has been identifying potential groups divided into three general areas; the Delta, the Canal Governorates, and Upper Egypt. Site analysis for 12 governorates has been undertaken to: (1) identify the number and types of SMEs and potential market demand for credit and technical assistance; (2) examine the composition of potential private sector implementing groups; and (3) initiate discussions to assess their willingness to undertake a loan program compatible with AID's policies and borrower eligibility criteria. Selection for participation under the Project will be made on the basis of the criteria agreed upon with the Ministry of International Cooperation. As part of Project design, analysis has been undertaken to identify and prioritize the capability of these

groups to carry out the objectives of a foundation. Based on the analysis, up to five probable locations have been identified. The detailed site selection analysis appears in Annex B, Technical Analysis, of this amendment.

As in the previous effort, the Project will provide technical assistance, credit funds, and the initial operating costs of establishing the foundation such as equipment and staff. The foundations will assume all operating expenses once they achieve breakeven. The amended Project will continue to provide technical assistance to the new foundations through the services of a US firm in cooperation with an Egyptian firm. It is expected that the same loan methodology and lending mechanism that has been developed under the original Project with the First Phase foundations will continue to be used by the Second and Third Phase foundations established under the expansion. USAID will enter into direct contracts for technical services and cooperative agreements with each of the Foundations.

F. Summary of Estimated Costs.

Project Budget
TABLE 1
($000)

Budget Element	Original	Amendment	Total
Foundation Activities	18,065	20,700	38,765
Technical Assistance	1,790	3,075	4,865
Evaluation/Audits	145	225	370
Total	20,000	24,000	44,000

Foundation Activities Budget
TABLE 2
($000)

Foundation Activities Elements	Original	Amendment	Total
Collateral Fund	15,605	16,000	31,605
Operating Expenses	1,301	3,400	4,701
Training	268	300	568
Special Projects	891	1,000	1,891
Total	18,065	20,700	38,765

G. Agreement with the Ministry of International Cooperation

The Ministry of International Cooperation and USAID have agreed in principle to the need to amend the Small and Micro Enterprise Development Project to add new foundations. This understanding was formalized in PIL No. 5 dated August 16, 1990 and countersigned by the First Undersecretary. The PIL also makes reference to the guidelines that were developed for identifying new foundations, as well as the requirement that any foundations proposed for addition to the Project must be mutually approved by both MIC and USAID.

H. Recommendation

The Project Committee recommends the authorization of the Small and Micro Enterprise Development Project for a new total of $44,000,000.

The Project Committee supports the waiver request for local procurement of electronic equipment for the new foundations. The total value of the waiver would not exceed $1,000,000 and the individual transactions, by foundations, would average $13,000 (see Annex I).

I. PROJECT RATIONALE AND DESCRIPTION

A. RATIONALE

1. Perceived Problem - Egypt has high levels of unemployment and widespread poverty that will be exacerbated during the short term by the implementation of economic restructuring measures. Egypt faces a formidable challenge over the next few years as it seeks to undertake economic restructuring while containing the negative impact of such a program on the lower and more vulnerable income groups.

The small business sector plays a vital role in the Egyptian economy. These businesses are generally not registered or taxed, making them "institutionally invisible" and difficult to quantify. Figures extrapolated in 1985 indicate that there are at least 375,000 such firms. Although numbers are not precise, a significant proportion of Egypt's industrial output is produced by small and micro business. The small scale business sector is therefore obviously important because of the large amount of employment it provides. Global experience with small scale enterprise support projects has shown that productive sector SMEs generate the largest increments in productivity and new employment for each dollar for credit invested in the participating firm.[1] Preliminary data generated under the original project indicates that temporary employment increased by 34%, full time employment by 12%, and that approximately one job is created for every LE 2,000 of credit provided.

The SME sector faces several constraints to its growth, including inadequate sources of financing, marketing, and lack of managerial experience.[2] The problem that USAID/Cairo is best suited to overcome at present is the constraint of availability of credit. Egyptian SMEs lack accessibility to formal financial institutions. Although the banking system has experienced excess liquidity, they have been unable to channel those resources to the existing credit demand of SMEs. The general preference has been for lending larger amounts to a small number of borrowers as a result of the banks' misperceptions that small borrowers present higher risk, and the lack of exposure to recent experience with

---

[1] There is a good deal of literature that deals with the effect of credit on productivity and employment among small scale enterprises. A good summary is presented in AID MicroEnterprise Stocktaking: Synthesis Report (AID Evaluation Special Study No. 65, James Boomgard, December 1989.

[2] Further analysis of legal constraints to both small entrepreneurs and business associations attempting to assist them is contained in Small and Micro Enterprise Development: A study of the Regulatory Framework, Integrated Development Consultants, November 1991. This study was funded by the existing Small and Micro Enterprise Development (SMED) Project.

lending to small and micro entrepreneurs. The SME owners have little or no prior experience in dealing with banks, mostly owing to lengthy processing time and unrealistic collateral requirements.

With limited access to formal finance, SMEs have had to resort to non-banking sources of capital. The principal source is suppliers, but relatives, "gamayas" (informal credit and savings groups), and advance payment from purchasers also play a role. The informal sources of capital have relatively easy access, limited paper work, and low hidden transaction costs, although the amounts available are quite limited, repayment periods are often less than two months, and they bear relatively high effective interest rates.

Small scale businesses also face a macroeconomic policy and administrative environment that contains serious market access and entry barriers. Examples of this are trade and investment policies that promote large scale industry and tax laws that often offer low tax rates to larger enterprises and encourage the use of capital-intensive activities. This is also manifested in the rationing of credit by financial institutions towards favored large clients, discrimination against apparently riskier small and micro enterprises, and discouragement of savings mobilization. In addition, there are restrictive regulatory and legal systems that create considerable obstacles for small firms, thereby encouraging informality and discouraging access to benefits afforded to legally constituted firms.

2. GOE Commitment to SME Development - The current GOE Five-Year Development Plan (1987-1992) calls for major private sector investments to meet the country's economic and social objectives and includes the following among its four major goals:

- To increase production and productivity levels;
- To strengthen the self-sustaining growth of the economy; and
- To develop national management capabilities and strengthen the role of the private sector.

This provides the basis for engaging the GOE on policy to free up market forces to encourage the required private investment. This can further be tied to small enterprise promotion through a series of statements by GOE officials, beginning in December 1989 with President Hosni Mubarak's statement emphasizing the importance of investing in small scale industry. Official statements have linked private investments in small scale industry with the need to increase the national potential for exports to bridge the gap between exports and imports, an important aspect of self-sustaining economic growth.

3. Conformity with AID's Development Strategy - The current Project, as well as this proposed expansion Amendment, are in line with USAID's FY 92-96 Country Program Strategy. The Project supports the Strategic Objective of increasing private investment and trade by increasing coverage and sustainability of SME services. As stated in the USAID's Country Program Strategy, the Mission plans to expand its support in the informal sector until financial sector distortions that deny credit access to small and micro enterprise groups are removed. The Project is based on the premise that the potential of these groups in making the economy grow is significant, and as most small and micro businesses are labor intensive enterprises, they also have the potential of alleviating Egypt's unemployment problem.

The Mission's SME strategy is to place priority on supporting the development of commercially viable non-targeted financial institutions that can, among other things, meet the short-term credit needs of SMEs in Egypt. When and where such financial services are unavailable, AID is encouraging and supporting private organizations to extend the reach of the financial system by retailing financial services to SMEs. USAID is also supporting training and technical assistance programs, but only when they respond to the identified business needs of SMEs.

4. Related Activities - In addition to this Small and Micro Enterprise Development Project, USAID currently has three other projects in its SME portfolio. The Rural Small Scale Enterprise (RSSE) Pilot Credit Project component of the Local Development II Project is providing credit to small and micro entrepreneurs through the National Bank for Development's (NBD) branches in Damietta and Sharkeya Governorates. The RSSE units in the Sharkeya branches have been lending since October 1989; Damietta branches have been lending since November 1989. As of mid-December 1991, the Project has over LE 2 million in circulation through 8,000 loans in approximately twenty-four months of lending. Repayment is over 99% on time, and the NBD has now provided LE 500,000 from their own resources for this project, although AID's active involvement in this pilot project has ended. USAID/Cairo is currently undertaking the expansion of this Project to 16 NBD branches in the Greater Cairo Area under the Small Enterprise Credit Project.

The Private Enterprise Credit Project funded technical assistance that was instrumental in the formation of a private, for-profit Credit Guarantee Corporation which issues loan guarantees on loan principal to facilitate the delivery of credit to small scale businesses that lack sufficient collateral to obtain loans from domestic banks. Health care providers are now included in the clientele. In response to AID's effort through the CGC to encourage formal banking institutions to lend to small entrepreneurs, a limited number of banks have undertaken steps such as establishing Small Scale Enterprise Lending Units allocating a

fixed amount of credit for Small Scale Enterprise loans. However, these efforts target small entrepreneurs (excluding micros) and the impact has so far been limited because of the banks' cumbersome loan procedures and their unfamiliarity with dealing with small scale entrepreneurs.

The Small and Micro Enterprise Development (SMED) project is providing credit and technical assistance through two privately-managed foundations in Cairo and Alexandria that manage the delivery of credit, technical assistance and training to small entrepreneurs. The Alexandria Businessmen's Association has been lending since January 1990 and the Egyptian Small Enterprise Development Foundation began end-use lending in November 1990. The promising results of high payback percentages and increases in production and employment of these two activities are the major reason for this proposed expansion utilizing the same methodologies. A chart showing loan issuance growth since the beginning of end-use lending through December 1991 appears in Annex C, Chart C.6.

Other donors have been contributing to the development of the SME sector as well. AID has the largest investment in the sector, but the other's efforts bear mention as well. A brief description of some of the efforts follows.

- The Near East Foundation has recently established a regional center for services to small business. Activities include the development of formal training materials, provision of counselling services, provision of access to information on various aspects of small enterprise development and operation, study of the functions and needs of various subsectors of the small enterprise sector, and holding of policy-related seminars. Although initially focussed on Egypt, the intention is to eventually expand to a regional basis.

- The German Agency for Technical Cooperation (GTZ) recently terminated a program with the Industrial Design Development Center which focused on institution building within the IDDC through upgrading of extension programs to small scale industry. Based on an internal mid-term evaluation, this program was canceled as of the beginning of 1990. A new program for support of this sector was designed for implementation through the German/Arab Chamber of Commerce, which has formed a non-profit daughter organization specifically to work in the small enterprise sector.

- The EEC began a program of support to small industry in January 1990 under the umbrella of the Federation of Industries. The program has two components, a technical advisory service for small industry and a credit component.

- Catholic Relief Services is currently engaged in a pilot program of small workshop support in Alexandria that provides access to credit and financial management advice to firms which accept unemployed youth as trainees in their workshops. A second program may be undertaken in Sohag.

- CARE is currently in the planning stage of a long-term village development program that will center on a multi-purpose small enterprise loan scheme as the entry point to communities. CARE is going to support some provision of technical assistance to loan recipients, and is encouraging the grouping of projects for this purpose.

- Ford Foundation has undertaken a pilot program carried out in conjunction with the National Bank for Development in Minya which has been providing credit to small and micro entrepreneurs since April of 1989.

5. Impact on Problem - The activities listed above provide discreet and much needed efforts to deal with the constraints encountered by small scale businesses in Egypt. Although these combined efforts are beginning to produce some change, the sheer number of SMEs, and their resultant credit demand, warrant an expanded effort through broader geographic coverage.

6. Alternate Approaches - The most effective institutional mechanism for implementing the SME activities and for achieving the project purpose is the foundation. This approach was selected after reviewing the merits of several other possible approaches for SME credit delivery.

The project committee examined the existing credit programs being implemented by PVOs in Egypt. None of these PVOs meet USAID's established minimum selection criteria. (See Section V.B.) These PVOs are managing programs having no more than a few hundred active borrowers, are very limited in their geographic coverage, and are designed to target selected subsets of the SMEs population. These programs do not appear to have a capacity to effectively administer a credit delivery program of the magnitude contemplated in the SME PP amendment. Furthermore, most are delivering

subsidized credit to borrowers which is an approach not proven to be sustainable and dependent on donor assistance.

The project committee also reviewed the approach implemented by the NBD under the RSSE pilot credit project. The committee determined that NBD's institutional capacity is too frail at this time to take on the SME lending activities contemplated in this amendment. Over the next 18 months the USAID-financed SEC program plans to provide credit to approximately 16,000 borrowers in the greater Cairo area using 16 NBD branches. While the RSSE pilot activities were successful, given the magnitude and ambitious timeframe of this new NBD credit program, NBD will have to concentrate all its efforts on mobilizing and training the significant new staff resources and effectively setting up the 16 new branch offices and to managing the substantial increase in lending volume. In sum, the SEC project lending activity represents a major new undertaking by NBD and will require its fullest attention over the upcoming months to effectively implement. Accordingly, it was determined that NBD can not effectively administer another SME lending program of the magnitude and scope contemplated in this amendment.

In addition to the above, only the SME foundation approach appears to provide the desired level of close management involvement and support by the local business community and a decentralized credit delivery mechanism that permits close regular technical support to borrowers. Furthermore, as stated in the 1992 mid-term project evaluation, the foundation approach is rated as an effective institutional mechanism for providing both financial and nonfinancial assistance to SMEs in the form of credit, technical assistance, and training.

B. Goal, Purpose, and End of Project Status Conditions

The Project Goal and Purpose, as stated in the text of the original Project Paper, has not changed. The Project goal will continue to be to expand economic output of the small and micro enterprise subsection of the economy, and thereby increase employment and income among low income Egyptians. The purpose of the project is to establish a viable credit delivery system for small and micro enterprises in Egypt using non-profit foundations as financial intermediaries.

C. Outputs and Indicators

Under the original Project, two self-sustaining foundations are being established, one each in Alexandria and Cairo. This Amendment will increase the number of foundations by up to five, for a total of seven foundations. As with the first two foundations, the additional foundations will increase access to credit, marketing, and technical know how, increasing productivity, income, and employment in participating firms. It is anticipated that five new foundations will provide loans to an additional 28,000 borrowers over the LOP, bringing the Project total to 60,000.

The project will have achieved its purpose when up to seven foundations have been established and are providing the needed credit services to the SMEs. Indicators of project success will include: a) 5 to 7 foundations operating on a sustainable basis, b) quality of foundation SME loan portfolio remains high (less than a 3% default rate), and c) a capacity for providing technical training to SMEs established.

Through the foundations, Project outputs will consist of:

- Credit to increase the availability of funds for working capital and investments in plant and equipment in participating SMEs;
- Training in basic business subjects for Project beneficiaries in order to develop the skills necessary to improve management, finance and other aspects of the participants' businesses; and
- Technical assistance to help participating SMEs apply concepts learned in training sessions and to overcome specific problems associated with their businesses.

D. Project Activities

The Project's primary activity is to assist with the development of up to five additional private, non-profit foundations that can deliver and recover credit to small and micro entrepreneurs. The foundations consist of private businessmen who are successful in their locality and have a dedication to assist the small business sector in their locale(s). The rationale behind this amendment is to expand the geographical coverage of the existing project, using the same methodologies that have proven successful to date. A description of project activities follows.

1. Foundations

a. Selection and Establishment - The Small and Micro Enterprise Development Project has financed the establishment of foundations in two locations (Alexandria and Cairo) and provided capitalization for credit. This Amendment views these as First Phase models and builds on the effort of the original Project to increase the number of foundations in up to five additional governorates during the Second and Third Phase of the Project.

In an attempt to obtain broad geographic coverage, the Mission has identified potential business organizations in three general areas; the Delta, the Canal Governorates, and Upper Egypt. Site analysis for 12 governorates has been undertaken to: identify the number and types of SMEs and potential market demand for credit and technical assistance; examine the composition of potential private sector implementing groups; and initiate discussions to assess their willingness to undertake a loan program compatible with AID's policies and borrower eligibility criteria. Selection for participation under the Project will be made on the basis of the criteria agreed upon with the Ministry of International Cooperation. As part of project design, analysis has been undertaken to identify and prioritize the capability of these groups to carry out the objectives of a foundation. Based on this analysis, the Second Phase foundations have been positively identified as forming around existing business organizations in the governorates of Dakahlia and Gharbia. Work with additional organizations will continue during implementation of the Second Phase, and it is anticipated that organizations in three additional sites, most likely Assiut, Port Said, and Beheira, will be ready for inclusion in the Project for the Third Phase.

b. Foundation Support - As in the previous effort, the Project will provide technical assistance, training, credit funds, and the initial operating costs of establishing foundation micro-enterprise lending activities, which includes training, office equipment, and salaries.[3] As with the original Project, interest and other charges will be set at a level that allows the foundations to achieve breakeven within a reasonable period of time. The foundations will provide their own operational expenses once breakeven is achieved. Experience with the original project shows that revenues can meet expenses within two to five years, fulfilling the project objective of having a self-sufficient foundation before the project's PACD.

---

[3] It appears that establishment of the new Foundations will be somewhat easier than establishing the original two. The existing Foundations can be utilized as training and demonstration centers for "new" Foundations. The computerized MIS now being utilized can be installed as it exists with the new Foundations, without the development time that was required for the initial Foundations.

The amended Project will continue to provide technical assistance to the new foundations through the services of a U.S. firm in cooperation with an Egyptian firm. This will be obtained through a competitive bid. It is expected that the same loan methodology and lending mechanism that has been developed under the original Project with the initial foundations will continue to be used by the foundations supported under the expansion. It is also planned to use essentially the same computerized management information system within this expansion phase.

In line with the model established by the First Phase foundations, the Project will provide funds for the Second and Third Phase foundations for activities that directly benefit SMEs. These activities, which can either be implemented by the foundations themselves or be contracted to other organizations, would fall within the same general guidelines as put forth in the original Project Paper:

- Have high potential for increasing incomes;
- Have significant potential for generating new employment;
- Improve product quality and/or increase production.

The foundations' first priority will be to develop and implement a self-sustaining system for providing credit to small and micro entrepreneurs. The foundations will be encouraged to provide other services, such as management training for SME borrowers, SME new product development, etc., once the credit delivery system is established.

Where appropriate, user fees will be identified and charged to the end user for training and technical assistance to cover a portion of the costs attributable to those activities. One indicator of training or TA effectiveness is the willingness of SME participants to find ways to raise funds themselves to cover the cost.[4]

---

[4] A recently completed study, Egyptian Women and Microenterprise: the Invisible Entrepreneurs, (Weidemann, 1991) surveyed both men and women entrepreneurs. Almost none of the entrepreneurs identified technical assistance to improve their production techniques as needed, but consistently identified working capital as the most needed input to expand and improve their businesses.

II. COST ESTIMATE AND FINANCIAL PLAN

The original SME Development Project was authorized in September 1988 for $20 million with a seven year LOP. This Amendment will add $24 million and two years to the LOP, bringing the totals to $44 million and nine years. The $20 million of the original Project was fully obligated by the end of FY 91. First year obligations under the Amendment are expected in FY 1992 in the amount of $5 million.

As this Project works directly with private sector foundations, there are no direct GOE budgetary resources allotted.

A. Summary Cost Estimates and Financial Plan

In Table 1 below is shown the allocation of A.I.D. financing for the three major budget line items (Foundation Activities, Technical Assistance, and Evaluation/Audits). The illustrative budget in Table 1 shows the amounts budgeted in the Project Grant Agreement and its amendments, for the original project, and the proposed allocation under this project amendment. Table 2 suggests the allocation between line items for funds to the Foundation Activities. The Technical Assistance line item is composed of funds for the T.A. to the foundations and technical services required to monitor the project by A.I.D.

TABLE 1
($000)

Budget Element	Original	Amendment	Total
Foundation Activities	18,065	20,700	38,765
Technical Assistance	1,790	3,075	4,865
Evaluation/Audits	145	225	370
Total	20,000	24,000	44,000

Table 2 below presents a summary of the cost estimates and financial plan for the total Life of Project for the Foundation Activities line item. Given that there will be performance differences between the various foundations funded under this amendment and the original project, this breakdown is illustrative and based on current planning for a total of seven foundations. Each of the foundations will be operating under individual cooperative agreements, initially for a period of two years. The allocation per foundation will be adjusted with each cooperative agreement, based on the performance of each foundation and on their submission of budget projections.

TABLE 2
($000)

Foundation Activities Elements	Original	Amendment	Total
Collateral Fund	15,605	16,000	31,605
Operating Expenses	1,301	3,400	4,701
Training	268	300	568
Special Projects	891	1,000	1,891
Total	18,065	20,700	38,765

B. Methods of Implementation and Financing

The methods of implementation and financing proposed for this Amendment are all in accordance with the Agency's payment and verification guidelines. Each foundation supported under the Project will enter into a Cooperative Agreement with USAID/Cairo. All capitalization (disbursements) of the collateral fund(s) will be by direct payment. All other costs by the foundations supported by USAID will also be by direct payments (cash advances). Technical Assistance will be by an AID Direct Contract, as will all Project Support, Evaluations, and Audits. The implementation methods proposed for this Amendment are exclusively AID direct contracting instruments, as they were under the original Project.

1. Foundation Activities - Each foundation will be responsible for the implementation of the foundation activities in a specific geographic area. Funds for Operational Support and Special Project activities will be provided to the foundations on an advance/liquidation basis. Replenishment of advances will be subject to liquidation of previous advances and review of actual expenditure vouchers by AID. USAID will provide a 30 day cash advance to the foundations. The foundations may request a 90 day cash advance upon approval by USAID that their accounting and financial management systems are implemented in accordance with USAID regulations.

The same process that was successfully applied under the ongoing SME project to assure that adequate management capacity and internal control systems are established will be followed under the SMED amendment. After the project agreement is obligated with the GOE and the new foundation is legally established, USAID will contract with a consulting firm to work with the new foundation to lay out a detailed system of financial accounts, ledgers, and accounting procedures. It is anticipated that this system will require only minor modifications of the systems already designed and operating effectively at the ABA and ESED. USAID/FM will examine the adequacy of the design of the proposed accounting and internal control systems. At the same time, USAID staff will work closely with the foundation board to identify and recruit a foundation executive director and a financial manager.

Once USAID has approved the detailed layout of the accounting and internal control systems and has reviewed and approved the recruitment of the key foundation staff, a limited initial release of USAID funds will be made for the operating expenses of the foundation (to finance the costs to obtain office space, setting up the offices, hiring staff, etc.). At the same time, USAID will finance the assistance of ABA and a technical consultant firm to train and assist the key staff of the new foundations on how to effectively operate the new systems using the equipment and facilities already in place at ABA. During this period the utilization and accounting of these funds will be closely monitored by the project financed consultants and by TI/FI staff. As the foundation staffs become familiar and efficient with using the financial systems, additional limited disbursements will be made for operational expenses.

During this initial implementation period, members of USAID/FM will closely monitor and review the operation of the foundation's accounting and internal control systems. Advances will be kept at a minimum at the start and closely monitored by the USAID Controller. In addition, after each foundation has been in operation and staff training has been provided, a local CPA firm will be contracted by USAID to assess the adequacy of the established financial and managerial systems to effectively utilize the collateral funds. Once the findings and results of this financial and management assessment are determined to be satisfactory by USAID, the foundation will be provided funds to set up a collateral fund. The Cooperative Agreements with each of the foundations will include Conditions Precedent requiring USAID

approval of the operation of the foundation's financial and managerial systems prior to the disbursement of any grant resources for the collateral fund. The CP to disbursement of collateral funds will require a formal review of their capabilities in order to fully meet the requirements of the "Payment Verification Policy Implementation Guidance."

Funds for the collateral accounts will be provided as a direct payment, and will therefore be entered as an expenditure for USAID Project monitoring purposes. Interest generated from the deposit of the collateral funds into an interest bearing account will not be required to be remitted to USAID, as only interest earned on advance of Federal funds must be remitted to the Federal agency (OMB Circular No. A-110). However, the "Standard Provisions for Non-US Grantees" Section 3.0 entitled "Refunds" includes a statement to the effect that: "(a) The Grantee shall remit to AID all interest earned on funds provided by AID." This differs from the OMB language from which is derives. To resolve this discrepancy for the two foundations under the original Project, the Mission Director approved a deviation to the Mandatory Provisions (Action Memorandum dated March 7, 1990) so that the interest accruing to the collateral accounts should be retained by the First Phase foundations, in line with the OMB circular, and the Cooperative Agreements were amended accordingly. The same language based on the OMB circular will be included in the Cooperative Agreements with the Second and Third Phase foundations, to allow them to retain the interest.

The Operational Support and Special Project funds will be lodged in a non-interest bearing, separate account from the collateral funds. The AID project funds in the two accounts will not be commingled with funds from other sources.

2. Technical Assistance - The technical assistance contracts and contracts for audit/evaluation will be implemented through AID direct contracting procedures. To comply with the Mission Contracts Office's policy, funds are available under the Project to carry out pre-award surveys, cost-incurred audits and contract close-outs for the major Direct Contract for technical assistance. There will be open competition to provide technical assistance for this Amendment, as there was under the original project.

III. IMPLEMENTATION PLAN

A. Management and Administrative Arrangements

1. Implementing Agency - The activities planned for the Amendment build on the model established under the original Project. The GOE counterpart for the proposed Project expansion will continue to be the Ministry of International Cooperation, Department of Economic Cooperation with the USA. As with the original Project, AID will enter into a bilateral Project Agreement with MIC in which the two

parties will agree that AID should undertake the necessary contract and grant procedures in order to implement the Project. Under the terms of the PROAG Amendment, AID will undertake the necessary contracting procedures to implement the Project through individual Cooperative Agreements with the new foundations for the credit and technical assistance delivery. USAID will also enter into a contract with a competitively selected firm to obtain the technical assistance support necessary to assist the foundations in becoming viable and self-sustaining organizations.

2. Foundations - Each foundation will function as an autonomous unit, with decision making handled by either the Executive Director, the Board's Executive Committee, or the full Board, as appropriate. The USAID Project Officer and the foundations' Boards will be responsible for monitoring Project performance. Frequent meetings with the Technical Assistance Team will play an important role in ensuring that the Project continues on track and that no major problems are encountered.

The foundations will report to AID on a regular monthly basis in terms of expenditures and loans released. Loan data will desegregate loans by type of enterprise, gender of entrepreneur, duration of loan, size of loan, and repayment rates. Once the lending program is well underway, the foundations will also report data on a few key socio-economic indicators to allow the Project Officer to track progress towards the Project goal and purpose. These data will include estimates in the before and after loan levels of production, average monthly sales, and number of employees (both full and part-time). Charts D.1. and D.2. in Annex D give the summary of results of 717 borrowers regarding production and employment generation.

Foundation reporting for the Second and Third Phase foundations will be facilitated through the installation of the automated Management Information System that was developed by the TA team under the First Phase of the Project.

B. Technical Assistance Procurement Plan

Under the First Phase of the Project, technical assistance was obtained through open competition that resulted in a thirty-month direct contract with an American firm and a subcontracted Egyptian firm. When the critical nature of technical assistance was identified and preliminary planning for this Amendment occurred, this contract was extended for an additional 12 months to provide additional assistance to foundations continuing their expansion. In addition, the TA Team has been assigned a role in orienting the newly identified boards of the Phase II foundations to enhance their understanding of the program philosophy and target beneficiaries, to provide the basis for decisions concerning the establishment of procedures, and to define staff needs.

This Project Amendment will fund technical assistance for the Second and Third Phase foundations. Given that the existing direct contract can only be extended for a maximum of five years, the technical assistance required under the Amendment will be once again competed. The current TA contract will terminate in October 1992. The necessary steps to compete and contract for the provision of TA will be taken to ensure that there is no interruption in services.

The structure of the TA will follow the pattern established under the original Project. A US firm will provide full time advisors and short-term consultants for institutional development of the foundations. The subcontracted Egyptian firm or firms will place one full-time advisor in each new foundation and also provide short term consultants with specialties as needed, e.g., MIS, financial analysis, and training. The TA team will be used to provide specialized advice and training to each new foundation over a three year period. Considering the needs of both Second and Third Phase foundations results in a four year duration for the technical assistance contract. In addition to guiding the foundations in forming program philosophy, the TA Team will also assist the foundations in establishing management and financial systems, procurement procedures, and lending policies and procedures based on the experiences of the First Phase foundations. The TA Team will also carry out on-the-job training, and identify and arrange for both in-country and overseas training.

The following outlines the technical assistance needs identified for the Amendment at this time. This should be viewed as illustrative only and will be refined during actual development of the Scope of Work for the contract. The new TA contract can be expected to provide 21 person years of long-term US and Egyptian technical assistance at the following illustrative levels of effort in:

Expatriate Positions

- Small Enterprise Credit Advisor- 4 person years
- Institutional Development Specialist - 2 person years

Egyptian Positions

- Foundation Advisors - 20 person years

Experience to date of utilizing both long- and short-term expatriate advisors who are closely coordinated with Egyptian advisors has been very positive. It is assumed that some of the positions described below may be filled, in part, by expatriate advisors, but Egyptian advisors and experts will be used whenever the expertise is available. The contract will make available short-term technical assistance, totalling 226 person months, in the following areas:

- MIS Systems Analyst/Programmer - 15 person months

- MIS Programmer/Trainer - 20 person months
- Financial Analyst - 60 person months
- Lawyer - 16 person months
- Policy Analyst - 16 person months
- Coordinator - 24 person months
- Other (marketing, promotion, accounting, etc.) - 75 person months

An illustrative budget for these TA services is shown in Annex C, Chart C.5.

C. Commodities Procurement Plan

The commodity procurement under the Project will support the Second and Third Phase foundations as they establish head and branch offices. The procurement will be carried out by the foundations themselves, in accordance with the terms of the Cooperative Agreements. One of the initial tasks of the TA team will be to assist the foundations in detailing the steps of their procurement procedures, after which the foundations will be in a position to undertake the procurement. The chart in Annex C. Chart C.2., provides an illustrative list of the equipment purchases that each foundation is expected to make over the course of the Project.

The foundations, with assistance from the TA Team, will write the specifications for the materials and equipment. With the exception of some computer software that might not be available locally, all commodity procurement will be local, off-the-shelf procurement. Office equipment (including computers) will comprise the bulk of the purchases made by each foundation. The majority of this equipment is not produced locally, but is imported to cover local needs. Local procurement is preferable because of the benefits associated with a local warranty and repair contracts. In addition, the difficulties encountered in obtaining the necessary customs guarantees for this Project to import Project commodities would seriously delay, if not stop, implementation of the Project. It is expected that the items will be grouped whenever possible, to negotiate better prices. Given that many of these transactions will therefore exceed the $5,000 per transaction limitation, a waiver is requested under this Project.

D. Training Plan

The following outlines the training needs identified for each foundation as learned from the experience with the First Phase foundations. This should be viewed as illustrative only, and will be refined to reflect the actual needs of the Second and Third Phase foundations. As with the First Phase, most of the training will be carried out on-the-job by the TA Team, with input from the Executive Directors. This will be supplemented by in-country workshops organized by the TA Team and by observational visits and attendance at seminars abroad. The cost of the training for which

the TA Team is responsible is included in the TA line item, whereas the costs for additional seminars and observational trips are indicated in the separate Training line item.

Foundations' Board members: Orientation. Review of Project objectives. Literature review on various ongoing SME activities in Egypt and elsewhere.

Overseas Observational Visits: For the Executive Directors and possibly one or two board members of each foundation.

Foundations' Extension Officers: Introduction to Project objectives. Training in their responsibilities through field visits to observe SME work sites and community locations.

Foundations' TA/Training Manager: Review of Project objectives. Literature review on various ongoing SME activities in Egypt and elsewhere. Meetings with various PVO and government groups, discussions with universities and private consultants to identify packages of services etc.

Foundations' Financial/Administrative Managers: Initial focus of training will be on accounting and management information systems needed to support program.

Foundations' Branch Managers: Review of Project objectives. Review of literature. In-country visits, preliminary contracts with Government and PVO programs.

E. Implementation Schedule

Under the original Project, the Contractors are required to work out a detailed Master Plan for Implementation within the first two months of the arrival of the long-term technical consultants, and to update that detailed plan on an annual basis. That method will be followed again under this Amendment. However, an illustrative plan is contained in the Annex H of this Amendment.

F. Pre-Implementation Activities

As part of the Project Paper Amendment design process, TI/FI staff undertook a comprehensive survey of possible sites for the Second and Third Phase foundations. As part of this exercise, contact was made with private sector groups who would be involved in the implementation of foundation activities. Pre-implementation activities for the Amendment will include undertaking the first steps in developing the Second Phase foundations' institutional culture and framework. This will include reviewing Project objectives and defining policies and procedures with foundation Board members. The contract extension for the First Phase TA Team specifically included this type of introductory development for the Second Phase foundations.

IV. MONITORING AND AUDIT PLANS

A. MONITORING PLAN

The Mission's Office of Finance and Investment (TI/FI) will have primary responsibility for monitoring the SME project. TI/FI's role will focus on coordination of USAID involvement with the foundations. With the assistance of various support offices, TI/FI will coordinate the application of USAID's functions at key planning points, particularly the review and approval of annual plans, quarterly progress reports and disbursement requests, and scopes of work. TI/FI will work closely with the foundations in developing quarterly and annual implementation targets and in reviewing progress in achieving these targets. TI/FI will also take the lead in developing and carrying out plans for regular project evaluations.

The level of USAID project monitoring will remain at the same level as that experienced under the ongoing SME program. Accordingly, more intensive monitoring will be required as the foundations' financial and management systems are installed, staff are hired and trained, and lending activities are initiated. Since TI/FI plans to work with about the same number of foundations (two) at any one time during this critical start up period, no unusual workload difficulties are foreseen. Indeed it is anticipated that the start up period for the new foundations should be somewhat abbreviated and less frustrating than that experienced by ABA and ESED since much of the work associated with organizing the new foundations has already been completed. In addition, we anticipate that project funded technical advisors will be working closely with the foundations providing detailed guidance on the implementation of all planned project activities.

TI/FI's monitoring of the Small Enterprise Credit (SEC) project and the Credit Guarantee Corporation (CGC) project should not cause serious additional workload problems. The bulk of the most intensive TI/FI SEC monitoring work will occur over the next 4-6 months as the NBD starts its planned lending activities. After that period the monitoring work associated with the SEC project should be significantly less intensive and allow the TI/FI staff to focus more attention on SME monitoring responsibilities. Thus it appears that the three TI/FI professionals currently assigned to monitor the implementation of the small business project portfolio is adequate.

B. AUDIT PLAN

During the life of the project, non-federal/recipient audits (NFAs) will be performed to determine whether the recipient has properly accounted for and used AID funds for the purposes intended in accordance with applicable laws and regulations. USAID will ensure that all project commitments over $25,000 are in the Mission audit universe, scheduled for audits and adequate funds are available for yearly non-federal/recipient audits. The Regional Inspector General will perform quality and compliance reviews of all non-federal/recipient audits under this project and provide or arrange for additional audit coverage requested by USAID, if deemed necessary. For FY 92, an NFA of the Alexandria Foundation was completed and the NFA for the Cairo Foundation is scheduled for the third quarter of FY 1992.

V. SUMMARIES OF ANALYSES

A. Summary of Technical Analysis

The Technical Analysis in the original Project Paper outlined the expected lending mechanism and the operational activities of the foundations. This section will build on that analysis by examining the actual experience of the two First Phase foundations.

1. Lending Mechanism - The lending mechanism to be used by the Second and Third Phase foundations will be the same as that pioneered by the First Phase foundations. This mechanism is a "collateral account with the right of offset." A dollar-denominated collateral account is established by depositing funds under the name of the foundation into an account at one or more selected banks. Pre-authorized overdraft privileges on Egyptian Pound (LE) checking accounts will be negotiated with the banks, at least equal to the amount deposited in the collateral account. Funds will be drawn from these checking accounts as loan demand is generated. The structure minimizes costs since the credit component of the Project pays interest to the bank only on the outstanding balance. The system has worked very well to date. The banks are able to provide ready statements of accounts to the foundations and monitoring is very straightforward. The foundations then mark up the cost of funds, and charge interest to the end-use borrower on the entire amount of the loan for the duration of the loan, although most borrowers repay on a straight-line basis. Although lending to micro-enterprises is relatively expensive, this mechanism allows the foundation about a 15% split between the amount of effective interest that they are paying to the bank and the interest income they receive from the borrowers. The Mid-Term Evaluation points out the efficiencies attained utilizing this mechanism.[5]

---

[5] Mid-Term Evaluation, Small and Micro Enterprise Project, Katherine Stearns, January 1992, page 6.

The Mission thoroughly reviewed the lending mechanism being utilized. This was done in the light of the current situation wherein interest rates on the LE have gone up, the interest rate on the dollar has gone down, and the LE:US$ exchange rate has stabilized. Outside experts in development and commercial banking were retained to review the financial mechanism being employed. The consultants reviewed the alternatives of direct funding of the foundations, two different guarantee mechanisms utilizing local or U.S. banks, and explored the alternative of utilizing a collateral fund denominated in LE. The report concluded that the mechanism being used maintains the value of the fund the best, provides for the long-term viability of the foundations, yields the lowest operational costs for the project's operation, and is the easiest for AID to manage.[6] Furthermore, interviews with senior officials of the foundations and commercial banks indicated that all participants are very satisfied with the effectiveness and simplicity of the current financial arrangement, and find any of the proposed alternatives significantly less desirable. Therefore, this project amendment will utilize the model proven under the original project. Annex B contains further information relating to the mechanism.

2. Foundation Operations - The original Project design included the concept of group lending. Initial contacts with entrepreneurs in the early stages of implementation during the First Phase indicated that this methodology could not easily be implemented in Egypt. Therefore, the First Phase foundations each independently determined to approach the SME borrowers as individuals, rather than as members of a borrowers' group. Treating each of the borrowers as individuals, dependent on their own performance, has worked very well and the same methodology will be followed under this Amendment.

Credit procedures similar to those developed by the two First Phase foundations are expected to be introduced in the Second and Third Phase foundations. The procedures define client eligibility and the type and use of loans. The steps in the loan review and disbursement process are itemized and the criteria and procedures for repeat loans delineated. The extension officers' main task is working out a cash flow statement with the borrower that involves the addition of credit. The extension officers' secondary task regular supervision of the borrowers. To the maximum possible, all other paperwork and data entry is carried out by foundation support staff, thereby maximizing the amount of time that the extension officers spend in direct contact with the borrowers.

---

[6] The draft report, Analysis of Funding Mechanisms for the Small and Micro Enterprise Project, Kenneth Angell and John Porges, Development Alternatives, Inc., May 1992, is on file with the Office of Finance and Investment.

3. Foundation Size and Configuration - The size, makeup and configuration of the proposed foundation operations was derived following a methodology involving the calculation of the level of activity and support needed to sustain a lending operation sufficient to generate revenues that will exceed operating cost. The recommended foundation organizational arrangement was also influenced by the basic SME project concept of attempting to have the lending mechanism as close as possible to the borrowers. The 1992 midterm evaluation of the project indicates that a foundation needs to have minimum portfolio size of approximately 3,000-3,500 active borrowers to reach a financial breakeven point. Accordingly, to allow for sufficient lending volume, the project only proposes to support foundations in those governorates in which at least 5000 potential SME borrowers currently exist.

The 1992 midterm evaluation also indicates that each loan officer can effectively administer about 100-120 active borrowers and that the most efficient management unit would be made up of about six to nine loan officers supervised by one manager and supported by a core administrative staff. Thus, the design of the project envisages a need for approximately 24-30 loan officers and four core lending units (or branches) per foundation. Depending upon the geography and dispersion of the borrowers within a particular governorate and the management style of the foundation executive director, these loan officers could be assigned to lending units situated in one or more different locations. In any event, supporting a foundation's operation sufficient to reach financial breakeven will require approximately the same level of staff, equipment and office space. This is the level of financial support programmed in the project paper.

B. Summary of Site Analysis

As part of TI/FI's efforts to explore the possibility of expanding the Small and Micro Enterprise Development Project to governorates beyond Cairo and Alexandria, site visits were carried out to most of the governorates.

The site analysis was carried out in accordance with the following criteria established by USAID, in agreement with the Ministry of International Cooperation, in August 1990. That criteria establishes what minimum requirements would have to be met by an area and group of private businessmen to qualify under an expanded SMED Project. A summary of the criteria is:

a. Market Demand and Financial Feasibility: A minimum population of 250,000 for the principal urban center; a sufficient number (not less than 5,000) of existing productive small enterprises that could be potential borrowers who have the capacity to repay short-term loans not exceeding LE 10,000 and bearing market interest rates.

b. Institutional Criteria and Soundness: Sponsoring Foundations must be private and non-profit, with a board of directors who are leaders in the private business community and willing to serve without remuneration. The sponsors should demonstrate their ability to work out an acceptable arrangement with local banks to extend credit to SME borrowers, and have the capacity to present an acceptable proposal to USAID covering time-phased implementation plans for related services to SMEs along with financial projections demonstrating a program breakeven point within a reasonable time frame. The sponsors must be willing to give equal opportunity to women both as borrowers and employees.

c. Upon further analysis of the various areas, it is deemed important to have local banks that are willing to cooperate with the Foundation in the delivery and recovery of credit funds, and that the local government be supportive of the Foundation's initiatives in developing the small and micro entrepreneurs.

Site Visit Selection and Description

In an attempt to provide wide geographic coverage, Egypt's governorates were divided into three general areas; Upper Egypt, the Delta, and the Canal governorates. Prior to beginning the site visits, the 26 governorates were classified on available information with respect to the projected number of small and micro enterprises in existence and current foreign assistance programs to SMEs.

Governorates excluded for not meeting the minimum required number of existing enterprises are: Red Sea; New Valley; Marsa Metrouh; North Sinai; South Sinai; Qena; and, Aswan. Governorates excluded for having an ongoing project assistance under the existing SMED Project (263-0212) are: Cairo; Giza; Qualyoubia; and, Alexandria. Governorates excluded for having ongoing Rural Small Scale Enterprise credit projects supported by USAID and/or the Ford Foundation, both in cooperation with the National Bank for Development (NBD) are: Sharkia; Damietta; and, Minia.

Governorates included (all other Egyptian Governorates) in the site visits are described below. These governorates were included for meeting, or having the potential of meeting, the USAID criteria in terms of existing enterprises. A brief description of each area is included. Further details and observations are included in the Detailed Site Visit Report on file with the TI/FI office.

Upper Egypt

Assuit - Trade capitol of Upper Egypt, number of existing SMEs exceeds 9,000, active business community, large number of local

banks, a governor supportive of private sector initiatives, and *should be included* in the second year of an expanded project.

Sohag - Small number of existing enterprises (less than 2,000), depends primarily on agriculture, small business community, governor primarily interested in delivering credit assistance to Gulf returnees and new graduates.

Aswan - Small number of existing small and micro enterprises, primarily dependent on tourism.

Luxor - Small number of existing small and micro enterprises, primarily dependent on tourism.

Canal Governorates

Port Said - A reasonable number of existing enterprises (5,000), high demand for credit, very active and interested business community, large number of local banks, governor very supportive of SME project objectives, and *should be included* in the second year of an expanded project.

Ismailia - Small number of existing SMEs (less than 3,500), active business community, large number of local banks, very supportive governor.

Suez - Small number of SMEs (data not yet available), reasonably active business community, reasonable number of banks, governor recently appointed and not yet completely familiar with his area.

Delta Governorates

Dakahlia - More than 40,000 existing SMEs, high demand for credit, active and interested business community, large number of banks, governor very supportive of private sector activities and initiatives, *should be included* in the first year of an expanded project as an independent foundation.

Gharbia - More than 30,000 existing SMEs, high demand for credit, very active and interested business community, large number of banks, governor's intentions need to be further explored, *should be included* in the first year of an expanded project as an independent foundation.

Beheira - More than 10,000 existing SMEs, high demand for credit, active and interested business community (many of whom are members of the Alexandria Businessmen's Association), large number of banks, very supportive governor, *should be included* in the first year of an expanded project with existing, Beheira resident members of the ABA managing the project. It should become a stand alone foundation after 12-18 months of end-use lending.

Kafr El Sheikh - More than 8,000 existing SMEs, high demand for credit, very active and interested business community (many of whom are members of the Alexandria Businessmen's Association), very supportive governor.

Minofia - Probably in excess of 10,000 existing SMEs, has been difficult to coordinate with or obtain information from business community, deserves further study but does not appear as promising at this time.

C. Summary of Financial Analysis

The Financial Analysis for the original Project Paper carried out a sensitivity analysis for the breakeven point that concluded that the First Phase foundations would reach breakeven in the second quarter of Year Three of lending. Using more conservative alternative parameters, the analysis concluded that breakeven would be reached by the last quarter of Year Five of lending, which would still be acceptable in terms of the Project's goal and purpose. Current financial analysis indicates that the Alexandria Foundation will achieve break-even by the first quarter of Year Three of end-use lending and that the Cairo Foundation will achieve breakeven by the third quarter of Year Three of end-use lending.

The tables attached in Annex C indicate the same basic results as is currently being experienced under the original project. Although a vast range of scenarios are possible based on average loan size, extension officer productivity, inflation, exchange rate differentials, and repayment rates, reasonable assumptions indicate that the foundations can become self-sufficient within three to five years, and continue to generate profits that can be plowed back into loanable capital. The cost estimates are based on current prices adjusted for inflation.

An important concept on the long-term sustainability of the foundations is that the collateral fund be maintained in US$ rather than converted to LE upon release. The maintenance of value of the US$ helps to offset inflation, and is attractive to local banks. Analysis performed in TI/FI shows that we have gained at least 13% increase in funds available for lending to date. Depending on the assumptions on future devaluation of the pound, up to 25% more loanable funds can be available for the same amount of US$.

D. Summary of Economic Analysis

The Economic Analysis in the original Project Paper provided a qualitative approach to the topic, given that a comprehensive analysis would necessitate the use of quantitative information that was not available at that time. Although the information needed to do a comprehensive analysis is still not available, enough data has been collected on the Alexandria Businessmen's Association Foundation that an analysis of this data can provide a preliminary

indication of the eventual impact of the Project. A recently completed analysis of 717 repeat borrowers in Alexandria shows increases for permanent jobs of 7.7% and 15.7% for men and women respectively, temporary employment increases of 32.8% for men and 36% for women, and an overall increase of 85.7% in production. Charts of this data appear in Annex D, Charts D.1. and D.2.

E. Summary of Social Soundness Analysis

The Analysis in the original Project Paper remains applicable to the Amendment. The original analysis analyzed the socio-cultural context, the constraints faced by SMEs, and social issues influencing the Project. It also provided an indication of the likely impact of the Project by examining experience with similar Projects, both worldwide and in Egypt. Therefore this analysis will first briefly summarize the beneficiaries and the expected impact of the Project, and will then focus on the issue of women's participation in the Project.

1. Beneficiaries - The Project will reach several strata of the business sector: small and micro entrepreneurs will reap the benefits of increased access to credit and training. The overall population in the Project areas will benefit from a more efficient local economy, greater availability of liquidity, greater employment opportunity, and higher income. Indirectly, the whole business sector should benefit from the expanded number of small businesses of higher caliber who can be identified as feeder industries. The income generation and employment effects of an expanded small scale business sector should have beneficial repercussions through several levels of the Egyptian economy.

2. Project Impact - Unless credit programs are specifically designed to account for social and economic differences within the communities served, they will very likely reinforce inequality by promoting additional opportunities for the more privileged. Including the issues of equity, empowerment, and community development as integral concerns of credit projects can add to opportunities for both growth and equality among individuals and within the communities served. The most effective mechanisms for promoting equality of opportunity among potential borrowers are the following: limiting credit to those with minimum income; requiring that assets of borrowers and their firms not exceed given levels; rewarding borrowers who repay on-time and in-full with a rapidly issued subsequent loan, with the possibility of a larger loan; and strictly limiting the amount available for any given loan. The target group (direct beneficiaries) that this Project will be attempting to identify and serve will be borrowers who, among other qualifications, will be existing, small and micro enterprises employing less than 15 people and have fixed assets generally not exceeding $10,000 equivalent (not including buildings and land).

As a result of the Project Paper Amendment, it is estimated that there will be up to 28,000 new direct beneficiaries, *i.e.*, loan recipients; 56,000 non-family member employees benefitting from improved earnings; 126,000 new indirect beneficiaries; and 120,000 jobs strengthened or created.

3. Women's Participation - Women's limited access to capital in the face of their creditworthiness and their willingness to respond to economic opportunities underscores the importance of addressing women's financial needs -- not just for reasons of equity but even more importantly for economic reasons. Egypt's formal financial system, for the most part, has been unable to respond to women's financial needs. Some of the major factors that limit their participation are related to institutional requirements, others to cultural and social norms, and still others to the type of productive activities in which women predominate. The experience of the last decade in implementing micro enterprise credit programs demonstrated the capacity of these programs to integrate women as program clients.

The design of the SME amendment incorporates the major findings of the recent study of women microentrepreneurs in Egypt (Weidemann, 1992).[7] In particular, the project will try to achieve a target of 15,000 loans extended to women borrowers during life-of-project. The project will attempt to achieve this target by encouraging the foundations to develop and submit to USAID annual work plans which include:

- Specific targets for lending to women borrowers;(10% of Loan portfolio)

- Activities to design and implement training programs and incentive schemes to motivate its loan officers to proactively identify and assist women borrowers;

- Activities to diversify the loan portfolios of the well established foundations to include the sectors where women entrepreneurs are more likely to be found (e.g., services, and trade enterprises) and activities to include lending to unregistered enterprises.

[7] This study is now available for review in its final draft form, previous to being printed as a part of the GEMINI series. It is entitled Egyptian Women and Microenterprise: The Invisible Entrepreneurs, Jean Weidemann and Zohra Merabet, December 1991.

F. Summary of Administrative Analysis

The Administrative Analysis in the original Project Paper outlined the anticipated structure of the organization. The administrative structure of the First Phase foundations has in fact evolved in a manner that reflects planned structure. This analysis simply includes a representational Organization Chart, as it is anticipated that a similar structure will be used by the Second and Third Phase foundations.

G. Summary of Environmental Assessment

The original Project Design qualified for a "Categorical Exclusion" from AID environmental procedures. The ENE Bureau Environmental Coordinator approved a categorical exclusion for this Project Amendment on June 4, 1992 (Annex G).

VI. CONDITIONS AND COVENANTS

The Conditions Precedent and Covenants which were included in the Authorization for the original Project will be included in the Amendment as well. In addition, the Cooperative Agreements with each of the foundations will include Conditions Precedent requiring USAID approval of the operation of the foundation's financial and managerial systems prior to the disbursement of any grant resources for the collateral fund. The CP to disbursement of collateral funds will require a formal review of their capabilities in order to fully meet the requirements of the "Payment Verification Policy Implementation Guidance." The purpose of this CP in the Cooperative Agreement is to enable funding for support to functioning foundations while still ensuring that necessary systems and staff are in place prior to release of funds to carry out the foundations' credit, TA, and training activities.

Specific Conditions Precedent.(CP)

CPs for disbursements for Technical Assistance
- None

CPs for disbursements to foundations
Initial disbursement for operating expenses
- Evidence of legal status - incorporation
- Technical Assistance in place to assist foundations.

Subsequent disbursements for operating expenses
- USAID review and approval of accounting and internal control system.

Disbursements for collateral account
- formal USAID review and approval of the foundation's financial and managerial capability to handle the collateral account

VIII. Evaluations And Audits

A. Evaluation and Review

The purpose of the evaluation activities will be to determine (1) the extent to which the Project's goal and purpose are being achieved, and (2) the extent to which the Project is having the desired impact in terms of identified outputs. Funding has been set aside for each of these evaluations which will be conducted by a consultant other than those providing the TA. Although these evaluations will draw heavily from foundation data collection and analysis activities, the evaluator will also have to draw upon Project data obtained from records, interviews and observations to evaluate Project activities.

1. Interim Evaluations - An interim evaluation was completed under the original Project in the First Quarter of FY 92, following one year of lending experience by both First Phase foundations. The evaluation was carried out through a buy-in to AID/W's GEMINI Project. The purpose of this evaluation was to review the performance of the foundations and their staff, assess progress in meeting Project objectives, and to recommend changes as needed in operations. The findings will be taken into consideration when implementing activities under the Project Amendment.[8]

A second interim evaluation will be undertaken in FY 95 to examine the experiences of all seven foundations. This evaluation will undertaken a review similar to the first; however, the purpose will be to provide guidance to the foundations in management or technical areas in order to enhance performance. This evaluation will either be carried out through a buy-in (if AID/W continues the services provided by GEMINI past its PACD in 9/94, either through an extension or a new project) or the contract will be competed.

2. Final Evaluation - If Project implementation proceeds satisfactorily, an end-of-project evaluation will take place in FY 97. The primary focus will be identification of the most successful features of the Project, as well as "lessons learned," to provide both AID and other donors insights on the expectations versus the actual outcome of the Project.

---

[8] The Mid-Term Evaluation is on file with TI/FI. The Executive Summary of that evaluation notes that the "(SMED) Project design has several critical features that facilitate the strong financial development of the foundations." Those design features will go unchanged in the expansion of the project.

B. Audits

Two or more audits will be carried out during the Project, one each in FY 93 and FY 96. A local firm affiliated with a major US CPA firm will be competitively selected to carry out these non-Federal audits. These audits will cover financial reports and loan activity and will be conducted in compliance with generally accepted auditing principles as applied in the US. A Non-Federal Audit (NFA) of the Alexandria Foundation has been completed. The NFA for Cairo is scheduled for the second quarter of FY 92.

UPDATED LOG FRAME

ANNEX A

NARRATIVE	VERIFIABLE MEASURES OF ACHIEVEMENT	MEANS OF VERIFICATION	ASSUMPTIONS
Project Goal: Expand economic output of the micro and small scale enterprise subsector.	-Increased assets of SMEs. -increase production and productivity of SMEs. -Increased employment by SMEs. -Increased net earnings by SMEs.	Baseline Study Foundation MIS Reports Surveys of Beneficiary Firms Interim and Final Evaluations.	-Overall economic conditions do not adversely affect lower socio-economic urban sectors. -Demand exists for expanded SME production. -SME demand for additional credit is high. -Jobs created will represent a net increase in employment. -New employment will decrease incidence of poverty.
Project Purpose: Establish a viable credit delivery system for small and micro enterprises in Egypt using non-profit foundations as financial intermediaries.	(End of Project Status): -Up to seven (7) self-sustaining foundations providing SME credit. -Positive interest being charged on SME loans. -SME loan portfolio up to LE 105 million managed by foundations. -Low (3%) loan default rate. -Foundation revenue equals or exceeds expenses.	Baseline Study Foundation MIS Reports Surveys of Beneficiary Firms Midterm and Final Evaluations	-SME's apply credit to enterprise improvement and expansion. -SME's demand and utilize technical assistance and training.
Project Outputs: Establish up to 7 functioning foundations for micro and small enterprises to provide the following services: -Credit to increase levels of working capital and investments in plant and equipment. -Training in basic business subjects for participants. -Technical assistance to apply modern business concepts and overcome specific problems.	-Up to (7) foundations established with up to 28 branch offices functioning. -Up to 150 trained extension Officers working with clients. -15,000 loans to Women entreprenuers. -Up to 60,000 SME's assisted. -10% of borrowers receive some form of tailored techncial assistnce. - Increase fixed assets of assisted Enterprises. - Increased number of jobs created in assisted enterprises.	Foundation MIS reports, financial statements, and othar reports. Surveys of Beneficiary Firms Interim and Final Evaluations.	-Foundations are able to charge full cost of capital to borrowers through fees or interest. -Procedures for providing credit are acceptable to SME's. -GOE will allow Foundations flexibility to operate in free market mode with minimal controls.
Inputs: AID funding for: -Collateral Funds. -Operational Support & Equipment. -Training. -Special Projects. -TA and Project Support. -Evaluation and Audit. -Contingency.	$32,000,000 4,222,000 351,000 1,887,000 4,170,000 370,000 1,000,000 $44,000,000		-Availability of AID funding. -All CPs and covenants are met.

The Technical Analysis in the original Project Paper outlined the expected lending mechanism and the operational activities of the foundations. This section will build on that analysis by examining the actual experience of the two First Phase foundations.

1. Lending Mechanism

The lending mechanism to be used by the Second and Third Phase foundations will be the same as that pioneered by the First Phase foundations. This mechanism is a collateral account with the right of offset. A collateral account, denominated in dollars, is established by depositing funds under the name of the foundation into an account at one or more selected banks. Pre-authorized overdraft privileges on checking accounts will be negotiated with the banks, up to an amount equal to the amount deposited in the collateral account. Funds will be drawn from these checking accounts as loan demand is generated. The structure minimizes costs since the credit component of the Project pays interest to the bank only on outstanding balances. As the installment payments are repaid by the clients and redeposited in to the bank, operating statements immediately reflect a decrease in the overdraft (interest charges) on the checking account. Under the agreement with the bank, for each installment payment, the bank records the name of borrower, the borrower ID number, and the amount of the payment. However, all drawdowns and repayments on the overdraft account are carried on the bank's books as though with a single client, the foundation.

Disbursements to the collateral account are treated as expenditures for USAID project monitoring purposes. Except in the case of defaults, which the program has not experienced to date, the collateral account will never be drawn down. Interest accruing to the collateral account will be retained in the same account. This is essential if the Project purpose is to be achieved, as the retained interest will allow the loan portfolio to continue growing.

Simultaneously, the credit funds extended to borrowers are accruing revenue for the foundation as they are assessed a higher effective interest rate than the interest charged to the foundation by the bank. Net interest income to the foundation is the difference between the interest due to the bank (on the overdraft checking account) and the total interest income generated each month (from the borrower installment payments). Revenues are sufficient to achieve a breakeven point within two to four years of the start of end-use lending.

The system has worked very well to date. The banks are able to provide ready statements of accounts to the foundations and monitoring is very straightforward.

A special review of the collateral fund (denominated in U.S. dollars) with right of offset mechanism was carried out in May 1992 by two international experts in commercial

31

and development banking. The full report[1] also explored the possibilities of direct funding of the foundations and guarantee mechanisms. The collateral fund was found to be the most effective and bureaucratically easy to operated of all the options. Their findings are summarized below.

Foundations and the Collateral Fund

Both the ABA and ESED were very satisfied with the funding mechanism involving the US dollar Collateral Fund. There was no interest in changing to any other type of funding mechanism. The US dollar Collateral Fund presented so many advantages that could not be matched by an alternative funding mechanism. The advantages cited included the following:

- Maintenance of value. The Foundations have a stable source of capital (U.S. dollars) to guarantee their overdraft line from commercial banks which will not devalue and increases as interest earned on dollar deposits is capitalized.

- Long-term viability for the Foundations. It is vital that the Foundations continue their activities after AID withdraws from the project. The Foundations act as an essential gateway for the SME sector to connect with the formal financial system. As borrowers graduate from the lending capacity of the Foundations to the commercial banks, a continual new set of borrowers will emerge requiring assistance to access the formal financial markets. The structure of the funding mechanism provides permanent equity capital to the Foundations which will continue to use the Collateral Fund to facilitate SME access to credit after the PACD.

- Lower operational costs. The Foundations work synergistically with the commercial banks, taking advantage of the branch network of the commercial banks. By having the commercial banks handle the funds and the collection process, the Foundations are able to save from having to establish loan collection centers and to establish mechanisms for safely handling money. This in turn allows the Foundations to concentrate on loan generation, monitoring, and follow up.

The lending mechanism supported by the Collateral Fund (a credit line) allows the Foundations to pay only for the funds in use. The Foundations avoid having to manage the flow of funds.

- Favorable interest rates. The Foundations receive a competitive interest rate from

---

[1] The draft report is on file with TI/FI, with a final version expected soon. The report is entitled Analysis of Funding Mechanisms for Small and Micro Enterprise Development Project, Kenneth J. Angell and John M. Porges, Development Alternatives, Inc., May 1992.

32

the commercial banks, as the banks have no risk on their loans to the Foundations. The Foundations are receiving the market interest rates (approximately LIBOR) on the US dollar deposits as well as being charged the commercial interest rates on the overdraft checking account. This in turn enables the Foundations to make credit available to their SME borrowers at a rate lower than that on the informal market.

Aside from obtaining a competitive interest rate, the collateral fund also enables the foundations to bargain with the banks for additional services. ESED said that they intend to shift its collateral funds to commercial banks that not only give them favorable rates but also show a willingness to seriously give consideration to leveraging in the future.

- Protection from social pressure. The structure of the funding mechanism, whether dominated in dollars or pounds, protects the Foundation from pressure from agencies of the Government of Egypt to lower the interest rate. If the Foundations were to disburse the funds directly, they would come under heavy pressure to lower the interest rates charged the SMEs as the perception is that the funds received from USAID/Cairo have no cost to the Foundation. With the Collateral Fund, the Foundation can account for the disbursements from USAID/Cairo. Paying interest to the commercial banks, the Foundation has a cost of funds which is included in its lending rate.

- Ease of management. The commercial banks handle the mechanics of the loan repayment process and all of the funds. In addition, the commercial banks provide the Foundations with daily reports on account activity including loan repayments.

An important role of the Foundations is financial deepening. They provide a transitional link for the SME sector moving from informal to formal financial services. None of the borrowers has access to the formal financial system. The Foundations are the means by which the SME sector has access to the commercial banks and entry into the formal financial system. Involving the commercial banks in the lending mechanism introduces the borrowers to the formal financial system as well as exposing the commercial banks to the SME sector. The SME borrowers learn about the discipline of repaying on time and that the commercial banks are open for business on certain days and at certain hours. The commercial banks are shedding misperceptions that all SME borrowers are high risk and that the transaction costs are always too high. Experienced gained with the SMEs may lead to future borrowers for the commercial banks.

Commercial Banks and the Collateral Fund

The commercial banks participating in the funding mechanism were satisfied with the structure and operations of the Collateral Fund. They had no complaints and preferred the US dollar Collateral Fund to other funding alternatives. The benefits mentioned by the commercial banks included the following:

- Risk-free lending. The Collateral Fund provides the commercial banks with a guarantee against any losses on the overdraft account which is the source of funds the banks provide to the Foundations for lending to SMEs.

- Source of funds. The US dollars in the Collateral Fund can be used by banks to finance imports, establish letters of credit, pay collection drafts drawn on their customers in dollars, invest in longer term dollar instruments for a higher yield. All of the above provide a greater source of income then the interest they pay to the Foundations.

- Interest income. Credit ceilings of the Central Bank (imposed by the IMF) limit loans to banks and institutions. The low demand in borrowing from the private sector has resulted in the commercial banks being flush with LE and few options to place the £E other than Treasury bills. Interest earned by the commercial banks on the overdraft line to the Foundations, while only marginally profitable is still desirable.

Banks participating in the funding mechanism reported fractional profits on the transactions with the Foundations. The banks make narrow spreads between their cost of funds and the interest charged the Foundations. One bank reported monthly profits of only LE 1200 (about US$350). The commercial bank looks at the relationship as serving other purposes such as social responsibility and future clients.

- Social responsibility. The image of the commercial banks is enhanced with the Government of Egypt and the public by aiding the economic development of the country.

- Future clients. Because of the Collateral Fund, commercial banks are willing to have small and medium clients of the Foundations repay them directly. The Foundations are thus introducing the SMEs to the banks and paving the way for them to graduate to be bank customers.

As the credit requirements of the clients of the Foundations grow, and the Foundation is not able to meet the needs, these borrower can become bankable credit and savings clients of the commercial bank. The ABA requires all customers with a credit line of LE5,000 (about US$ 1,500) or greater, to open an account with the commercial bank. (In most cases this is a checking account but in some instances savings accounts are opened.) Albeit an small measure, this is the start of financial deepening

Several commercial banks participating in the funding mechanism have indicated a willingness to leverage the Collateral Fund, i.e., lend their own funds above the amount of LE covered under the Collateral Fund. The commercial banks have been impressed with the Foundations' experience todate in the absence of loan defaults. The ABA reported that occasionally the Alexandria Maritime and Commercial Bank has extended its overdraft account with the ABA up to 1.5 times. In general, however, the commercial banks are still

reluctant at this time to leverage the Collateral Fund. Based on the continued success of the lending program of the Foundations, the commercial banks would be willing to leverage 1.5 to 2 times the amount of the Collateral Fund. It may be a further one or two years before the commercial banks feel sufficiently satisfied about the track record to put their own funds at risk.

2. Foundation Operations

The original Project design included the concept of group lending, whereby a group of borrowers would be jointly responsible for requesting and repayment of loans. In theory, this would reduce delinquency and default, as only if the group as a whole maintained a positive credit history could all members of the group continue to receive credit from the foundation. Therefore, it would be in the borrowers own best interest to ensure that only responsible business people joined the group and only realistic loan proposals met with group approval. Initial contacts with entrepreneurs in the early stages of implementation during the First Phase indicated that this methodology could not easily be implemented in the Egyptian context. Egyptian entrepreneurs expressed a distrust of other potential group members and an unwillingness to share information relative to their financial status. On the other hand, an individual's reputation in the community is of considerable importance, resulting in few individuals who are willing to damage that reputation through irresponsible handling of financial affairs. Therefore, the First Phase foundations each independently determined to approach the SME borrowers as individuals, rather than as members of a borrowers' group. The methodology of treating each borrower as an individual will be followed in this amendment.

Each of the two First Phase foundations, with assistance from the TA Team, has developed detailed criteria for borrower selection and procedures for loan issuance and collection. Initially these procedures have limited loans to working capital to productive (very light industry) firms and have excluded fixed asset purchase. As the foundations and borrowers become more experienced, the foundations may extend loans for fixed assets and to expand eligibility to include service or commercial businesses. Similar procedures are expected to be introduced in the Second and Third Phase foundations.

a. Client Eligibility - To be eligible, a client has to satisfy the following criteria:

- Egyptian man or woman.
- An entrepreneur working in the foundation's area.
- In the micro (1-5 employees) or small (6-15 employees) business category.
- At least 21 years old.
- Have a valid Egyptian identification card.
- Practicing his/her business legally.
- Loan request should be within the acceptable loan range.
- Loan should be used to strengthen an existing business rather than start a new business.

35

b. The Type and Use of Loans - The main purpose of providing loans is to increase small and micro business employment and income levels, and productivity. The objective in lending is to make sound loans to a responsible entrepreneurs who demonstrate good management and technical skills. The amount of loan should be sufficient to accomplish the objective the borrower has for taking the loan, as worked out jointly with the extension officer. Eligible loans are those for loans for acquiring raw materials or operating expenses, such as labor, utilities, etc. Ineligible loans include loans used for re-financing existing debt, consumer spending, or loans used to meet family emergencies or personal needs. It is recognized, however, that this type of loan is fungible, but loan use is closely observed by the extension officers.

c. Loan Review and Disbursement Process - The loan review and disbursement process is consistent for all levels of loans, with the exception of repeat loans which are processed within 24 hours. Loans must go to the Head Office where they are reviewed by the Executive Director and are subsequently passed to the Executive Committee for final approval or rejection.

Although loans are generally extended on cash flow projections and by the business category of the entrepreneur (LE 1,000-3,000 for micro businesses and LE 3,000-10,000 for small businesses), there are exceptional situations where higher loan levels may be considered. An example of this would be if a client has, over time, graduated to the highest loan level allowable, has proven to be a competent business manager and now convincingly demonstrates the need for a higher amount. In this case, the extension officer must present all the relevant information for review and extraordinary consideration by the Executive Director and Executive Committee. In this unusual situation, loans may reach LE 25,000. This is being done because many of the current borrowers have proven themselves to be good risks, but cannot yet avail of a loan from an existing bank without utilizing the foundation intermediary.

To process a loan, the Executive Director may choose to make a field visit, accompanied by the extension officer, to the client's work site to interview the client. This is a useful means of getting a first-hand impression of the client and his/her business. After all the relevant information assembled and a decision has been made to approve the loan, the Financial Manager is informed. He reviews the loan contract signed by the borrower, issues a cheque in the name of the borrower, and returns it to the Executive Director. All relevant information is entered into a computerized data base at that time, which allows for follow-up of each individual borrower. Checks are issued to new borrowers on two fixed days per month. Previous to check issuance, the borrowers receive a final orientation aimed at reinforcing expectations the foundation has of the client regarding loan repayment and loan use. The borrowers can then go directly to the participating bank to cash their checks and implement whatever the loan was intended to financed.

Clients whose loans have been rejected remain eligible for reconsideration and may resubmit another loan request. Clients whose requests have been rejected are in no way

penalized, but they are encouraged to carefully review why their loan was originally rejected and reassess their business needs. This is important because the foundation does not have the time or interest to process the same loan requests which they have turned down before.

d. Repeat Loans - Borrowers who are requesting repeat loans and who have maintained a sound credit history, which is recorded in the foundation's data base, are considered good credit risks. As such, knowing that the client will want to maintain that special client status, the review process is streamlined because the risks are known. Provided that the client's loan request continues to fall within the established criteria and provided the amount requested is justified, the review of the loan will take approximately two working days. After the decision is made by the Executive Director, the extension officer will be notified immediately in order to pass the information on to the client. After two years of end-use lending, approximately one-half of the borrowers are repeat borrowers.

e. Loan Amount Determination - During the feasibility analysis, the extension officer and client must come to a conclusion about the optimal loan amount and repayment schedule. The points most relevant for an extension officer to keep in mind in determining loan amount are the client's business experience, their management talents, and a sense of whether the client generates adequate levels of income to cover family and business needs with enough surplus left over to make the monthly loan repayments. In this case, the extension officer and the client can add the total amount of the various income sources, subtract business and family expenses, then determine whether the remaining funds are adequate to make the monthly repayments. This exercise can be aided by using either an Income Statement or Cash Flow Forecast. First time borrowers are encouraged to receive their minimal need to prove themselves good borrowers with the assurance that they can receive an immediate, subsequent loan.

f. Fees and Charges - Fees and charges at the foundation are calculated as closely as possible the true cost of lending which is based on loan default projections, personnel costs, overhead, and inflation. Since the foundation is not a profit-making institution, it will invest income exceeding its operating cost into additional training and technical assistance for staff and borrowers and/or increase funds available for loans.

g. Loan Repayment - The loan repayment period (duration of the loan) and the repayment schedule are determined by the cash flow of the business. Most loans should have as short a repayment period as the cash flow will justify because clients inexperienced in loan management are more successful when the end is near and the installment expectation is always in sight. As repeat borrowers become more experienced, both loan amounts and loan duration can be increased.

Loan repayment schedules in the foundations are straight forward in that they all fall within a 2 to 12 month duration, with installments paid monthly. And while no grace periods are allowed, early repayment is practiced and encouraged. In an early loan repayment situation, only one month's rebate of fees and charges is returned to the client even if the repayment has been paid several months early, the reason being that the

foundation has incurred loan application processing charges and must pay for these efforts by the extension personnel. Experience to date indicates that the greatest demand for loan length is about six months.

h. Collateral - In the Small and Micro Enterprise Development Project, the security or loan guarantee features are unique in the sense that no collateral is required from the borrower. Rather, the collateral is provided through the Project itself by way of a built-in Collateral Fund held in a participating bank. The Collateral Fund itself serves as the guarantee to the bank.

The foundation reserves the right to question potential clients about their ability to secure their loans, about their levels of personal equity in their business and may, if they feel the level of risk is too great, either for the client or the foundation, choose not to approve a loan.

The bank guarantee-cheque mechanism is practiced in Egypt. A borrower signs a series of checks drawn on a local participating bank which corresponds by date and amount to the amortization schedule. The checks are held at the bank until the borrower pays each installment in full. If an installment is missed, the bank forwards that particular cheque back to the foundation for the extension service to take remedial action. If the borrower remains delinquent more than seven days, the foundation can present the now delinquent cheque to the police for prosecution. The police will take action based on the fact that the borrower has written a cheque for which he/she has no funds in the bank. The foundation may attempt to recoup their lost loan funds legally, through litigation. However, in case of *force majeure*, the borrower is encouraged to present his case to the foundation for loan restructuring.

3. Foundation Size and Configuration - The size, makeup, and configuration of the proposed foundation operations was derived following a methodology involving the calculation of the level of activity and support needed to sustain a lending operation sufficient to generate revenues that will exceed operating cost. The recommended foundation organizational arrangement was also influenced by the basic SME project concept of attempting to have the lending mechanism as close as possible to the borrowers. The 1992 midterm evaluation of the project indicates that a foundation needs to have minimum portfolio size of approximately 3,000-3,500 active borrowers to reach a financial breakeven point. Accordingly, to allow for sufficient lending volume, the project only proposes to establish foundations in those governorates in which at least 5000 potential SME borrowers currently exist.

The 1992 midterm evaluation also indicates that each loan officer can effectively administer about 100-120 active borrowers and that the most efficient management unit would be made up of about six to nine loan officers supervised by one manager and supported by a core administrative staff. Thus, the design of the project envisages a need for approximately 24-30 loan officers and four core lending units (or branches) per

Depending upon the geography and dispersion of the borrowers within a particular governorate and the management style of the foundation executive director, these loan officers could be assigned to lending units situated in one or more different locations. In any event, supporting a foundation's operation sufficient to reach financial breakeven will require approximately the same level of staff, equipment and office space. This is the level of financial support programmed in the project paper.

4. Detailed Site Analysis - As part of TI/FI's efforts to explore the possibility of expanding the small and Micro Enterprise Development (SME) Project (263-0212), TI/FI staff have completed site visits to the majority of governorates nationwide. This effort has been carried out over several months in 1991. The analysis basically was carried out in accordance with the criteria for considering the establishment of additional SME type foundations in governorates other than Cairo and Alexandria that were approved by the USAID Director and agreed upon with the Ministry of International Cooperation.

Site Visit Selection:

Governorates were selected to be visited by applying the first and most important element of USAID criteria, the existence of not less than 5,000 small and micro enterprises-as defined by USAID-in the urban areas of each governorate. Prior to the site visits, and based on the available information on the number of SME's in Egypt's governorate, the 26 governorate(s) were classified as follows:

Governorates excluded from the site visits for not meeting or having the potential of meeting, the minimum number of SME enterprises in both the formal and informal sectors are: Red Sea; New Valley; Marsa Metrouh; North Sinai; South Sinai; Qena; and, Aswan.

Governorates excluded for having on-going USAID Small and Micro Enterprise Development programs and/or possibly a future credit program with the National Bank for Development under the Small Enterprise Credit (SEC) project are: Greater Cairo Area (Cairo, Giza, Qualyoubia); and, Alexandria.

Governorates excluded for having an on-going credit program under the Rural Small Scale Enterprise (RSSE) project, being implemented by the National Bank for Development (NBD) in cooperation with USAID and the Ford Foundation are: Damietta; Sharkia; and, Minia.

Governorates included in the site visits represent the remainder of Egypt's governorates. In an attempt to provide a wide geographic coverage, the governorates were divided into three general areas: the Delta Governorates; the Canal Governorates; and, Upper Egypt.

Findings

In addition to applying USAID criteria in determining the most qualified governorates for participation under the project expansion, two more factors were deemed important for the successful implementation of the SME project as designed by USAID. These two factors are:

are:

A. The availability of a bank(s) which is capable and prepared to enter into an agreement, similar to Cairo and Alexandria Foundation's agreements, with the new participating Foundations; and,

B. The GOE officials concurrence to establish such credit programs in their respective governorates to be managed by a private sector group. It must be further agreed by those officials that the credit will be made available at market (unsubsidized) interest rates.

Governorates were prioritized in each respective geographic area in accordance with meeting USAID criteria in addition to the factors noted above.

Upper Egypt

As noted above, Qena and Aswan governorates were excluded from the site visits. This is based on a TI/FI field visit report (March 14, 1991) which remained unchanged for minor changes with respect to Assiut governorate.

Assuit governorate is located in the middle of the Upper Egypt Nile Valley between Sohag and Minia governorates. Assuit was visited three times; October 10, 1990, and March 14 and May 10, 1991. During these visits, TI/FI staff met with Governor Mohamed Hassan El Alfy who is extremely interested in participating in the USAID/SME project. He assured the staff that in Assuit there are many businessmen and community leaders who have the qualifications and interest to manage such a project on a voluntary basis.

During the first visit to Assuit, meetings were held with bank managers, the Ministry of Social Affairs Director, Chamber of Commerce members, and various community leaders. Without exception, they were impressed with the Cairo and Alexandria SME projects and are prepared to participate in a similar program in Assuit. The group dealt with consists of a number of businessmen and two bankers. Despite the fact that they have not worked together previously on a specific activity, they are individually very successful in managing their own businesses and very well respected and trusted in their community and society. Most importantly, they have the desire and qualifications to manage a credit program for the small and micro enterprises in Assuit. They appeared capable of understanding what type of arrangement would be required to deliver credit to SMEs at market interest rates and having the capacity to administer technical assistance and training designed for SMES.

The bank managers met showed interest in cooperating with the project. There are three or four banks which are ready to negotiate an agreement with the proposed foundation on terms and conditions favorable to the foundation. Moreover, many bankers are interested in participating in the formation of the foundation's board of directors.

The following data on formal small and micro enterprises in Assuit governorate was obtained, with the Assuit businessmen's group's help, from two main sources; the Chamber of Commerce and the Social Insurance office.

Type of Business	Number of Enterprises
Metal Work	92
Print Shops	34
Food Processing	127
Tailors	675
Shoe Making and Repair	95
Carpentry Shops	789
Auto Mechanics	1,658
Tile Factories	76
Garments	21
Bakeries	357
Leather Products	158
Carpet Makers	16
Plastics	8
Others	49
	4,155

NOTE: The numbers cited above exclude informal enterprises which, by local estimates, exceed 5,000 enterprises. This brings the total number of enterprises in Assuit to over 9,000.

Minia governorate is located in Upper Egypt between Assuit and Beni Suef governorates. It has an active business community and a reasonable number of existing SMEs, up to 2,000 registered and 1,500 informal, excluding commercial type enterprises. There are already several programs providing credit and technical assistance to SME type activities in Minia. Catholic Relief Services has two programs delivering credit to beekeepers and street vendors. According to the CRS resident manager in Minia, both programs are working well and the repayment rate is 99%.

Ford Foundation, in cooperation with the National Bank for Development, is implementing a credit delivery program to SMEs similar to the USAID/RSSE project in Damietta and Sharkia. According to the NBD project manager, more than 2,500 loans were released to date in Minia with a 100% repayment rate.

Discussions were held with Governor Abdel Hamid Badawi who indicated his interest in a SME program in Minia and is prepared to cooperate with all parties to make it happen. The businessmen in Minia are also willing to work together as a group to manage such a program. However, there are other governorates in Egypt with a greater need for assistance by a SME project.

Beni Suef is the first governorate immediately west of Giza. More than 85% of its population work in agriculture and agricultural related activities. Because of its nearness to Cairo (100 kilometers) and the majority of its needs for either products or services is met from metropolitan Cairo, especially Giza. As a result, the number of small and micro enterprises appears to be very limited. In my meeting with Governor Abdel Fattah Ghalwash, he showed a strong interest in a lending program to help the governorate's youth and graduates in starting new small and micro industries.

41

Sohag governorate also depends almost totally on agriculture and agricultural type activities. The number of existing SMEs, as defined by AID, is very modest, less than 2,000 excluding commercial type enterprises. However, it is of interest to note a village called Akhmeem, which has a long history of hand made silk, carpets, linen, and upholstery material. Not long ago, there were up to 3,500 looms producing the above products in this village. Because of the new, large factories producing similar products at competitive prices, this industry deteriorated and the number of operable looms at the preset time is less than 150. Nonetheless, some of these enterprises were recently successful in exporting their products to Europe. It was advised that if a credit program were made available to the owners of the looms, this industry could be reactivated. Governor Mamdouh Borai stated he was more concerned about the laborers returning from the Gulf area since Sohag is considered the largest governorate in Egypt in terms of the number of laborers and farmers working in the Gulf. The governor indicated his desire to start a program to help these returnees establish new businesses.

Luxor and Aswan governorates depend almost completely on tourism. The number of existing SMEs is very low. The interest of Governor El Bahnasawi is in establishing new businesses, which is not a focus of the SME project.

Canal Governorates

According to the Egyptian government's official classification, the Canal Governorates consist of two urban governorates, Port Said and Suez, and one rural governorate, Ismailia.

Despite the fact that Port Said is the smallest in size among the Canal Governorates, it has a very active business community and the largest small business market among the three Canal governorates. Port Said has approximately 3,000 productive small and micro enterprises (excluding commercial enterprises) which include a wide range of business types. In addition to these registered small enterprises, it is estimated that there are an equivalent number of informal enterprises currently operating.

Many of the productive enterprises changed their type of business to commercial activities when Port Said was declared a fee zone city in 1975. Now, because of the restrictions imposed on the free zone activities by the GOE, many of them would like return to their original professions as productive workshops. Their place of business and machinery are still available, but they lack financing for working capital.

The group of businessmen met with by TI/FI staff in Port Said is ideal for managing a SME program. They have been working together for many years in social activities. The majority of them are board members in a social and sporting club. In addition to the social activities and sports, they are managing an English language program and a computer center in cooperation with the Cairo American University. The program has been very successful and is run on a cost recovery basis. Because of their daily contact with the business activities, they have identified the need to assist and develop the small business community in their city. Using their own resources, they have established a Foundation under the Ministry

of Social Affairs, under Law 32, to assist and develop the SMEs in Port Said.

The Foundation's Board of Directors has the respect and trust of the governor who has been supportive to the establishment of the Foundation. The governor confirmed in a meeting with TI/FI staff that a private sector group as such is the most capable in managing a credit and technical assistance program for the SMEs of Port Said.

Only one visit was made to Suez to explore the size of the small and micro enterprise sector. It was difficult to establish any creditable number of enterprises. The business community in Suez is not very active, and the assumed is less than 3,000 enterprises, including the informal enterprises. The main small industry in Suez is fishing and fishing related activities.

Ismailia is the nearest governorate to Cairo. Most of the activities are agriculture and agri-business type activities. It has a very active domestic tourism facilities in a city called Fayd and some other areas of the governorate because of its lakes. In a meeting with Governor El Geweially, who has just been appointed as Governor of Ismailia, he stated that the number of existing small and micro enterprises, productive and services, is very small and would not exceed 2,500 enterprises. TI/FI staff is still working with the secretary general of the governorate to obtain a firm estimate on the number of existing enterprises, but it is unlikely to reach the minimum number required for establishing a Foundation.

The Delta Governorates

The majority of the Egyptian population lives in the Delta area. Without exception, all Delta governorates have in excess of 5,000 small and micro enterprises in the productive and service sectors. Despite the fact that agriculture and agri-business type activities are the predominant business type in the Delta as a whole, the urban centers of the Delta governorates contain a broad range of productive small and micro enterprises, along with commercial enterprises. Because of the relatively short distance between the Delta governorates and either Cairo or Alexandria, Cairo and Alexandria are the primary markets for both agricultural and manufactured goods from the Delta. There is a long history of strong business relationships between the Delta governorates and Egypt's two major cities. Many businessmen of the Delta areas are members of businessmen's associations in Cairo or Alexandria. This has made communications and progress in the Delta governorates less difficult than in the areas of Upper Egypt and the Canal governorates.

Dakahlia governorate is located in the northeastern Nile Delta. Mansoura is the capital of the governorate, the center of most activities, and the seat of Mansoura University. TI/FI staff have been working with a group of businessmen and university professors who have a strong interest in the small enterprise development activities. The group's members have been in private business activities for many years in Mansoura. They have been very successful in managing their businesses, and are respected and trusted in the community. The university professors played a key role in introducing the program to the governor, and have been successful in establishing a very good working relationship with him and his staff.

During the Alexandria Consular General's recent visit to Mansoura, the governor showed great interest in the project as has been indicated in the Consular General's memorandum on the SME project.

The group has also established and maintains close contact with the Alexandria Businessmen's Association, the Foundation implementing the SME project in Alexandria. The ABA Executive Director was invited to Mansoura to lecture at a seminar on Small Business Development. The seminar was organized and sponsored by the group in Mansoura with a subsequent seminar schedule for December 1991. Because of their seriousness and commitment to serve the small and micro enterprises of their governorate, they have used their own resources in establishing a SME development foundation under the Ministry of Social Affairs under Law 32.

TI/FI have visited a number of small and micro entrepreneurs in Mansoura. It appears that here is high demand for a credit and technical assistance project. With the help of two university professors who are members of the Foundation, a survey on the number and type of activities of SME's in Dakahlia was carried out. The data is shown below.

Type of Business	Number of Enterprises
Wood Work	3,416
Leather Products	1,104
Metal Work	2,722
Food Processing	3,601
Tailoring and Garments	2,406
Printshops	540
Textile	270
Auto Mechanics	3,031
Commercial and Service	27,457
	44,547

Gharbia governorate is located in the heart of the Nile Delta between Damietta and Rosetta branches of the Nile River. Tanta is the capitol of Gharbia, the seat of Tanta University, and the center for consumer industries of oil pressing, linen textiles, and wood construction materials. Equal in size and importance is Mahalla El Kubra City which is the center for cotton and wool textiles and carpet industries.

TI/FI staff have been working with a group consisting of businessmen and one university professor. The expected chairman of the group is very well known as a skilled and talented businessman. He owns a large factory for food processing and has been successful in exporting the majority of his products. One of the group members is a board member in the Alexandria Foundation; he has been extremely helpful in explaining the program to the rest of the group. The groups has been working together in many social activities, and are respected in their own community. They have shown interest in the program and have been in contact with the Alexandria Foundation for the last two months. The formation of this group is very similar to the formation of the ABA board but on a smaller scale. They are in total agreement that the credit delivery to SMEs should be made at market interest rates and that the program should become self-sufficient in the shortest

ABA board but on a smaller scale. They are in total agreement that the credit delivery to SMEs should be made at market interest rates and that the program should become self-sufficient in the shortest possible time frame.

The small business market in Gharbia is quite large with respect to the number of existing SME enterprises. There are at least 30,000 SMEs in existence and cover all types of activities. Demand for credit appears quite large. A market survey is being conducted to classify the types of small and micro enterprises in Tanta, Mahalla El Kubra, and other areas of high population density in the governorate.

Beheira Governorate is located on the western fork of the Nile Delta, bounded on the northwest by Alexandria. Damanhour is the governorate's capitol and center for marketing and servicing. The main industries of Damanhour are intermediate industries of cotton spinning and synthetic silk, chemicals and textile dyes, and consumer industries of carpet weaving.

Beheira has the largest small and micro enterprise market among the Delta governorates; the minimum number of existing small and micro enterprises exceeds 30,000. At least 10,000 of the SMEs in Beheira could be serviced by a Foundation.

Kafr El Sheikh is located in the north central section of the Nile Delta. The main industries are consumer industries of food processing, oil pressing, and soap manufacture. Kafr El Sheikh's small and micro enterprise market is smaller than Behira's, but still has at least 8,000 qualifying SMEs.

Because of the relatively close proximity of these two governorates and Alexandria, the ABA is prepared to sponsor a SME project in each of them, particularly Beheira. A large umber of businessmen of the two governorates are members in the Alexandria Businessmen's Association. It is expected that these programs will be developed into individual foundations after the project has had a chance to prove itself successful.

Conclusions and Recommendations:

Based on the findings described above, by applying USAID's criteria and other related factors, and the progress of the project thus far, we recommend the following classification of governorates for assistance under an amended and expanding Small and Micro Enterprise Development Project.

Governorates Qualifying

Dakahlia - Dakahlia exceeds the requirements of the USAID criteria. The members of the business group are qualified and prepared to implement the program immediately. They are already registered under the Ministry of Social Affairs as a non-profit organization. The demand for credit is the SME market is very high. The total number of existing enterprises that meet the USAID definition exceeds 45,000. It is estimated that this governorate could support a foundation with up to four lending units in three to four separate locations.

Gharbia - This also meets and exceeds the requirements set forth by USAID. The businessmen's group is qualified and interested in managing the project. They are

45

considering the legal establishment of a foundation with the assistance of the Alexandria Businessmen's Association. The demand for credit among the small and micro entrepreneurs is very high. The total number of existing SMEs exceeds 30,000. It is estimated that this governorate could support a foundation with up to four lending units in three or four separate locations.

Beheira - The program in its first stages will be implemented by the Alexandria Businessmen's Association through their members residing in Beheira governorate. This is an ideal arrangement since the Alexandria Foundation is managing its own program very successfully. This will ensure a smooth and well managed start up of the program. It is expected that the Beheira businessmen will take over the management of the program by establishing their own foundations. This should be achieved after 12-18 months of end-use lending. The demand for credit in the small and micro enterprise sector is high. the number of existing SMEs exceeds 30,000, but because of the large geographical size of the governorate, 10,000-12,000 enterprises should be considered the initial target size that can be reasonably covered by the Foundation and its branches. It is estimated that this governorate could support a foundation with up to four lending units in two to three separate locations.

Port Said - This governorate should be considered qualified under the expanded SME project, although the target clientele might be somewhat more restricted. The businessmen's group is well qualified and interested in implementing the SME in Port Said. They are already formed as a foundation to assist small businesses and are registered with the Ministry of Social Affairs. Additional meetings and visits to the Foundations in Alexandria and Cairo are being arranged to insure that the group will become totally aware of the program. Demand for credit in the small and micro enterprise market is very high. The total number of existing SMEs in Port Said is approximately 6,000. It is estimated that this governorate could support a foundation with up to four lending units in two or three separate locations.

Assiut - The group of businessmen in Assuit is qualified, talented, and interested in the SME project. TI/FI has confidence in their ability to manage the project successfully. However, additional trips should be made to Assiut to work with the group there on a more extensive basis. There is certainly widespread demand for credit services among the SME sector and there are probably at least 9,000 businesses that could qualify for assistance. It is estimated that this governorate could support a foundation with up to four lending units in two or three separate locations.

46

The foundations will seek to recover the cost of lending and administration by the end of the Project. Interest and other charges will be set at a level which allows the foundations to achieve break-even within a reasonable period of time and become self-sustaining. The foundations are not expected to be able to immediately recover their costs. Operational support for their initial operations will be provided. The actual fees and service charges paid by the end use borrowers will be adjusted over the life of Project in order to cover the local bank's interest rate to the foundation, administrative costs, reserve for loan default, and allowance for inflation.

In addition, user fees will be identified and charged for the training and technical assistance in order to cover a portion of the costs attributable to those activities.

The Financial Analysis for the original Project Paper carried out a sensitivity analysis for the break even point which concluded that the First Phase foundations would reach break even in the second quarter of Year Three of lending. Using more conservative alternative parameters, the analysis concluded that break even would be reached by the last quarter of Year Five of lending, which would still be acceptable in terms of the Project's goal and purpose. Current analysis of First Phase foundation break even range from first quarter of Year Three of lending for Alexandria and Third Quarter of Year Three of lending for Cairo.

There are seven charts attached this text that show the assumptions utilized in the development of this Amendment.

Chart C.1. give the base cost assumptions for personnel costs, which include incentives. The same chart shows the inflation factors used to the end of the project. The project approach is to project all costs, although USAID funding of operational costs ends when the foundation(s) achieve a break even status. This approach has worked well with the current project. At least one full time financial analyst will be a part of the technical assistance team to assist the foundations in analyzing their costs and returns.

Chart C.2. shows the estimated budgets for establishing a modest office structure, including a headquarters and up to four branch offices. The branch offices are expected to be opened over a period of up to three years from the beginning of end use lending. The actual costs will be determined in each area, and detailed within each respective cooperative grant agreement.

Chart C.3. (three pages) shows the expected cash flow for an individual foundation. The assumptions for each year are shown at the top of each page. There are several variables, including the number of loan officers, their expected number of new loans per month to be extended, average loan size, average default, the average cost of funds, the average effective interest rate split, and projected exchange rates.

TI/FI has tested a number of possibilities utilizing these variables, but they are based on expectations based on current experience. In general, the foundations have realized a number of cost savings over the period of implementation to date.

Chart C.4. (three pages) indicates a general scenario for the period of time during

41

which a foundation is operating at full capacity, meaning that the collateral fund is fully in circulation. Again, the assumptions utilized are indicated at the top of each individual page. The variables utilized are average loan size, number of loan officers, the average interest rate split between the cost of funds and the effective rate being charged, the annual default rate, the projected exchange rate, and the interest that accrues on the dollar-denominated collateral fund. This chart is presented to indicate the operations and effect of the foundations' operation after direct input from AID has ceased.

Chart C.5. gives an illustrative budget for technical assistance under the project. A detailed cost proposals will be submitted by each of the bidders, as the contract will be competitively bid. The budget shown in C.5. gives an outline of the type of technical assistance to be delivered under this amendment.

Chart C.6. gives a picture of loan extension to date, which is a summary of loan extensions by both foundations.

Chart C.7. shows projections of loan growth that will fully extend AID funding by the PACD, as amended.

BASE COST ASSUMPTIONS

Chart C.1.

COST PER FOUNDATION						1992		1993		1994		1995		1996		1997	
						Inflation		Inflation		Inflation		Inflation		Inflation		Inflation	
SME Expansion Budget		Headquarters				1.2		1.2		1.15		1.15		1.15		1.15	
1991 Costs					Total	Number		Number		Number		Number		Number		Number	
	Monthly	Annual	Social	Medical	Monthly	Required		Required		Required		Required		Required		Required	
POSITION	Rate	Rate	Ins./Mo.	Ins./Mo.	Cost	1992	Cost/Mo.	1993	Cost/Mo.	1994	Cost/Mo.	1995	Cost/Mo.	1996	Cost/Mo.	1997	Cost/Mo.
Executive Director	2,000	24,000	131	20	2,151	1	2,581	1	3,097	1	3,562	1	4,096	1	4,711	1	5,417
Deputy Ex. Dir.	1,500	18,000	131	20	1,651	0	0	0	0	1	2,734	1	3,144	1	3,616	1	4,158
Operations Manager	1,333	16,000	131	20	1,484	0	0	1	2,137	1	2,458	1	2,827	1	3,251	1	3,738
Finance/Admin. Mgr.	1,333	16,000	131	20	1,484	1	1,781	1	2,137	1	2,458	1	2,827	1	3,251	1	3,738
Accountant	500	6,000	131	20	651	1	781	1	937	1	1,078	1	1,240	1	1,426	1	1,640
MIS Specialist	1,250	15,000	131	20	1,401	0	0	0	0	0	0	1	2,668	1	3,068	1	3,529
Computer Operator	500	6,000	131	20	651	1	781	1	937	1	1,078	1	1,240	1	1,426	1	1,640
Legal Advisor	833	10,000	131	20	984	1	1,181	1	1,417	1	1,630	1	1,875	1	2,156	1	2,479
Secretary	667	8,000	131	20	818	1	981	1	1,177	1	1,354	1	1,557	1	1,791	1	2,059
Messenger	167	2,000	131	20	318	1	381	1	457	1	526	1	605	1	696	1	800
						Total	8,468	Total	12,300	Total	16,879	Total	22,078	Total	25,390	Total	29,199

COST PER FOUNDATION						1992		1993		1994		1995		1996		1997	
SME Expansion BudgeBranch Office (4 Total per Foundation)						Inflation		Inflation		Inflation		Inflation		Inflation		Inflation	
1991 Costs						1.2		1.2		1.15		1.15		1.15		1.15	
					Total	Number		Number		Number		Number		Number		Number	
	Monthly	Annual	Social	Medical	Monthly	Required		Required		Required		Required		Required		Required	
POSITION	Rate	Rate	Ins./Mo.	Ins./Mo.	Cost	1992	Cost/Mo.	1993	Cost/Mo.	1994	Cost/Mo.	1995	Cost/Mo.	1996	Cost/Mo.	1997	Cost/Mo.
Branch Manager	1250	15,000	263	17	1,529	1	1,835	2	4,404	3	7,597	4	11,649	4	13,396	4	15,405
Extension Officers	937.5	11,250	197	17	1,151	12	16,575	18	29,835	24	45,747	24	52,609	24	60,500	24	69,575
Lawyer	500	6,000	105	17	622	1	746	2	1,790	3	3,088	4	4,736	4	5,446	4	6,263
MIS Specialist	7500	90,000	1,575	17	9,092	1	10,910	2	26,184	3	45,167	4	69,257	4	79,645	4	91,592
Secretary/Clerk	520.8333	6,250	109	17	647	1	776	2	1,863	3	3,214	4	4,928	4	5,667	4	6,517
Messenger	208.3333	2,500	44	17	269	1	323	2	774	3	1,335	4	2,047	4	2,354	4	2,707
						Total	31,165	Total	64,850	Total	106,149	Total	145,225	Total	167,009	Total	192,060

Chart C.2.

OFFICE ESTABLISHMENT COSTS per FOUNDATION

OFFICE ESTABLISHMENT (Headquarters)

Exchange Rate $1.00=	3.3	
	Cost	Cost
Description	(LE)	$
Computer System	100,000	30,303
Photocopier	35,000	10,606
Typewriters	10,000	3,030
Fax Machine	20,000	6,061
Telephone System	40,000	12,121
Calculators	2,000	606
Office Space Purchase	100,000	30,303
Office Renovation	20,000	6,061
Furnishings	50,000	15,152
	377,000	$114,242

OFFICE ESTABLISHMENT (Branch Office #3)

1994 Ex. Rate $1.00 =	4	
	Cost	Cost
Description	(LE)	$
Computer System	72,000	18,000
Photocopier	28,800	7,200
Typewriters	8,640	2,160
Fax Machine	21,600	5,400
Telephone System	28,800	7,200
Calculators	2,880	720
Office Space Purchas	72,000	18,000
Office Renovation	21,600	5,400
Furnishings	28,800	7,200
	285,120	$71,280

OFFICE ESTABLISHMENT (Branch Office #1)

1992 Ex. Rate $1.00 =	3.3	
	Cost	Cost
Description	(LE)	$
Computer System	50,000	15,152
Photocopier	20,000	6,061
Typewriters	6,000	1,818
Fax Machine	15,000	4,545
Telephone System	20,000	6,061
Calculators	2,000	606
Office Space Purchase	50,000	15,152
Office Renovation	15,000	4,545
Furnishings	20,000	6,061
	198,000	$60,000

OFFICE ESTABLISHMENT (Branch Office #4)

1995 Ex. Rate $1.00 =	4.5	
	Cost	Cost
Description	(LE)	$
Computer System	86,400	19,200
Photocopier	34,560	7,680
Typewriters	10,368	2,304
Fax Machine	25,920	5,760
Telephone System	34,560	7,680
Calculators	3,456	768
Office Space Purchas	86,400	19,200
Office Renovation	25,920	5,760
Furnishings	34,560	7,680
	342,144	$76,032

OFFICE ESTABLISHMENT (Branch Office #2)

1993 Ex. Rate $1.00 =	3.7	
	Cost	Cost
Description	(LE)	$
Computer System	60,000	16,216
Photocopier	24,000	6,486
Typewriters	7,200	1,946
Fax Machine	18,000	4,865
Telephone System	24,000	6,486
Calculators	2,400	649
Office Space Purchase	60,000	16,216
Office Renovation	18,000	4,865
Furnishings	24,000	6,486
	237,600	$64,216

Total Establishment Cost $385,771

Six Month Loan Term

YEAR 1

1992 Costs

Chart C.3.

Page 1

# of Loan Officers	# of New Loan/ Month/ Officer	Avg. Loan Size	Average Default	Avg. Cost of Funds	Avg. Effective Interest Income	Avg. Effective Interest Split	LE:$1.00 Projected Exchange Rate
12	12	2500	2.00%	20.00%	35.00%	15.00%	3.5

	Year 1 Month 1	Year 1 Month 2	Year 1 Month 3	Year 1 Month 4	Year 1 Month 5	Year 1 Month 6	Year 1 Month 7	Year 1 Month 8	Year 1 Month 9	Year 1 Month 10	Year 1 Month 11	Year 1 Month 12
Loans Extended						144	288	432	576	720	864	1,008
Amount LE						360,000	720,000	1,080,000	1,440,000	1,800,000	2,160,000	2,520,000
Gross Principal Repaid							60,000	120,000	180,000	240,000	300,000	360,000
Allowance for Default							1,200	2,400	3,600	4,800	6,000	7,200
Net Principal Repaid							58,800	117,600	176,400	235,200	294,000	352,800
Gross Int. Income							10,500	21,000	31,500	42,000	52,500	63,000
Allowance for Default							210	420	630	840	1,050	1,260
Net Interest Repaid							10,290	20,580	30,870	41,160	51,450	61,740
Total Fund Reflow							69,090	138,180	207,270	276,360	345,450	414,540
Loan Funds Required						360,000	1,010,910	1,301,820	1,592,730	1,883,640	2,174,550	3,869,460
Cumulative Collateral Funds Required ($)						102,857	288,831	371,949	455,066	538,183	621,300	1,105,560
RECURRENT COSTS												
Salaries	39,633	39,633	39,633	39,633	39,633	39,633	39,633	39,633	39,633	39,633	39,633	39,633
Training Expense	2,000	2,000	2,000	2,000	2,000							3,000
Contingency (10%)	4,163	4,163	4,163	4,163	4,163	3,963	3,963	3,963	3,963	3,963	3,963	4,263
Total Operating Expense	45,796	45,796	45,796	45,796	45,796	43,596	43,596	43,596	43,596	43,596	43,596	46,896
Interest Expense	0	0	0	0	0	6,000	12,000	18,000	24,000	30,000	36,000	42,000
Total Cost (LE)	45,796	45,796	45,796	45,796	45,796	49,596	55,596	61,596	67,596	73,596	79,596	88,896
Total Cost ($)	13,085	13,085	13,085	13,085	13,085	14,170	15,885	17,599	19,313	21,028	22,742	25,399
Cumulative Cost ($)	13,085	26,169	39,254	52,339	65,424	79,594	9[illegible],479	113,078	132,391	153,418	176,160	201,559
Net Interest Income	0	0	0	0	0	0	10,290	20,580	30,870	41,160	51,450	61,740
Recurrent Costs	45,796	45,796	45,796	45,796	45,796	49,596	55,596	61,596	67,596	73,596	79,596	88,896
Operating Profit	(45,796)	(45,796)	(45,796)	(45,796)	(45,796)	(49,596)	(45,306)	(41,016)	(36,726)	(32,436)	(28,146)	(27,156)
Cumulative Operating Cost (LE)	45,796	91,593	137,389	183,186	228,982	278,579	334,175	395,772	463,368	536,965	616,561	705,458
Cumulative Income	0	0	0	0	0	0	10,290	30,870	61,740	102,900	154,350	216,090
Project Profitability	(45,796)	(91,593)	(137,389)	(183,186)	(228,982)	(278,579)	(323,885)	(364,902)	(401,628)	(434,065)	(462,211)	(489,368)

Six Month Loan Term

1993 Costs

# of Loan Officers	# of New Loan/ Month/ Officer	Avg. Loan Size	Average Default	Avg. Cost of Funds	Avg. Effective Interest Income	Avg. Effective Interest Split	LE:$1.00 Projected Exchange Rate
18	12	3,500	2.00%	15.00%	35.00%	20.00%	4

	Year 2 Month 1	Year 2 Month 2	Year 2 Month 3	Year 2 Month 4	Year 2 Month 5	Year 2 Month 6	Year 2 Month 7	Year 2 Month 8	Year 2 Month 9	Year 2 Month 10	Year 2 Month 11	Year 2 Month 12
Loans Extended	1,224	1,440	1,656	1,872	2,088	2,304	2,520	2,736	2,952	3,168	3,384	3,600
Amount LE	4,284,000	5,040,000	5,796,000	6,552,000	7,308,000	8,064,000	8,820,000	9,576,000	10,332,000	11,088,000	11,844,000	12,600,000
Gross Principal Repaid	420,000	714,000	840,000	966,000	1,092,000	1,218,000	1,344,000	1,470,000	1,596,000	1,722,000	1,848,000	1,974,000
Allowance for Default	8,400	14,280	16,800	19,320	21,840	24,360	26,880	29,400	31,920	34,440	36,960	39,480
Net Principal Repaid	411,600	699,720	823,200	946,680	1,070,160	1,193,640	1,317,120	1,440,600	1,564,080	1,687,560	1,811,040	1,934,520
Gross Int. Income	73,500	124,950	147,000	169,050	191,100	213,150	235,200	257,250	279,300	301,350	323,400	345,450
Allowance for Default	1,470	2,499	2,940	3,381	3,822	4,263	4,704	5,145	5,586	6,027	6,468	6,909
Net Interest Repaid	72,030	122,451	144,060	165,669	187,278	208,887	230,496	252,105	273,714	295,323	316,932	338,541
Total Fund Reflow	483,630	822,171	967,260	1,112,349	1,257,438	1,402,527	1,547,616	1,692,705	1,837,794	1,982,883	2,127,972	2,273,061
Loan Funds Required	4,556,370	4,973,829	5,584,740	6,195,651	6,806,562	7,417,473	8,028,384	8,639,295	9,250,206	9,861,117	10,472,028	13,278,939
Cumulative Collateral Funds Required ($)	1,139,093	1,243,457	1,396,185	1,548,913	1,701,641	1,854,368	2,007,096	2,159,824	2,312,552	2,465,279	2,618,007	3,319,735
RECURRENT COSTS												
Salaries	77,150	77,150	77,150	77,150	77,150	77,150	77,150	77,150	77,150	77,150	77,150	77,150
Training Expense	3,000	3,000	3,000	3,000	3,000							
Contingency (10%)	8,015	8,015	8,015	8,015	8,015	7,715	7,715	7,715	7,715	7,715	7,715	7,715
Total Operating Expense	88,165	88,165	88,165	88,165	88,165	84,865	84,865	84,865	84,865	84,865	84,865	84,865
Interest Expense	53,550	63,000	72,450	81,900	91,350	100,800	110,250	119,700	129,150	138,600	148,050	157,500
Total Cost (LE)	141,715	151,165	160,615	170,065	179,515	185,665	195,115	204,565	214,015	223,465	232,915	242,365
Total Cost ($)	35,429	37,791	40,154	42,516	44,879	46,416	48,779	51,141	53,504	55,866	58,229	60,591
Cumulative Cost ($)	236,988	274,779	314,933	357,449	402,328	448,744	497,523	548,664	602,168	658,034	716,263	776,854
Net Interest Income	72,030	122,451	144,060	165,669	187,278	208,887	230,496	252,105	273,714	295,323	316,932	338,541
Recurrent Costs	141,715	151,165	160,615	170,065	179,515	185,665	195,115	204,565	214,015	223,465	232,915	242,365
Operating Profit	(69,685)	(28,714)	(16,555)	(4,396)	7,763	23,222	35,381	47,540	59,699	71,858	84,017	96,176
Cumulative Operating Cost (LE)	847,172	998,337	1,158,952	1,329,017	1,508,532	1,694,197	1,889,312	2,093,877	2,307,892	2,531,357	2,764,272	3,006,637
Cumulative Income	288,120	410,571	554,631	720,300	907,578	1,116,465	1,346,961	1,599,066	1,872,780	2,168,103	2,485,035	2,823,576
Project Profitability	(559,052)	(587,766)	(604,321)	(608,717)	(600,954)	(577,732)	(542,351)	(494,811)	(435,112)	(363,254)	(279,237)	(183,061)

Six Month Loan Term

1994 Costs

# of Loan Officers	# of New Loan/ Month/ Officer	Avg. Loan Size	Average Default	Avg. Cost of Funds	Avg. Effective Interest Income	Avg. Effective Interest Split	LE:$1.00 Projected Exchange Rate
24	12	4,000	2.00%	15.00%	35.00%	20.00%	4.5

	Year 3 Month 1	Year 3 Month 2	Year 3 Month 3	Year 3 Month 4	Year 3 Month 5	Year 3 Month 6	Year 3 Month 7	Year 3 Month 8	Year 3 Month 9	Year 3 Month 10	Year 3 Month 11	Year 3 Month 12
Loans Extended	3,888	4,176	4,464	4,752	5,040	5,328	5,616	5,904	6,192	6,480	6,768	7,056
Amount LE	15,552,000	16,704,000	17,856,000	19,008,000	20,160,000	21,312,000	22,464,000	23,616,000	24,768,000	25,920,000	27,072,000	28,224,000
Gross Principal Repaid	2,100,000	2,592,000	2,784,000	2,976,000	3,168,000	3,360,000	3,552,000	3,744,000	3,936,000	4,128,000	4,320,000	4,512,000
Allowance for Default	42,000	51,840	55,680	59,520	63,360	67,200	71,040	74,880	78,720	82,560	86,400	90,240
Net Principal Repaid	2,058,000	2,540,160	2,728,320	2,916,480	3,104,640	3,292,800	3,480,960	3,669,120	3,857,280	4,045,440	4,233,600	4,421,760
Gross Int. Income	367,500	453,600	487,200	520,800	554,400	588,000	621,600	655,200	688,800	722,400	756,000	789,600
Allowance for Default	7,350	9,072	9,744	10,416	11,088	11,760	12,432	13,104	13,776	14,448	15,120	15,792
Net Interest Repaid	360,150	444,528	477,456	510,384	543,312	576,240	609,168	642,096	675,024	707,952	740,880	773,808
Total Fund Reflow	2,418,150	2,984,688	3,205,776	3,426,864	3,647,952	3,869,040	4,090,128	4,311,216	4,532,304	4,753,392	4,974,480	5,195,568
Loan Funds Required	14,285,850	14,871,312	15,802,224	16,733,136	17,664,048	18,594,960	19,525,872	20,456,784	21,387,696	22,318,608	23,249,520	23,249,520
Cumulative Collateral Funds Required ($)	3,174,633	3,304,736	3,511,605	3,718,475	3,925,344	4,132,213	4,339,083	4,545,952	4,752,821	4,959,691	5,166,560	5,166,560
RECURRENT COSTS												
Salaries	123,027	123,027	123,027	123,027	123,027	123,027	123,027	123,027	123,027	123,027	123,027	123,027
Training Expense	4,000	4,000	4,000	4,000	4,000	4,000						
Contingency (10%)	12,703	12,703	12,703	12,703	12,703	12,703	12,303	12,303	12,303	12,303	12,303	12,303
Total Operating Expense	139,730	139,730	139,730	139,730	139,730	139,730	135,330	135,330	135,330	135,330	135,330	135,330
Interest Expense	194,400	208,800	223,200	237,600	252,000	266,400	280,800	295,200	309,600	324,000	338,400	352,800
Total Cost (LE)	334,130	348,530	362,930	377,330	391,730	406,130	416,130	430,530	444,930	459,330	473,730	488,130
Total Cost ($)	74,251	77,451	80,651	83,851	87,051	90,251	92,473	95,673	98,873	102,073	105,273	108,473
Cumulative Cost ($)	851,105	928,556	1,009,207	1,093,058	1,180,109	1,270,360	1,362,834	1,458,507	1,557,380	1,659,454	1,764,727	1,873,200
Net Interest Income	360,150	444,528	477,456	510,384	543,312	576,240	609,168	642,096	675,024	707,952	740,880	773,808
Recurrent Costs	334,130	348,530	362,930	377,330	391,730	406,130	416,130	430,530	444,930	459,330	473,730	488,130
Operating Profit	26,020	95,998	114,526	133,054	151,582	170,110	193,038	211,566	230,094	248,622	267,150	285,678
Cumulative Operating Cost (LE)	3,340,766	3,689,296	4,052,226	4,429,556	4,821,285	5,227,415	5,643,545	6,074,075	6,519,005	6,978,334	7,452,064	7,940,194
Cumulative Income	3,183,726	3,628,254	4,105,710	4,616,094	5,159,406	5,735,646	6,344,814	6,986,910	7,661,934	8,369,886	9,110,766	9,884,574
Project Profitability	(157,040)	(61,042)	53,484	186,538	338,121	508,231	701,269	912,835	1,142,929	1,391,552	1,658,702	1,944,380

1995 Costs Full Implementation

Chart C.4.
Page 1

Avg Loan Size	# of Loan Officers	Avg Annual Int. Rate Split	Average Default	Exchange Rate	Interest on Collateral Fund
4000	24	15.00%	1.50%	4	10.00%

	Year 4 Month 1	Year 4 Month 2	Year 4 Month 3	Year 4 Month 4	Year 4 Month 5	Year 4 Month 6	Year 4 Month 7	Year 4 Month 8	Year 4 Month 9	Year 4 Month 10	Year 4 Month 11	Year 4 Month 12
Collateral Fund Available ($)	5,000,000	5,041,667	5,083,681	5,126,045	5,168,762	5,211,835	5,255,267	5,299,060	5,343,219	5,387,746	5,432,644	5,477,916
Collateral Value (LE)	20,000,000	20,166,667	20,334,722	20,504,178	20,675,046	20,847,338	21,021,066	21,196,242	21,372,877	21,550,984	21,730,576	21,911,664
Net Income	78,566	79,534	81,598	82,602	83,619	84,649	85,691	86,746	87,814	88,895	89,990	91,098
Total Credit Line Available	20,078,566	20,246,200	20,327,798	20,410,400	20,494,019	20,578,668	20,664,359	20,751,105	20,838,919	20,927,815	21,017,805	21,108,903
Gross Principal Repaid	3,333,333	3,346,428	3,374,367	3,387,966	3,401,733	3,415,670	3,429,778	3,444,060	3,458,518	3,473,153	3,487,969	3,502,967
Allowance for Default	50,000	50,196	50,616	50,819	51,026	51,235	51,447	51,661	51,878	52,097	52,320	52,545
Net Principal Repaid	3,283,333	3,296,231	3,323,751	3,337,147	3,350,707	3,364,435	3,378,331	3,392,399	3,406,640	3,421,056	3,435,650	3,450,423
Gross Int. Income	250,000	250,982	253,078	254,097	255,130	256,175	257,233	258,304	259,389	260,486	261,598	262,723
Allowance for Default	3,750	3,765	3,796	3,811	3,827	3,843	3,859	3,875	3,891	3,907	3,924	3,941
Net Interest Repaid	246,250	247,217	249,281	250,286	251,303	252,333	253,375	254,430	255,498	256,579	257,674	258,782
Total Recurrent Expense	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684
RECURRENT COSTS												
Project Salaries	159,699	159,699	159,699	159,699	159,699	159,699	159,699	159,699	159,699	159,699	159,699	159,699
Contingency (5%)	7,985	7,985	7,985	7,985	7,985	7,985	7,985	7,985	7,985	7,985	7,985	7,985
Monthly Total	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684	167,684
Number of Borrowers	5,020	5,062	5,082	5,103	5,124	5,145	5,166	5,188	5,210	5,232	5,254	5,277

1996 Costs Full Implementation

Chart C.4.
Page 2

Avg Loan Size	# of Loan Officers	Avg Annual Int. Rate Split	Average Default	Exchange Rate	Interest on Collateral Fund
4000	24	15.00%	1.50%	4	10.00%

	Year 5 Month 1	Year 5 Month 2	Year 5 Month 3	Year 5 Month 4	Year 5 Month 5	Year 5 Month 6	Year 5 Month 7	Year 5 Month 8	Year 5 Month 9	Year 5 Month 10	Year 5 Month 11	Year 5 Month 12
Collateral Fund Available ($)	5,523,565	5,569,595	5,616,008	5,662,808	5,709,998	5,757,582	5,805,562	5,853,941	5,902,724	5,951,914	6,001,513	6,051,525
Collateral Value (LE)	22,094,261	22,278,380	22,464,033	22,651,234	22,839,994	23,030,327	23,222,247	23,415,765	23,610,897	23,807,654	24,006,051	24,206,102
Net Income	75,451	76,380	77,321	78,273	79,236	80,212	81,200	82,199	83,211	84,236	85,273	86,323
Total Credit Line Available	21,184,354	21,260,734	21,338,055	21,416,327	21,495,564	21,575,775	21,656,975	21,739,174	21,822,386	21,906,622	21,991,895	22,078,218
Gross Principal Repaid	3,518,150	3,530,726	3,543,456	3,556,342	3,569,388	3,582,594	3,595,963	3,609,496	3,623,196	3,637,064	3,651,104	3,665,316
Allowance for Default	52,772	52,961	53,152	53,345	53,541	53,739	53,939	54,142	54,348	54,556	54,767	54,980
Net Principal Repaid	3,465,378	3,477,765	3,490,304	3,502,997	3,515,847	3,528,855	3,542,023	3,555,353	3,568,848	3,582,508	3,596,337	3,610,336
Gross Int. Income	263,861	264,804	265,759	266,726	267,704	268,695	269,697	270,712	271,740	272,780	273,833	274,899
Allowance for Default	3,958	3,972	3,986	4,001	4,016	4,030	4,045	4,061	4,076	4,092	4,107	4,123
Net Interest Repaid	259,903	260,832	261,773	262,725	263,689	264,664	265,652	266,652	267,664	268,688	269,725	270,775
Total Recurrent Expense	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452
RECURRENT COSTS												
Project Salaries	175,669	175,669	175,669	175,669	175,669	175,669	175,669	175,669	175,669	175,669	175,669	175,669
Contingency (5%)	8,783	8,783	8,783	8,783	8,783	8,783	8,783	8,783	8,783	8,783	8,783	8,783
Monthly Total	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452	184,452
Number of Borrowers	5,296	5,315	5,335	5,354	5,374	5,394	5,414	5,435	5,456	5,477	5,498	5,520

1997 Costs Full Implementation

Chart C.4.
Page 3

Avg Loan Size	# of Loan Officers	Avg Annual Int. Rate Split	Average Default	Exchange Rate	Interest on Collateral Fund
4000	24	15.00%	1.50%	4	10.00%

	Year 6 Month 1	Year 6 Month 2	Year 6 Month 3	Year 6 Month 4	Year 6 Month 5	Year 6 Month 6	Year 6 Month 7	Year 6 Month 8	Year 6 Month 9	Year 6 Month 10	Year 6 Month 11	Year 6 Month 12
Collateral Fund Available ($)	6,101,955	6,152,804	6,204,078	6,255,778	6,307,910	6,360,476	6,413,480	6,466,925	6,520,817	6,575,157	6,629,950	6,685,199
Collateral Value (LE)	24,407,819	24,611,218	24,816,311	25,023,114	25,231,640	25,441,903	25,653,919	25,867,702	26,083,266	26,300,627	26,519,799	26,740,797
Net Income	68,941	69,789	70,649	71,519	72,399	73,291	74,193	75,107	76,031	76,967	77,915	78,874
Total Credit Line Available	22,147,158	22,216,948	22,287,597	22,359,115	22,431,515	22,504,805	22,578,998	22,654,105	22,730,136	22,807,103	22,885,018	22,963,893
Gross Principal Repaid	3,679,703	3,691,193	3,702,825	3,714,599	3,726,519	3,738,586	3,750,801	3,763,166	3,775,684	3,788,356	3,801,184	3,814,170
Allowance for Default	55,196	55,368	55,542	55,719	55,898	56,079	56,262	56,447	56,635	56,825	57,018	57,213
Net Principal Repaid	3,624,507	3,635,825	3,647,282	3,658,880	3,670,621	3,682,507	3,694,539	3,706,719	3,719,049	3,731,531	3,744,166	3,756,957
Gross Int. Income	275,978	276,839	277,712	278,595	279,489	280,394	281,310	282,237	283,176	284,127	285,089	286,063
Allowance for Default	4,140	4,153	4,166	4,179	4,192	4,206	4,220	4,234	4,248	4,262	4,276	4,291
Net Interest Repaid	271,838	272,687	273,546	274,416	275,297	276,188	277,090	278,004	278,929	279,865	280,812	281,772
Total Recurrent Expense	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897
RECURRENT COSTS												
Project Salaries	193,236	193,236	193,236	193,236	193,236	193,236	193,236	193,236	193,236	193,236	193,236	193,236
Contingency (5%)	9,662	9,662	9,662	9,662	9,662	9,662	9,662	9,662	9,662	9,662	9,662	9,662
Monthly Total	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897	202,897
Number of Borrowers	5,537	5,554	5,572	5,590	5,608	5,626	5,645	5,664	5,683	5,702	5,721	5,741

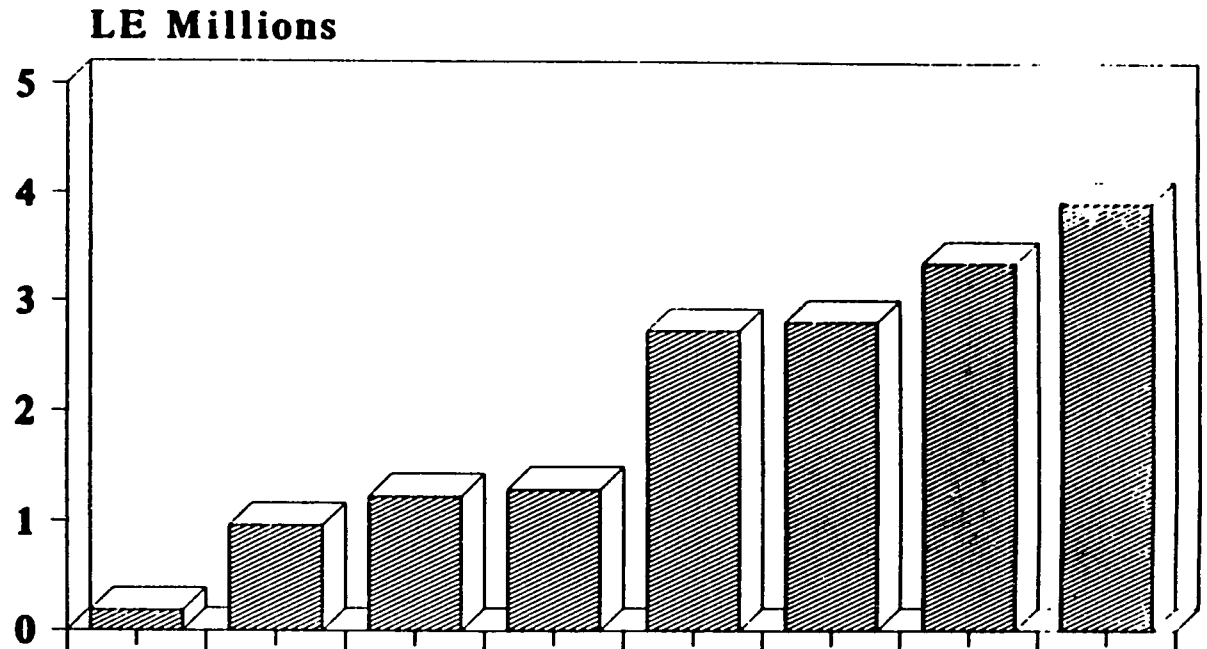
Chart C.5.

ILLUSTRATIVE TECHNICAL ASSISTANCE BUDGET

	Monthly Rate	Person/ Months	$ Cost
A. Prime Contractor (U.S. Source)			
A.1. Small Enterprise Credit Advisor	7,000	48	$336,000
A.2. Institutional Development Specialist	7,000	24	168,000
A.3. Short-Term Specialists	7,000	24	168,000
		Sub-Total	$672,000
Sub-Contractor (Egyptian Source)			
A.4. Foundation Site Advisors (5)	1,000	240	$240,000
A.5. MIS Systems Analyst	900	20	18,000
A.6. Financial Analyst	900	60	54,000
A.7. Legal Advisor	1,000	16	16,000
A.8. Policy Analyst	900	16	14,400
A.9. Coordinator	900	36	32,400
A.10. Short-Term Specialists	900	75	67,500
A.11. Support Staff	600	100	60,000
		Sub-Total	$502,300
A.12. Overhead at 50%			587,150
	Total Section A.		$1,761,450
B. TRAVEL			
B.1. International			$50,000
B.2. Local Travel and Per Diem			25,000
	Total Section B.		$75,000
C. Other Direct Costs			
C.1. Freight, Storage, Shipments			$90,000
C.2. Educational Allowance (2 Children/Family)			120,000
C.3. Housing/Utilities (6 person/years)			144,000
C.4. Misc. (Passports, Insurance, DBA, Physicals)			20,000
C.5. Office Space Rental			96,000
	Total Section C.		$470,000
D. Other In-Country Costs			
D.1. Telephone/Fax Communication			$10,000
D.2. Report Reproduction			4,000
	Total Section D.		$14,000
	GRAND TOTAL		$2,320,450

SMALL AND MICRO ENTERPRISE PROJECT

Loan Issuance Growth (CY 90-91)



	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 5	Qtr 6	Qtr 7	Qtr 8
Quarterly Total	0.186	0.96	1.225	1.29	2.725	2.802	3.349	3.913

ABA & ESED

Quarterly Total

Chart C.6.

COLLATERAL FUND
GROWTH RATE PROJECTION
'(All Figures in 000's)

Chart C.7.

			1.62 Qtr 1	Qtr 2	Qtr 3	Qtr 4	Annual Total	Total LE Required	Exchange Rate	Dollars Required (000's)
Actual	1990	Extension	186	960	1,225	1,290	3,661			
		Repayment	0	0	186	960	1,146	2,515	3.2	$786
Actual	1991	Extension	2,725	2,802	3,349	3,913	12,789			
		Repayment	1,225	1,290	2,725	2,802	8,042	7,262	3.3	$2,201
Projected	1992	Extension	4,415	4,539	5,425	6,339	20,718			
		Repayment	3,349	3,913	4,415	4,539	16,216	11,764	3.5	$3,361
Projected	1993	Extension	7,151	7,354	8,789	10,269	33,563			
		Repayment	5,425	6,339	7,151	7,354	26,269	19,058	4	$4,765
Projected	1994	Extension	11,585	11,913	14,238	16,636	54,373			
		Repayment	8,789	10,269	11,585	11,913	42,557	30,875	4	$7,719
Projected	1995	Extension	18,768	19,299	23,066	26,951	88,084			
		Repayment	14,238	16,636	18,768	19,299	68,942	50,017	4	$12,504
Projected	1996	Extension	30,405	31,264	37,367	43,660	142,696			
		Repayment	23,066	26,951	30,405	31,264	111,686	81,027	4	$20,257
Projected	1997	Extension	49,256	50,648	60,535	70,729	231,167			
		Repayment	37,367	43,660	49,256	50,648	180,931	131,264	4	$32,816

Note: Although the program grew at over 300% on an annual basis over the first 2 years, a conservative approach of projecting a 62% growth on a sustained basis shows AID funds being fully utilized within the life of project. At least three new foundations will be added to realize these targets.

The Economic Analysis in the original Project Paper starts from the assumption that a comprehensive analysis would necessitate the use of quantitative information that was not available at that time. Such an analysis would entail a number of assumptions regarding such factors as the amount of employment generation created by the Project, increase in borrowers' net profits, levels of reinvestment, etc. Given the difficulty in defending such assumptions, the results of a quantitative analysis would be of limited utility. It is therefore more useful to perform a descriptive analysis by desegregating the problem into four parts: (1) can AID funds be justified for the Project; (2) is each of the foundations viable; (3) What is the net impact of a marginal loan at the borrower level; and (4) What is the impact of micro and small business loans on the overall economy. The analysis then addresses each of these questions using experience with other assistance efforts worldwide which have demonstrated conclusively (1) that such a project is justified from a cost benefit perspective; (2) that the impact is substantial in terms of employment created and increased annual sales; and (3) that small and micro business are major contributors to overall economic growth.

Although a long term time series of data that would be needed to perform a comprehensive analysis is still not available, enough data has been collected on the Alexandria Businessmen's Association Foundation that an analysis of this data can provide a preliminary indication of the eventual impact of the Project. The foundation's MIS includes the collection of basic socio-economic data from all repeat borrowers.

A survey of 717 repeat borrowers in Alexandria was completed in January 1992. This survey will be repeated on a quarterly basis in the future by both Foundations. There are notable increases in employment and monthly production. Employment was up from 7.66% to 15.7% among permanent male and female employees, respectively. Employment increases among temporary employees were 32.7% and 36% among male and female employees, respectively. Monthly production among all respondents was up 85.7%. The charts on the following two pages, D.1. and D.2., summarize the information.

60

SOCIO ECONOMIC SURVEY

Chart D.1.

PROFILE OF SURVEYED CLIENTS

	Number	Percentage
TOTAL NUMBER SURVEYED	717	
Number of Males	677	94.42%
Number of Females	40	5.58%
Married	642	89.54%
Unmarried	75	10.46%
NUMBER OF LOANS RECEIVED		
2 Loans	602	83.96%
3 Loans	100	13.95%
4 Loans	10	1.39%
5 Loans	5	.70%
LOAN CATEGORY		
Micro	568	79.22%
Small	149	20.78%
AREA OF CITY		
Montaza	107	14.92%
East	97	13.53%
Middle	201	28.03%
Amria	30	4.18%
Gomrok	210	29.29%
West	72	10.04%
EDUCATION		
Read and Write	529	73.78%
High School	142	19.80%
University Graduate	46	6.42%
SECTOR		
Garments	205	28.59%
Leather	111	15.48%
Wood Crafts	153	21.34%
Metal Work	110	15.34%
Others	138	19.25%
OWNERSHIP		
Owner	92	12.83%
Tenant	625	87.17%

Chart D.2.

SOCIO ECONOMIC IMPACT
on
SURVEYED CLIENTS

	Before	After	Increase	%
EMPLOYMENT				
Number of Permanent Male	1,070	1,152	82	7.66%
Number of Permanent Female	153	177	24	15.69%
Number of Temporary Male	1,337	1,775	438	32.76%
Number of Temporary Female	331	450	119	35.95%
TOTALS	2,891	3,554	663	22.93%
CHANGE OF CATEGORY				
Micro	568	504	-64	-11.27%
Small	149	213	64	42.95%
AVERAGE MONTHLY WORKER SALARY				
LE per Month	150	188	33	22.00%
AMOUNT OF GROSS PRODUCTION				
LE per Month (000's)	3,379	6,275	2,896	85.71%

EMPLOYMENT GENERATION

Total Number of Jobs Created	663
Total Amount of Investment Required	LE 1,631,500
Investment Required to Create One Job	LE 2,461

Note: The Executive Director of the Alexandria Businessmen's Association also noted that 2,891 jobs were maintained during a recessionary period.

64

The Analysis in the original Project Paper remains applicable to the Amendment. The original analysis analyzed the socio-cultural context, the constraints faced by SMEs, and social issues influencing the Project. It also provided an indication of the likely impact of the Project by examining experience with similar Projects, both worldwide and in Egypt. Therefore this analysis will first briefly summarize the beneficiaries and the expected impact of the Project, and will then focus on the issue of women's participation in the Project.

1. Beneficiaries - In terms of beneficiaries, the Project will reach several strata of the business sector; small and micro entrepreneurs will reap the benefits of increased access to credit and training. The Mission definition of micro-scale enterprise includes those private firms that employ five or less people, while small-scale enterprises are the private firms that employ six to fifteen. Under this Project, SMEs are further defined as existing businesses with fixed, movable assets (machinery and equipment) of less than $10,000 equivalent, exclusive of land and buildings. There is a consensus that the sector is growing very rapidly, especially in the urban areas. SMEs produce a wide range of products including garments, food products, leather goods, cosmetics, wooden furniture, and fabricated metal products. Metal works, leather production, and wood processing makes up nearly 75% of the current portfolio.

The overall population in the Project areas will benefit from a more efficient local economy, greater availability of liquidity, greater employment opportunity, and higher income. The need to strengthen and create jobs has never been stronger in Egypt than it is now. World-wide experience has shown that investment in small and micro productive enterprises is one of the most cost-effective methods of rapidly providing expanded employment among unskilled and semi-skilled labor, along with enhancing the economic condition of the actual owners of the small enterprises. Because they are relatively easy to establish and tend to rely on simple technologies, SMEs provide more managerial and job opportunities, especially for the less skilled, than other forms of enterprise. With their impact on the distribution of skills and opportunities, they may therefore bee seen as forces that increase the possibility for stable and democratic change.

Indirectly, the whole business sector should benefit from the expanded number of small businesses of higher caliber who can be identified as feeder industries. The income generation and employment effects of an expanded small scale business sector will have beneficial repercussions throughout all levels of the Egyptian economy. In addition to the individual benefits accruing from increased employment, the movement of firms from the informal to the formal sector will provide an expanded base from which, in conjunction with rationalized fiscal reform, the Government of Egypt can seek to carry out self- sustaining growth.

2. Project Impact - Unless credit programs are specifically designed to account for social and economic differences within the communities served, they may reinforce inequality by

63

promoting additional opportunities for the more privileged. Including the issues of equity, empowerment, and community development as integral concerns of credit projects can add to opportunities for both growth and equality among individuals and within the communities served. The most effective mechanisms for promoting equality of opportunity among potential borrowers are the following:

- Limiting credit to those with minimum income;
- Requiring that assets of borrowers and their firms not exceed given levels;
- Strictly limiting the amount available for any given loan. Small loan sizes make more likely it is that poorer individuals, and especially women, will benefit.

The target group (direct beneficiaries) that this Project will be attempting to identify and serve will be borrowers who possess the following qualifications:

- Owners and employees of existing, small and micro enterprises, in the geographical areas designated to be served;
- Primarily involved in the productive, value added private sector of the economy;
- A going concern, with a minimum number of one year of operation;
- Creditworthy, as determined through personal references or a credit history in the Project;
- Employing less than 15 people and have fixed assets generally not exceeding LE 30,000, not including buildings and land; and
- Requesting the loans for specific purposes, such as short term working capital needs to purchase inventory, acquisition of small capital equipment and tools, etc.

As a result of the Project Paper Amendment, it is expected that the following number of beneficiaries will be reached by the LOP:

- 28,000 new direct beneficiaries, *i.e.*, loan recipients;
- 56,000 non-family member employees benefitting from improved earnings;

- 126,000 new indirect beneficiaries, *i.e.*, members of households who benefit from improved earning, quality of life, and greater freedom of choice in the market place; and

- 120,000 jobs strengthened or created.

Dissemination of the credit program within the SME sector can be expected to be relatively rapid, with the resulting use of the credit program enhancing SMEs productivity and the level of value added. Additional efforts such as marketing, technical assistance to indigenous and alternate sources of inputs, research, and lobbying will be undertaken to strengthen forward and backward linkages, as well as to deal with such broader issues as policy and the level of economic integration.

3. Women's Participation

a. Worldwide Experience - Women's limited access to capital in the face of their creditworthiness and their willingness to respond to economic opportunities underscores the importance of addressing women's financial needs -- not just for reasons of equity but even more importantly for economic reasons.[1] Women's financial conservatism translates into a propensity to save and high loan repayment rates. Women's sense of responsibility, their concern for their future ability to obtain credit, and their perpetual drive toward financial security make them good savers and creditworthy borrowers.

Evidence suggests that women will be reluctant to deal with formal credit institutions if they have to travel far to do so. Because of time and mobility constraints, transaction costs associated with traveling to a depository are particularly high for women. The opportunity costs for women associated with spending time away from both their reproductive and productive activities seems to be greater than men's.

Women need access to credit for their income generating activities, though their need varies by socio-economic status. Berger[2] concludes that the "ultra poor" are likely not good candidates for lending since their situations force them to use whatever cash they have for consumption. These women might best be served by interest- paying deposit accounts. At a somewhat higher level of income are women whose business objectives are stability and

---

[1] Maria Otero and Jeanne Downing. Meeting Women's Financial Needs: Lessons for Formal Financial Institutions. Seminar on Informal Financial Markets in Development. October 1989.

[2] Marguerite Berger. Giving Women Credit: The Strengths and Limitations of Credit as a Tool for Alleviating Poverty. World Development (17). 1989. Cited in Otero and Downing.

security; in other words, they are not risk takers. Berger argues that these women need credit for working capital: for purchasing inputs, keeping an inventory, replacing equipment, and selling on credit. A loan to these women would allow them to increase their productivity and incomes while maintaining a constant level of sales. At another level of income are higher risk taking women entrepreneurs who need credit to increase the size of their business.

b. Situation in Egypt - Workforce - Whereas women constitute approximately 15% of the official (public and private sectors) work force, they represent 48.8% of the total population. Of this 15%, 9% are employed and 6% are unemployed (CAPMAS Statistical Year Book 1990). Viewed from a different angle, the CAPMAS figures show that the rate of unemployment for the male population is 10.0%, while for the female population it is 40.6%.

The relatively high rate of unemployment among "working women" may be due in part to the under-enumeration of women in the labor force, thereby causing an upwards bias in the reported figures. However, the rate of female unemployment will remain higher than that of male unemployment (Employment Strategy, ILO, 1990), as it has been rising at a faster rate in the past years and will probably continue to do so. The low official female participation rates are projected to increase due to the increased availability of education that will push more females into the formal labor market. Increasing economic hardships tied to the forthcoming structural adjustment and increasing number of female headed households are expected to rapidly increase the number of female workers in both the formal or informal sectors (Employment Strategy, ILO, 1990). The planned dramatic reduction of the public sector planned under the structural adjustment is expected to have a greater impact on female workers than male.

Formal Ownership - Figures on women's ownership of firms in the SME subsector would encompass data on the informal sector which is not available. As an indication of women's ownership patterns in the overall economy, ownership of firms in the formal sector is the following: Cairo, 10% of 236,371 registered firms were owned by women; in Alexandria, 7% of 103,030 registered firms were owned by women; rural cities have lower rates. (CAPMAS 1986 Census)

c. Financial System - Egypt's formal financial system, for the most part, has been unable to respond to women's financial needs. Some of the major factors that limit their participation are related to institutional requirements, others to cultural and social norms, and still others to the type of productive activities in which women predominate.[3]

---

[3] Maria Otero and Jeanne Downing. Meeting Women's Financial Needs: Lessons for Formal Financial Institutions. Seminar on Informal Financial Markets in Development. October 1989.

66

(1) Institutional Issues - Perhaps the most important impediment to women's participation in formal financial markets emerges from banks' requirements and procedures for lending. These can be outlined as follows:

Collateral Requirements - Women face greater problems in meeting the guarantee requirements of banks than poor men because they are more restricted from owning land and other assets that serve as collateral. Land and other property tend to appear in the man's name. In Egypt women can inherit land, but their lack of knowledge regarding their legal rights enables male relatives to assume title. In other cases, when land is not in a woman's name, she may not be able to meet the collateral requirement of a credit program. Even in cases where women own land, and therefore can present it as collateral, their participation in credit programs still remains low.

Application and Review Procedure - The paper work required by a bank to process a loan assumes a level of knowledge outside most poor women's sphere. Most poor Egyptian women are illiterate or semi-literate, and are unable to complete applications, formulate investment, or cash flow projections, and comply with other documentation that the bank requires.

Terms not Appropriate for Need - Most banks are willing to only lend amounts larger than those needed by women, most of whom run very small businesses that require nominal loans for working capital. Even in cases where the bank can consider lending such a small amount, the lengthy time required for loan review and approval becomes the greatest constraint. It is noteworthy that interest rates are seldom considered an impediment to borrowing because the alternative source of finance for this population charges a much higher price for money.

Bank's Transaction Costs - For the bank, the unit cost of making small loans is very high and therefore financially unattractive. Especially with a population considered high risk, banks are more likely to make a few large loans in order to keep costs low. As usual with subsidized credit lines, lending funds have been concentrated in a few large loans. Given this tendency within the formal financial sector and women's need for small loans, it is less likely that women will participate in a credit program.

(2) Gender-Related Issues - While many of the above constraints apply to men and women, but affect women more adversely, there are factors that affect women's participation in formal financial institutions that are specifically related to gender.

Literacy - In Egypt, approximately 61.8 percent of adult females are illiterate, as opposed to 37.8 percent of adult males. This factor decreases women's capacity to approach financial institutions for services. (It is worthwhile to mention that the majority of illiterates, both men and women, are found in the age group forty years and above, with the gap between male and female literacy rates tending to narrow in the lower age ranges.)

Transaction Costs - From the borrower's perspective, interest rates constitute only one component of the costs of loans. Additional costs such as transportation to the bank, the time necessary to travel and negotiate a loan, and costs associated with filling out documents are considered important transactions costs that increase the cost of formal loans. For women, there costs are higher than for men because their domestic responsibilities require additional time and provide less flexibility.

d. Project Approach - The experience of the last decade in implementing micro enterprise credit programs demonstrated the capacity of these programs to integrate women as program clients. The following outlines aspects of the Small and Micro Enterprise Development Project methodology which facilitates the program reaching women.

Agility in Loan Application and Review - Because individual producers require immediate access to small amounts of working capital, these programs establish a system for simple loan application, review and approval procedures. In most cases, a first loan requires two weeks from application to disbursement. Repeat loans require about 48 hours processing time.

Flexible Loan Terms - The amount lent, the frequency of payments and the duration of the loan are also established to respond to the needs of the borrower. Most micro entrepreneurs require very small loans, as well as payment schedules that are responsive to their own cash flow situation. Garment producers, for example may prefer to make weekly payments, while persons who retail agricultural products may prefer monthly payments. By adapting these terms to the borrowers' needs, the program takes into account the borrowers' financial ability to repay loans. This flexibility allows a woman to establish a repayment schedule according to her needs and also decreases the amount of time she must spend making payments.

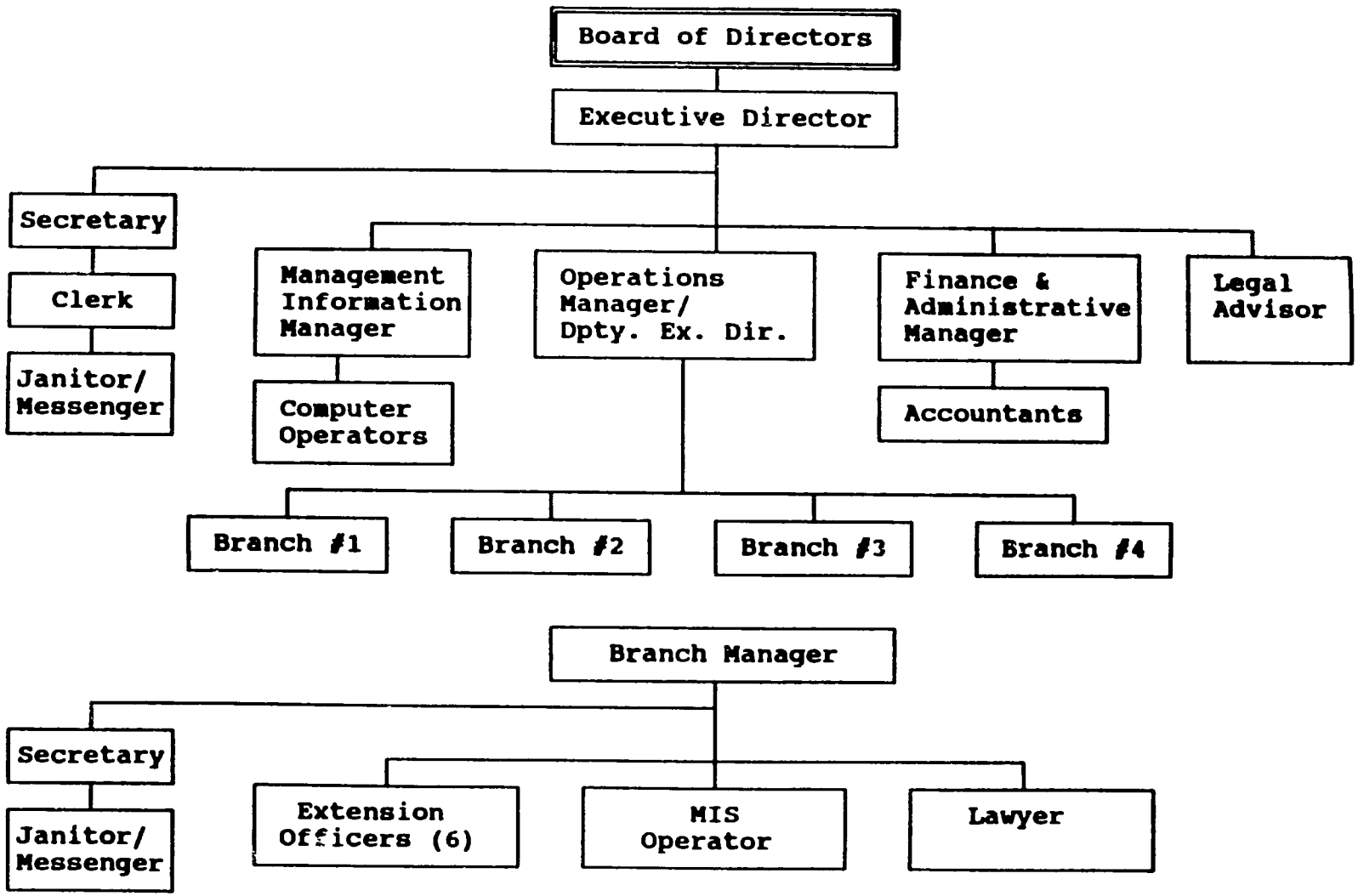
The above features of the Project seek to resolve those factors existing in the formal financial sector that have become the major constraints to providing financial services to women. Women's participation in the program has been has reflected women's ownership of small businesses; about 8-9% of the borrowers are women. Efforts to increase this percentage will be undertaken as part of Project implementation. This could include putting more emphasis on loans to women, training the loan officers to be more balanced in their selection of borrowers, undertaking a survey to ascertain where women entrepreneurs operate (i.e. what districts, and types of business), or opening the program to service and trade sectors which traditionally include more women. A study on constraints to women's participation in the SME sector is scheduled for completion in December 1991.

ADMINISTRATIVE ANALYSIS

ANNEX F

The Administrative Analysis in the original Project Paper outlined the anticipated structure of the organization. The administrative structure of the First Phase foundations has in fact evolved in a manner that reflects planned structure. This analysis will simply include a representational Organization Chart, as it is anticipated that a similar structure will be used by the Second and Third Phase foundations. The chart that follows outlines the relationships between the various units of the organization. Readers wishing a discussion of the responsibilities of the divisions and positions are referred to the Annex section of original Project Paper.

ORGANIZATION CHART



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE ENE BUREAU ENVIRONMENTAL COORDINATOR

DATE: May 28, 1992 GRW

FROM: Glenn Rutanen-Whaley, Mission Environmental Officer (MEO), USAID/Cairo

SUBJECT: Egypt - Small and Micro Enterprise Project Amendment (SME) (263-0212) - Approval of Categorical Exclusion from AID Environmental Procedures

ISSUE

Your approval of a categorical exclusion determination for the subject project amendment is requested.

BACKGROUND

The SME Project, as amended, will provide funds through up to five additional private sector foundations for a collateral fund, office equipment and computers, initial operating capital for foundation staff salaries, training, and technical assistance. The primary focus of the project is to provide short term working capital and small amounts for fixed investments to small enterprises in five additional urban areas. Small enterprises are currently defined as having fixed assets of less than LE 30,000 (US$10,000), excluding land and buildings, and less than fifteen employees. Initially, the loan range to be provided is LE 250-10,000 (US$80-3,300). The loans will be made at market interest rates that will both cover the costs of lending and be able to expand the loanable funds. Up to 20,000 small entrepreneurs will receive and repay loans and up to 10,000 jobs will be strengthened and/or created. USAID will not directly participate in the operation of the loan program, and will not reserve the right to review and/or approve individual loans made by the foundations.

DISCUSSION

As in the case of the original project, the proposed action is entirely within one of the categories listed in paragraph (c)(1), "Categorical Exclusions," of Section 216.2, "Applicability of Procedures," of Title 22 CFR Part 216, "AID Environmental Procedures." Pursuant to 22 CFR 216.2(c)(3), the originator of the proposed project has determined that the proposed action is fully within the following class of actions:

Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution.
[22 CFR 216.2(c)(2)(x)].

Pursuant to 22 CFR 216.2(c)(2), the proposed project amendment is categorically excluded from further environmental review. As per 22 CFR 216.2(c)(1), neither an initial environmental examination nor an environmental assessment is required for an action which is determined to fall within one of the categories listed at 22 CFR 216.2(c)(2).

AID/Washington approved a categorical exclusion for the original SME project, on the same basis, on June 1, 1988.

AUTHORITY

AID Environmental Procedures at 22 CFR 216.2(c)(3) state that a categorical exclusion determination shall be reviewed by the Bureau Environmental Coordinator in the same manner as a Threshold Decision under 22 CFR 216.3(a)(2). You may signify your concurrence with the foregoing determination by signing in the space below and on the attached Record of Categorical Exclusion.

RECOMMENDATION

That you concur with a determination of categorical exclusion from AID Environmental Procedures for the Small Enterprise Credit Project.

APPROVED: Gilbert S. Jackson
Gilbert Jackson NE/DR/PIE

DISAPPROVED: _____

DATE: 6/3/92

Clearance:

AOD/TI/FI: T. Hammann
LEG: V. Moore

Drafted: KJensen:TI/FI:DocID:P:\MISSIONM\DOCS\SME-ENV.JEN

RECORD OF CATEGORICAL EXCLUSION

Project Location	:	Egypt
Project Title and Number	:	Small and Micro Enterprise Project Project No. 263-0212
Funding	:	AID - $44 million
Life of Project	:	9 Years: FY 88 - FY 97
Categorical Exclusion Determination Prepared by	:	Signature _____ Karl F. Jensen, TI/FI Small Enterprise Advisor Date: 31 May 92
Environmental Action Recommended	:	Categorical Exclusion
Mission Environmental Officer's Concurrence	:	Signature _____ Glenn Rutanen-Whaley, PDS/PS Date: 5/31/92
Associate Mission Director's Concurrence	:	Signature _____ Lawrence M. Brown, A/AD/TI Date: 5/31/92
Decision of Environmental Coordinator, Bureau for Europe and Near East	:	Approved: _____ Gilbert Jackson, NE/DR/PIE Disapproved: _____ Date: 6/4/92

ILLUSTRATIVE IMPLEMENTATION PLAN

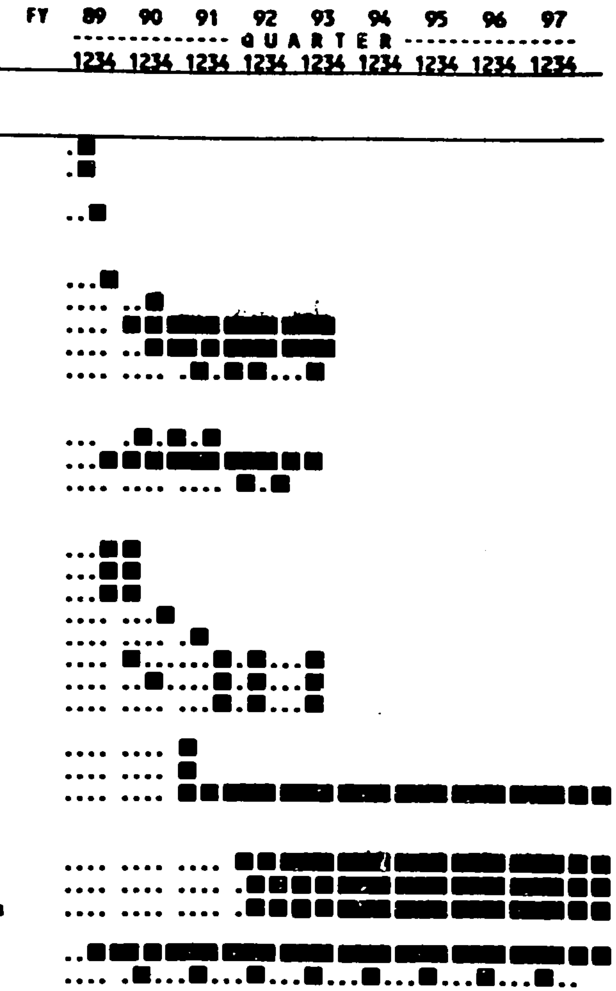
ANNEX H

SUBACTIVITY	WHO	FY 89	90	91	92	93	94	95	96	97
		QUARTER								
		1234	1234	1234	1234	1234	1234	1234	1234	1234
General										
PROAG Signed	USAID/MIC	■								
MIC letter requesting AID to enter into Cooperative Agreements with First Phase foundations and Contract for TA	MIC	■								
TA for First Phase										
• Contract signed	USAID/TA	..■								
• First Phase Extension Contract Amendment	USAID/TA	....	....	...■						
• Contract execution	TA Team	..■	■■■	■■■■	■■■■	■■■				
Study on Role of Women in Informal Sector										
• SOW	USAID	....	..■							
• Buy-in Request	USAID	....	..■							
• Buy-in	AID/W	....	...■							
• Study completed	Contractor	....	....	...■						
Interim Evaluation										
• SOW	USAID	....	....	...■						
• Buy-in Request	USAID	....	....	...■						
• Buy-in	AID/W	....	....	....	■					
• Evaluation completed	Contractor	....	....	....	■					
PROAG Expansion Amendment Signed	USAID/MIC	....	....	....	..■					
MIC letter requesting AID to enter into Cooperative Agreements with Second and Third Phase foundations and Contract for TA	MIC	....	....	....	..■					
TA for Second & Third Phase										
• New SOW	USAID	....	....	....	■					
• Request for Proposals	USAID	....	....	....	.■					
• CBD Notice	USAID	....	....	....	.■					
• Selection, negotiation, & award of contract	USAID	....	....	....	..■					
• Contract signature	USAID/TA	....	....	....	..■					
• Contract execution	TA Team	....	....	....	...■	■■■	■■■■	■■■■	■■■■	■
Interim Evaluation										
• SOW	USAID	....	....	....	....	....	...■			
• Buy-in Request	USAID	....	....	....	....	....	...■			
• Buy-in	AID/W	....	....	....	....	....	....	■		
• Evaluation completed	Contractor	....	....	....	....	....	....	■		

SUBACTIVITY	WHO	QUARTER 1234 1234 1234 1234 1234 1234 1234 1234 1234
General (continued)		
Final Evaluation		
• SOW	USAID	....■
• Request for Proposals	USAID	....■
• CBD Notice	USAID	....■
• Selection, negotiation, & award of contract	USAID	....■
• Contract Signature	USAID	.... ■
• Evaluation completed	Contractor	.... ■
Audit		
• SOW	USAID	....■..... .... .■
• Request for Proposals	USAID	....■..... .... .■
• Selection, negotiation, & award of contract	USAID	....■..... .... ..■
• Contract Signature	USAID	....■..... .... ..■
• Audit Completed	CPA	....■..... .... ..■
PACD	USAID/MIC	....■

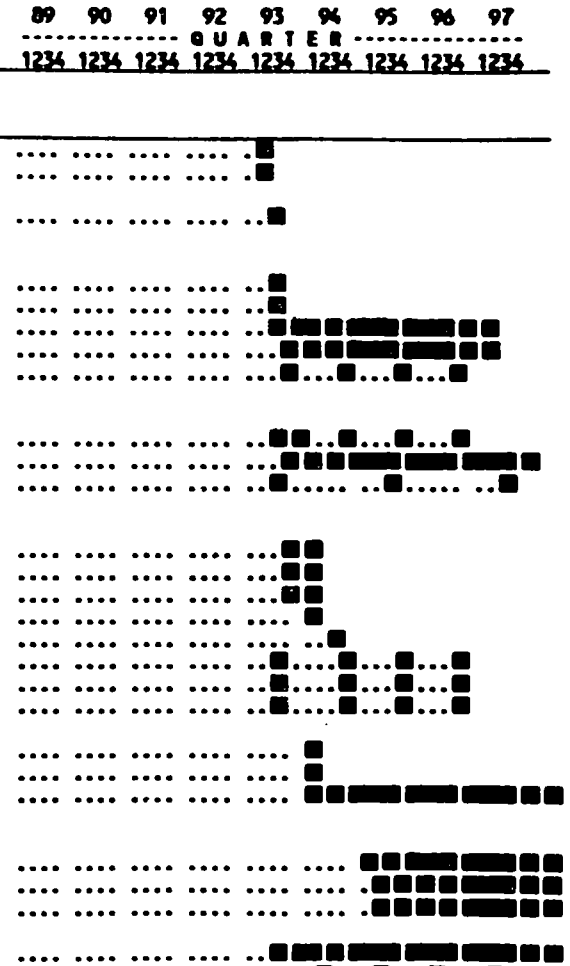
SUBACTIVITY	WHO	FY 89 90 91 92 93 94 95 96 97 (QUARTER 1234 1234 1234 1234 1234 1234 1234 1234 1234)
First Phase Foundation Activities - Alexandria		
Law 32 Registration	Foundation	.■
AID/W PVO Registration	USAID	.■
Cooperative Agreement	USAID/Board Chairman	..■
Staff Hiring		
• Executive Director	Board	..■
• Financial Manager	ExDir	...■
• Extension Officers	ExDir	...■ ■■■■ ■■■■ ■■■■
• Other Office staff	ExDir	...■ ■■■■ ■■■■ ■■■■
• Branch Managers	ExDir	....■.■ ■..■
Staff Training		
• Orientation/Workshops	TA Team	...■ ...■ ..■
• On-the-Job	TA Team	...■ ■■■■ ■■■■ ■■■■
• Observational Visits/Seminars	ExDir/Board	...■ .... .■.■
Head Office Establishment		
• Design Accounting System	FinMgr/TA Team	...■ ■
• Design Procurement Procedures	ExDir/TA Team	...■ ■
• Design MIS	TA Team/ExDir	...■ ■
• Approval of Accounting/Procurement/MIS	USAID	.... .■
• Credit and Operations Manuals	TA Team	....■
• Lease/Purchase Office Space	ExDir	...■ ....■ .■..■
• Renovate and Furnish	ExDir	...■ ....■ .■..■
• Procure Equipment	ExDir	...■ ....■ .■..■
Bank Agreement reached	ExDir/Bank	.... ■
Satisfaction of CPs to Additional Funding	Foundation/USAID	.... ■
Credit Extended	Foundation	.... ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■
Entrepreneur TA & Training		
• Program Planning and Materials Development	ExDir/TrngMgr/TA Team	....■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■
• Deliver Training	TrngMgr/Contractors	.... ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■
• Provide TA	Extension Officers/Contractors	.... ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■
Reporting to AID	Foundation	..■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■ ■■■■
Annual Audit	CPA	.... .■...■...■...■...■...■...■...■..

SUBACTIVITY	WHO
First Phase Foundation Activities - Cairo	
Law 32 Registration	Foundation
AID/W PVO Registration	USAID
Cooperative Agreement	USAID/Board Chairman
Staff Hiring	
• Executive Director	Board
• Financial Manager	ExDir
• Extension Officers	ExDir
• Other Office staff	ExDir
• Branch Managers	ExDir
Staff Training	
• Orientation/Workshops	TA Team
• On-the-Job	TA Team
• Observational Visits/Seminars	ExDir/Board
Head Office Establishment	
• Design Accounting System	FinMgr/TA Team
• Design Procurement Procedures	ExDir/TA Team
• Design MIS	TA Team/ExDir
• Approval of Accounting/Procurement/MIS	USAID
• Credit and Operations Manuals	TA Team
• Lease/Purchase Office Space	ExDir
• Renovate and Furnish	ExDir
• Procure Equipment	ExDir
Bank Agreement reached	ExDir/Bank
Satisfaction of CPs to Additional Funding	Foundation/USAID
Credit Extended	Foundation
Entrepreneur TA & Training	
• Program Planning and Materials Development	ExDir/TrngMgr/TA Team
• Deliver Training	TrngMgr/Contractors
• Provide TA	Extension Officers/Contractors
Reporting to AID	Foundation
Annual Audit	CPA



SUBACTIVITY	WHO	FY 89	90	91	92	93	94	95	96	97
		QUARTER								
		1234	1234	1234	1234	1234	1234	1234	1234	1234
Second Phase Foundation Activities - Dakahlia and Gharbia										
Law 32 Registration	Foundation	....	....	....	.■					
AID/W PVO Registration	USAID	....	....	....	.■					
Cooperative Agreement	USAID/Board Chairman	....	....	....	..■					
Staff Hiring										
• Executive Director	Board	....	....	....	..■					
• Financial Manager	ExDir	....	....	....	..■					
• Extension Officers	ExDir	....	....	....	..■	■■■	■■■	■■■	■■	
• Other Office staff	ExDir	....	....	....	...■	■■■	■■■	■■■	■■	
• Branch Managers	ExDir	....	....	....	...■	...■	...■	...■		
Staff Training										
• Orientation/Workshops	TA Team	....	....	....	..■■	..■	...■	...■		
• On-the-Job	TA Team	....	....	....	...■	■■■	■■■	■■■	■■■	
• Observational Visits/Seminars	ExDir/Board	....	....	....	..■	.....	..■	.....	..■	
Head Office Establishment										
• Design Accounting System	FinMgr/TA Team	....	....	....	...■	■				
• Design Procurement Procedures	ExDir/TA Team	....	....	....	...■	■				
• Design MIS	TA Team/ExDir	....	....	....	...■	■				
• Approval of Accounting/Procurement/MIS	USAID	....	....	....	....	■				
• Credit and Operations Manuals	TA Team	....	....	....	....	..■				
• Lease/Purchase Office Space	ExDir	....	....	....	..■	....■	...■	...■		
• Renovate and Furnish	ExDir	....	....	....	..■	....■	...■	...■		
• Procure Equipment	ExDir	....	....	....	..■	....■	...■	...■		
Bank Agreement reached	ExDir/Bank	....	....	....	....	■				
Satisfaction of CPs to Additional Funding	Foundation/USAID	....	....	....	....	■				
Credit Extended	Foundation	....	....	....	....	■■	■■■	■■■	■■■	■■
Entrepreneur TA & Training										
• Program Planning and Materials Development	ExDir/TrngMgr/TA Team	....	....	....	....	....	■■	■■■	■■■	■■■	■■
• Deliver Training	TrngMgr/Contractors	....	....	....	....	....	.■	■■■	■■■	■■■	■■
• Provide TA	Extension Officers/Contractors	....	....	....	....	....	.■	■■■	■■■	■■■	■■
Reporting to AID	Foundation	....	....	....	..■	■■■	■■■	■■■	■■■	■■
Annual Audit	CPA	....	....	....	....	.■...	■...	■...	■...	■

SUBACTIVITY	WHO
Third Phase Foundation Activities - Assiut, Port Said, and Beheira	
Law 32 Registration	Foundation
AID/W PVO Registration	USAID
Cooperative Agreement	USAID/Board Chairman
Staff Hiring	
• Executive Director	Board
• Financial Manager	ExDir
• Extension Officers	ExDir
• Other Office staff	ExDir
• Branch Managers	ExDir
Staff Training	
• Orientation/Workshops	TA Team
• On-the-Job	TA Team
• Observational Visits/Seminars	ExDir/Board
Head Office Establishment	
• Design Accounting System	FinMgr/TA Team
• Design Procurement Procedures	ExDir/TA Team
• Design MIS	TA Team/ExDir
• Approval of Accounting/Procurement/MIS	USAID
• Credit and Operations Manuals	TA Team
• Lease/Purchase Office Space	ExDir
• Renovate and Furnish	ExDir
• Procure Equipment	ExDir
Bank Agreement reached	ExDir/Bank
Satisfaction of CPs to Additional Funding	Foundation/USAID
Credit Extended	Foundation
Entrepreneur TA & Training	
• Program Planning and Materials Development	ExDir/TrngMgr/TA Team
• Deliver Training	TrngMgr/Contractors
• Provide TA	Extension Officers/Contractors
Reporting to AID	Foundation
Annual Audit	CPA



ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FDel Bosque

FROM : Priscilla Del Bosque, AD/TI

Subject : Small & Micro Enterprise Development (SME) Project (263-0212), Procurement Source and Origin Waiver

Action Requested

Approval of a waiver of source and origin requirements to allow the foundations under the subject project to purchase electronic equipment (e. g., computers, computer software, and fax machines) from code 935 source and origin countries. The total value of the purchases will not exceed $1,000,000. The source will generally be from Egypt, which is an approved source and origin for goods and services. The procurements will normally be in transactions of less than $13,000.

Background

The purpose of the Small & Micro Enterprise Development Project is to establish a viable credit delivery system for small and micro enterprises in Egypt using non-profit foundations as financial intermediaries. Under the original project, $20 million was provided to establish two foundations, one in Alexandria and the other in Cairo. The proposed $24 million SME Project Paper Amendment will establish three to five more foundations. The original project and the amendment allows source and origin for goods and services from the U.S. and Egypt.

Local procurement under this project is required to support project operations and activities. Handbook 1B Chapter 18A.1.c. (3) states that all locally financed procurement must be covered by source and nationality waivers ... with the following exception: "Commodities of geographic code 935 origin if the value of the transaction does not exceed $5,000." Under this project, local procurement will exceed the $5,000 per transaction criteria.

Section 2.6.1.3a of HB 11 chapter 3 states any waiver of the authorized list of eligible countries or geographic code may be granted if the waiver is based on the following criteria: "circumstances are determined to be critical to the success of project objectives."

Discussion

The SME project Paper amendment provides for the procurement of commodities needed to establish up to five new foundations that will include a head office and approximately four branch offices. The commodities to be procured under the project consist of those to be used in support of project operations.

A total of $1 million is budgeted for the five foundations to procure electronic equipment. The procurement will be carried out by each foundation in accordance with the phased opening of each office. A USAID funded Technical Assistance (TA) team will assist the foundations in identifying specific materials and equipment and specify the steps of the procurement process. The relevant commodity procurements will be electronic office equipment, such as computers, computer software and fax machines.

With the exception of some computer software that might not be available locally, all commodity procurement is planned to be local, off-the-shelf procurement. Local procurement is preferable because of the benefits associated with local warranty and repair contracts. It is expected that items will be grouped in order to negotiate a better price. The value of many of these transactions will exceed the $5,000 per transaction limitation for local procurement and will probably have an average value of approximately $13,000.

Justification for the Waiver

The most difficult problem for the foundations is to import equipment into Egypt. The foundations are private sector non-profit organizations with no Government of Egypt (GOE) sponsoring agency. Obtaining custom clearances for U.S. commodities (such as computers) without the benefit of a GOE sponsoring agency would be extremely difficult, if not impossible, resulting in a critical breakdown in project implementation. In addition, obtaining local warranties, repair contracts and replacing computer hardware components would be problematic and could further disrupt project operations. Under these conditions only one alternative is feasible and therefore critical to the success of project objectives, a Mission waiver.

Authority

Under Handbook 11 Chapter 3 Section 2.6.1.3 c. (3); Delegation of Authority No. 653 and Mission Order 5-4, your approval is required to waive source and origin for procurements of over $50,000 in value from non-approved sources and origins.

Recommendation

For the above reasons, we conclude that exclusion of procurement from Free World countries, other than the cooperating country and countries included in Code 941, would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program. It is recommended that you waive source and origin requirements for the above mentioned purchases, not to exceed $1,000,000.

Approved: _____

Disapproved: _____

Date: 8/5/92

Clearances

A/OD/PDS/PS:MJune
A/AD/PDS:RJordan
A/AD/LEG:VMoore (draft)
DIR/CS:FWill 4/12/92
A/DD:CCrowley

Info: FM/FO:HShawky

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

FIRST AMENDMENT TO PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Small and Micro Enterprise Development

Number of Project: 263-0212

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, the Small and Micro Enterprise Development Project was originally authorized on September 26, 1988. The authorization is hereby further amended as follows:

Paragraph 1 is amended by deleting "Twenty Million United States Dollars ($20,000,000)" and by substituting "Forty-Four Million United States Dollars ($44,000,000)" therefor; and by deleting "over a five year period" and by substituting "over a nine year period" therefor.

Paragraph 2 is amended by deleting the first sentence thereof and substituting the following sentence therefor: "The Project consists of capital and technical assistance to establish and capitalize up to seven (7) independent and ultimately self-sustaining non-profit Foundations to serve as financial intermediaries in the creation of a viable credit delivery system for Small and Micro Enterprises."

Paragraph 5 is added to read as follows:
Based on the waiver obtained in the Project Paper Amendment, dated the same date as this Authorization Amendment, up to the local currency equivalent of $1,000,000 in electronic and computer equipment may be purchased locally in Egypt, and be of Egyptian and/or Free World source and origin.

2. The authorization cited above remains in force except as hereby amended.

Henry H. Bassford
Director, USAID/Egypt

8/5/92
Date

Clearances:

TI/FI, RKirk
TI/FI, MKhalil
OD/TI/FI, LBrown
AD/TI, PDelBosque
A/AD/PDS, RJordan
AD/FM, DFranklin
PDS/PS, ERauch
~~A/DD, CCrowley~~

DRAFTED:LEG:VMoore:(7/2/92):auth212