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A.I.D. PROJECT NO. 388-0082
WOMEN'S ENTERPRISE DEVELOPMENT PROJECT

PROJECT
GRANT AGREEMENT
BETWEEN
THE PEOPLE'S REPUBLIC OF BANGLADESH
and the
UNITED STATES OF AMERICA
for the
WOMEN'S ENTERPRISE DEVELOPMENT PROJECT

DATED: SEPTEMBER 28, 1992

USAID/DHAKA,
BANGLADESH

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PROJECT GRANT AGREEMENT

Between

The People's Republic of Bangladesh ("Grantee",
"Bangladesh Government" or "BDG")

And

The United States of America, acting through the
Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project will strengthen the capacity of the Women's Enterprise Development Unit (WEDP) of the Bangladesh Small and Cottage Industries Corporation (BSCIC) to increase women's participation in and benefits from viable businesses in the informal sector by operating a credit program for poor rural women. Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement an amount not to exceed One Million Five Hundred Thousand United States Dollars (U.S. \$1,500,000) ("Grant"). The total A.I.D. contribution to the project is expected to be \$4,100,000, subject to the availability of funds and the A.I.D. budget process. The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2. Grantee Resources for the Project.

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner, as agreed upon by the Parties.

(b) Resources provided by the Grantee for the Project will be not less than the equivalent of U.S. \$1,375,000 including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date.

(a) The Project Assistance Completion Date ("PACD") for activities financed under this Grant is August 31, 1997, or such other date as the Parties may agree to in writing. It is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times, reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Condition Precedent to Disbursement

SECTION 4.1. Initial Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) a statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2., and of any additional representatives, together, with a specimen signature of each person specified in such statement;

(b) subsequent to a Financial Management Capability Assessment of BSCIC and WEDP (to be conducted by an auditing firm contracted by A.I.D.), evidence that they have corrected any financial management weaknesses or deficiencies identified by such assessment; and

(c) subsequent to a Host Country Contracting Capability Assessment of BSCIC and WEDP (to be conducted by A.I.D.), evidence that they have corrected any weaknesses identified by such assessment.

SECTION 4.2. Initial Disbursement Other Than For Certain Expenses. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for expenses other than those for (1) technical assistance, (2) training, (3) computers and related equipment and (4) salaries and benefits for the Financial Manager, the Rural Credit Advisor and the second field worker at each field office, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. evidence that the BSCIC has issued a Circular(s) or other documentation:

(a) establishing that the WEDP has exclusive authority to hire, dismiss, suspend, deploy and transfer all project personnel as per existing BDG rules;

(b) establishing that funds granted by A.I.D. under this Project for the WEDP credit fund shall be exclusively and directly administered by the WEDP Unit and that this Unit shall retain all interest recovered; and

(c) authorizing the creation of, and the WEDP Unit's hiring for, the following project-funded positions to be filled through personal service contracts:

- a Financial Manager posted at WEDP Unit Dhaka Headquarters for the life of the project;
- a Rural Credit Advisor posted at WEDP Unit Dhaka Headquarters for three years; and
- a second Field Worker for each existing field office and for each new field office as it is established for the life of the project.

SECTION 4.3. Notification. When A.I.D. has determined that the conditions precedent specified in Sections 4.1 and 4.2 have been met, it will promptly notify the Grantee.

SECTION 4.4. Terminal Dates for Conditions Precedent. If the conditions specified in Sections 4.1 and 4.2 have not been met within six months from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Grant, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to Grantee.

Article 5: Special Covenants

SECTION 5.1. Project Evaluation.

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

- (a) evaluation of progress toward attainment of the objectives of the Project;
- (b) identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (c) assessment of how such information may be used to help overcome such problems; and
- (d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 5.2. Privileges and Immunities of Expatriate Consultants and Staff.

The BDG, including the National Board of Revenue, agrees that the terms of the 1974 Agreement on Economic, Technical and Related Assistance between the Bangladesh and U.S. Governments apply to this Project, and that all expatriate experts, consultants, contractors, and staff employed through or in connection with the Project shall be afforded the privileges, exemptions and immunities of privileged persons of the most privileged category under BDG regulations (currently S.R.O. 88-L/85/906/Cus. and 89-L/85/907/Cus., dated 13 February 1985, as periodically revised, or successor regulations). This provision applies to expatriate staff financed under all project components described in Annex 1, including those hired by governmental and non-governmental implementing organizations referenced therein, or by subgrantees or successor organizations or other nongovernmental organizations approved by BSCIC.

SECTION 5.3. Exemptions for Project Goods.

(a) All commodities, supplies, materials, equipment, vehicles and other goods financed by A.I.D. and imported into Bangladesh for use in this Project, including items imported for activities of the short and long-term technical consultants, shall be exempt from all taxes, customs duties, fees or tariffs (CDST) imposed under the laws of the People's Republic of Bangladesh. To the extent commodities imported for use in the Project and by expatriate personnel under this project are not exempt from CDST, such costs shall be budgeted for and expeditiously paid by the Bangladesh Bank.

(b) The Grantee agrees that, as stated in Section 9 of the 1991-93 Import Policy Order (or successor regulations), right of refusal (ROR) and non-objection certificate (NOC) procedures shall not be applicable to commodities and equipment financed and imported under this Grant for the Project.

SECTION 5.4. Field Offices and Performance Incentive System.

The BDG, including BSCIC, agrees that the WEDP Unit will have exclusive responsibility and authority for (a) opening and closing field offices and (b) designing and implementing a field performance incentive system including, but not limited to, bonuses and other rewards (and/or penalties), and that by no later than March 31, 1993, it will produce evidence satisfactory to A.I.D. that BSCIC has delegated such authorities to the WEDP Unit.

SECTION 5.5. Credit Fund.

The BDG, including BSCIC and Bangladesh Krishi Bank, agrees that A.I.D. funds previously contributed to the credit fund established in Bangladesh Krishi Bank under the two predecessor projects (Women's Entrepreneurship Development Program component of the Rural Industries I Project (388-0042) and the Limited Scope Grant Agreement for Women's Enterprise Development (499-0000)), will be transferred as soon as possible to the Project credit fund for administration by the WEDP Unit.

Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to services their nationality, in the United States or in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with

respect to marine insurance. Ocean transportation costs will be financed under the Grant only on vessels under flag registry of the United States or Bangladesh, except as A.I.D. may otherwise agree in writing.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Bangladesh ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

Article 7: Disbursements

SECTION 7.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of Conditions Precedent, the Grantee may obtain disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for A.I.D. to procure commodities or services in the Grantee's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods and services.

(b) Banking charges incurred by the Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

SECTION 7.2. Disbursement for Local Currency Costs.

(a) After satisfaction of Conditions Precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained by acquisition by A.I.D. with U.S. dollars by purchase, or from local currency already owned by the U.S. Government. The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into Bangladesh by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that funds may be converted into currency of Bangladesh at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Bangladesh.

Article 8: Miscellaneous

SECTION 8.1. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following addresses:

To the Grantee:

Mail Address	- Secretary Economic Relations Division Ministry of Finance Sher-e-Bangla Nagar Dhaka, Bangladesh
	- Chairman BSCIC 137-138 Motijheel C/A Dhaka 1000, Bangladesh

Alternate Addresses for:

Cables	- SETU, DHAKA, BANGLADESH
Telex	- 642226 SETU BJ
Telefax	- 880-2-813088

To the Agency for International Development:

Mail Address	- U.S.A.I.D. Mission/Bangladesh G.P.O. Box No. 2593 Dhaka, Bangladesh.
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Alternate Addresses for:

Cables - USAID, DHAKA, BANGLADESH.
 Telex - 642319 AEDKA BJ
 Telefax - 880-2-883648

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the Office of Secretary, Additional Secretary or Joint Secretary of the Economic Relations Division, Ministry of Finance, and A.I.D. will be represented by the individual holding or acting in the Office of Director, U.S.A.I.D./Bangladesh, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description of the project in Annex 1.

The Chairman of BSCIC is designated as an additional representative of the Grantee under this Agreement and may, by written notice, designate other such additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the People's Republic of Bangladesh and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year last written below.

FOR THE PEOPLE'S REPUBLIC OF
BANGLADESH

BY:



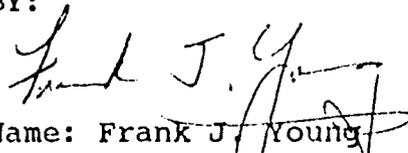
Name: Iqbal Uddin Ahmed Chowdhury

Title: Deputy Secretary
Economic Relations Division
Ministry of Finance

Date: September 28, 1992

FOR THE UNITED STATES OF
AMERICA

BY:



Name: Frank J. Young

Title: Acting Mission Director
USAID/Dhaka
Bangladesh

Date: September 28, 1992

Women's Enterprise Development Project
USAID Project No. 388-0082

AMPLIFIED PROJECT DESCRIPTION
Annex 1

I. Introduction:

The Women's Enterprise Development Project (WEDP) is designed to support and expand upon the progress that the Government of the People's Republic of Bangladesh (BDG) has achieved in promoting development of the country's private sector, particularly the growth of microenterprises. This amplified project description summarizes key elements of the USAID Project Paper (PP); it may be changed by Project Implementation Letters (PILs) signed by the authorized representatives of the parties named in the Project Agreement without formal amendment of the Agreement, provided that such changes are within the general scope of the project as set forth in Article II of the Agreement.

II. Project Rationale:

The WEDP supports one of the central themes of the BDG Fourth Five Year Plan (1990-1995) -- "poverty alleviation through employment generation and human resource development" and the BDG's emphasis on increasing women's participation in "such areas as the generation of employment, income, savings and investment at the local level."

Agriculture can currently utilize only about a quarter to a third of the approximately 1.2 million new workers (about half of whom are women) entering the labor force each year. The remaining new workers have to find non-farm employment or self-employment, mainly in the informal sector. Poor women have an especially urgent need for cash income in light of increasing landlessness, incidence of female-headed households, and male migration to urban areas. Among these women, a limited capital base forms a major barrier restricting entry into, or expansion of, non-farm microenterprises. The problem this project addresses is the paucity of remunerative, productive opportunities for economic participation by poor, rural Bangladeshi women. To overcome some of the financial constraints they face when self-employed, the WEDP will lend them small amounts of money to facilitate their economic participation and increase their productivity.

III. Project Goal and Purpose:

The goal to which this project contributes is stimulating expanded agricultural and non-agricultural informal sector activities. The purpose of the project is to increase women's participation in and benefits from viable businesses in the informal sector.

IV. Results at the End of the Project:

At the end of the project, the Implementing Unit will be able to sustain the benefits of this project's lending program for poor rural women. The financial soundness, prudent portfolio management, and institutional effectiveness it will have achieved will make it a likely candidate for obtaining credit funds at concessional or wholesale rates

from donor- and BDG-financed microenterprise lending programs and from commercial sources. It will have developed its medium-to-long term programmatic agenda and decided on a short-to-medium term action plan and an institutional context best suited to implementing it.

During the project, at least 30,000 loans will have been disbursed. By the fifth year, at least 15 percent of these loans will be in the 10,000 to 60,000 range. Several factors will have decreased the per-taka and per-borrower lending costs and increased the activity's income and profitability. Interest earnings will constitute a continually larger portion of the costs of administering and maintaining the credit fund, auguring well for the day when earnings will be used to pay for these costs. There will be a steady rise in the number and size of loans disbursed (to which an increased interest rate may contribute). Also, improvements in identifying reliable borrowers will keep the percentage of loans recovered above the average of comparable programs.

This improved performance will be directly attributable to the WEDP Unit's trained personnel administering credit through a field-tested credit management system designed for the program. In field offices operating at least two and a half years with this tailor-made management system, at least 325 loans will have been disbursed in the previous 12 months, the loan recovery rate will be at least 90 percent, interest earnings will be able to pay at least 15 percent of the field office's expenses of operating and maintaining the credit fund, and the cost of lending one taka will not exceed 85 paisa.

Project borrowers (and any labor they hire) will have increased incomes and assets and, therefore, the capacity to themselves improve their quality of life. Likewise, the growth-oriented firms assisted by this project's loans will show increased viability in terms of productivity, profitability, and assets.

V. Project Description and Implementation:

For purposes of the discussion in this Amplified Project Description, "subsistence industries" are defined as traditional, household-based firms which generate revenue for the owner and her family. They proliferate in the survival economy and are undertaken by the poor to meet subsistence needs. Under the project, these firms will benefit from "anti-poverty" or "subsistence" loans, i.e., those under 10,000 taka (about \$300).

These firms are to be distinguished from "growth-oriented firms," also referred to in this document as "microenterprises." These firms are defined as businesses with productive potential and modest employment generation capability which have progressed beyond the "subsistence enterprise" stage. These firms often provide upward mobility for those who participate in them. These firms will be project clients for "growth-facilitating" loans, which in this document, are also called "microenterprise" loans. These are loans from 10,000 to 60,000 taka (about \$300 to \$1,500).

The project will achieve the above-stated purpose by undertaking three interrelated components.

A. Sustainability Component

The Sustainability Component's interventions are directed to improving the managerial capability and financial soundness of the Women's Entrepreneurship Development Program Unit (WEDP Unit) of the Bangladesh Small and Cottage Industries Corporation (BSCIC). They seek sustainability of project benefits and progress toward, but not achievement of, financial self-sufficiency of the Unit.

1. Personnel

The project will assure adequate authorized staff positions at headquarters (a Financial Manager and a Rural Credit Advisor) and in the field (a second Field Worker at each field office). The Unit will have the authority to hire, dismiss, suspend, deploy, and transfer project personnel and to design and implement a field performance incentive system including, but not limited to, bonuses and other rewards (and/or penalties).

2. Direct Credit Administration by WEDP

The WEDP Unit will have the exclusive responsibility and authority for administering the credit fund capitalized under this project. It will maintain the master credit fund account in whichever Dhaka commercial bank negotiates the most favorable terms, taking into account the soundness of the bank. Likewise, field offices will choose sound banks in their locales best suited for maintaining their accounts.

3. Improved Credit Fund Management

The Unit will administer the credit fund using an improved management system designed for the Unit by an expatriate Credit Methodologies Specialist and an expatriate Management Information Systems Specialist working with the Financial Manager, the Rural Credit Advisor, and other Unit officers. This new system will:

- * streamline loan appraisal, approval, and disbursement;
- * collect personal, household, and entrepreneurial baseline data on borrowers (including qualitative data on borrowers' decision-making roles) as part of the loan application form. This data will be used to assess developmental impact and direct borrower selection to enhancing sustainability -- both of the loan program as a whole and of the individual borrower enterprises;
- * establish clearly that all poor women engaged in any kind of legitimate enterprise who meet borrower selection criteria should be solicited as borrowers;
- * abolish the limitation of three loans per borrower;
- * establish a simple loan approval process for 10,000 - 60,000 taka loans (from just under \$300 to about \$1,500) which will assure commercial prudence by using inventory as collateral;
- * increase maximum loan size from 30,000 to 60,000 taka;
- * introduce computerized loan classification and aging and a management information system for informed, proactive portfolio management, and systematized writing off of bad loans;

- * initiate regular cash flow projections for timely, adequate cash transfers to the field offices to avoid liquidity deficiencies; and,
- * track interest earnings at the field office level so that each office knows the proportion of its expenses related to operating and maintaining the loan fund (i.e., not borrower-related training expenses) it could pay were it not receiving donor financing.

Once the credit management system has been designed, technical assistance personnel will train senior WEDP Unit staff in its operation and the trained staff will instruct their colleagues. Senior WEDP officers will conduct field-based refresher training. Field workers will receive special training in borrower assistance and loan monitoring. The new system will be introduced gradually as personnel are trained and as it is fine-tuned in response to problems encountered early in its implementation.

4. Interest Rate

If the above-discussed interventions are successful, lending volume per field office and cost-effectiveness should increase significantly. However, these increases can be undercut by an interest rate set lower than the cost of lending. The real cost of lending under this project's predecessor project, WED-1 (USAID project 388-0042), has been estimated at 22 percent. The WEDP Unit will make every effort to establish its interest rate in line with the cost of lending.

5. Accounting

In assuming its responsibility for administering credit under this project, the Unit also will introduce a new, computerized accounting system designed for it. The Unit will engage a project-funded local accounting firm with computer programming skills to formulate its accounting system and undertake introductory training for headquarters and field personnel. This firm will coordinate with the group which develops the credit management system to assure that that system and the accounting system complement each other.

6. Planning for Benefit Sustainability

To sustain the benefits of this project's activities, the WEDP Unit must have the latitude to develop a programmatic vision for the future and an institutional posture suitable for carrying it out. In this respect, it must independently identify and establish priorities among the groups it wants to help and the benefits it wishes to yield. It then must search for the most appropriate institutional modality to carry out its policies and objectives and in doing so it must consider a wide range of options. Once it has decided these matters, it must develop marketing and fund-raising capabilities so that it can solicit operational financing and obtain credit funds at wholesale and concessional rates from a variety of sources.

To assist in this process, the Unit will convene a Committee on Future Directions no later than the first quarter of the third year. The Committee will consist of about five people from varied backgrounds: government, private sector, NGOs, and entities which first operated in the public sector but later became, or are thinking of becoming, private (e.g., the Social Marketing Corporation). The expatriate consultants assisting the Unit during the project will facilitate the work of this Committee and serve as a resource to strengthen the Unit's public relations skills. By the middle of the fourth year at the latest, the WEDP Unit should have a policy statement clearly articulating prioritized policy goals and operational objectives and an Action Plan for institutional development (possibly incorporating privatization) geared to their accomplishment.

7. Inputs

Significant A.I.D project-financed inputs under this component are:

- * a total of eighteen person-months of short-term services of an expatriate Credit Methodologies Specialist and an expatriate Management Information Systems Specialist;
- * project funded Personal Services Contracts of the Financial Manager, Rural Credit Advisor, and Second Field Worker;
- * funding for local accounting firm services;
- * in-country training of WEDP staff in the new credit management and accounting systems and in computerized operations;
- * three computers and associated equipment and software for WEDP headquarters;
- * third country training;
- * an overhead projector; and,
- * any travel and per diem which might be incurred by the Committee on Future Directions.

B. Credit Component

The Credit Component provides credit funds for, and finances much of the operational cost of, the project's rural lending program.

1. Credit Fund Capitalization

a. A.I.D. Contribution

As discussed more fully in Section IV.B of the Project Paper, the project will employ a "Performance-Based Disbursement" system for making disbursements to the WEDP Credit Fund. Under this system, USAID will disburse its contributions to the credit fund upon the Unit's satisfying various conditions. It is anticipated that A.I.D.'s contributions to the credit fund (in addition to the BDG's \$350,000 contribution thereto) will be made in five conditioned tranches totalling \$1.385 million over the five year life of the project and that disbursements for each tranche will be made in intervals of approximately 90 days. The conditions will be directed to enhancing the lending program's financial viability and benefit sustainability. While the conditions of each tranche will be developed and agreed upon

in PILs as the project progresses, some of the important conditions that will undoubtedly be included are the following:

- * appropriately-staffed field offices from the beginning of the project. Ordinarily, "appropriately-staffed" will be synonymous with "fully-staffed", i.e., with at least the following full-time personnel:

- one Extension Officer-in-Charge;
- two Assistant Extension Officers;
- two Field Workers (one BDG staff and one on a contract basis);
- one Accountant-Cashier;
- one clerk-typist;
- one driver; and,
- one attendant.

In instances of closing field offices, or of just opening a field office, "appropriate" staffing may fall short of this level. Conversely, in extremely busy field offices, the "full" staffing described above may be inadequate and additional personnel may be appropriate. The WEDP Unit and USAID will agree on the "appropriate" staffing level for each office.

- * Financial Manager and Rural Credit Advisor working at headquarters;
- * USAID-approved accounting system operational at headquarters and all field offices;
- * increasing number of field offices implementing new credit management system;
- * progressive increase in average number of loans disbursed per field office in prior 12 months;
- * progressive increase in 10,000 to 60,000 taka loans;
- * repayment rate of 90 percent for WEDP-administered credit;
- * USAID-approved 12 month credit demand projects for WEDP-administered credit; and,
- * USAID-approved WEDP Policy Statement, assessment of future organizational options, and Action Plan for benefit sustainability;

b. BDG Contribution

The new WEDP credit fund money will be supplemented by that portion of the WED-1 credit fund granted by A.I.D. Under WED-1, the BDG matched A.I.D.-granted credit funds at a 2:1 ratio through the BKB. During WED-1, the BKB and BSCIC agreed that these funds (and their interest proceeds) would be disposed of by mutual agreement when WED-1 ended.

The Financial Manager and Rural Credit Advisor -- assisted by the same expatriate and local short-term technical assistance personnel who will develop the credit management and accounting systems -- will work with BSCIC, the WEDP Unit, and the BKB to determine the exact amount attributable to A.I.D grant contributions and reach an equitable agreement as to its orderly transfer to WEDP-administered accounts.

2. Field Office Expansion

The Credit Component also finances geographic expansion of the WEDP activity. Four new field offices are contemplated for very early in the project to pilot WEDP's direct credit administration using the improved management system. After that, the rate and ultimate extent of field office expansion will depend on how soon and how well the operational and managerial initiatives of the Sustainability Component are implemented. At the end of the project, there will be between 30 and 40 field offices, which means addition of between 10 and 20 offices.

The WEDP Unit will have exclusive responsibility and authority for opening and closing field offices to assure that the rate of expansion is financially prudent and that the project continues field operations only when they are economically viable. The technical assistance personnel mentioned above will work with Unit officers to develop criteria and procedures for both the rate of field office expansion and new office site selection. The latter will take into account such factors as: the number of other credit institutions at the location to meet demand for credit among the target population; profitability of markets already entered by the target group and the presence of profitable markets which might be entered by the target group; and, the existence and compatibility of other development activities in the area with which field office staff could coordinate for synergistic effect.

This project's position on geographical expansion should be made clear at the outset: fewer, financially and developmentally effective offices are preferable to more, less effective offices which would require retroactive strengthening to warrant their continued operation. Accordingly, if there are no more than 30 field offices at the end of the project, the rate of expansion should not be considered unsatisfactory as long as the average performance of these offices satisfies the targets established for the fifth year and as long as combined performance at the project's end satisfies end-of-project status targets.

3. Inputs

Significant A.I.D. project-financed inputs under this component are:

- * salaries of all WEDP field staff except the senior Extension Officers (who are paid by the BDG);
- * WEDP field office rent, utilities, and phone;
- * vehicles (a van, 4WD utility vehicle, baby taxis, motorcycles, and bicycles);
- * vehicle maintenance and petrol, oil, and lubricants;
- * office furniture;
- * technical assistance for developing expansion/site selection criteria; and,
- * between \$1 million and \$1.385 million in credit funds (depending on loan amounts and disbursement rate) disbursed on satisfaction of performance conditions.

C. Microenterprise Facilitation Component

The Microenterprise Facilitation Component assists the breakthrough of subsistence firms from their survival roots to become more productive growth-oriented microenterprises, and supports their continuous, orderly growth and viability. It also undertakes the identification and nurturing of firms which already are growth-oriented. The component funds the services of an expatriate Subsector Analyst and two Bangladeshi economic analysts to work with senior WEDP officers to develop, field test, and train WEDP staff in ways to increase the proportion of growth-oriented borrowers participating in the project. This group will develop methodologies to assess the size of the potential growth-oriented borrower population in areas served by WEDP field offices and the level of interest in transforming home-based businesses into more growth-oriented enterprises. It will formulate recruitment methodologies to attract managers of growth-oriented firms as project borrowers. It also will develop methodologies to identify subsectors in field office locales with significant unsatisfied market demand which are appropriate for entrance by relatively unsophisticated entrepreneurs with few assets. Finally, the group will design a system for determining appropriate training and other support services for growth-oriented borrowers. The team will draft a Microenterprise Recruitment and Support Needs Assessment and Action plan setting forth its findings, conclusions, recommendations, and methodologies.

After the Assessment and Action Plan have been approved by USAID, the team will train WEDP staff in identifying, soliciting, and assisting growth-oriented microenterprise borrowers and in subsector analysis. Thereafter, field office personnel will solicit women able and willing to borrow 10,000 to 60,000 to enhance the growth and productivity of their enterprises. USAID disbursement to the WEDP credit fund will, in part, depend on field offices' satisfying increasingly ambitious targets for the percentage of loans they make in this range. When the project ends, a minimum of 15 percent of all project loans, or 4,500 loans, should have been within this range.

Significant A.I.D.-funded inputs include:

- * technical assistance to develop methodologies for increasing the proportion of growth-oriented borrowers;
- * per diem for trainers and participants; and,
- * USAID disbursements to the credit fund to the extent they depend on achievement of microenterprise borrower targets.

VI. Implementation Plan:

A. Schedule Highlights

Schedules and time estimates projected in this section are calculated from the day of signing the Project Agreement. The conditions precedent requiring a project-funded Financial Management Assessment of the WEDP Unit and a USAID-conducted Host Country Contracting Capability Assessment should be satisfied by the end of the third month. Satisfying these two conditions will permit disbursements

for procurement of key WEDP staff (most notably the Financial Manager and the Rural Credit Advisor) and of technical assistance, training, and computers beginning in the fourth month.

The WEDP Unit's top priority will be recruiting the Financial Manager and Rural Credit Advisor for services at Dhaka headquarters under project-funded Personal Services Contracts. The Unit also will engage a local accounting firm with computer programming capability and order three computers, two printers, and associated equipment. At the same time, USAID will begin processing documentation to procure two and half months of services from both a Credit Methodologies Specialist and a Management Information Systems Specialist through a centrally-managed "buy-in."

Both WEDP and USAID recruitment should be completed by the end of the ninth month so that initial design and introduction of the WEDP credit management system -- and revision and introduction of a coordinated accounting system -- can be completed no later than the end of the fifteenth month. By this time, personnel in at least four field offices should have been trained to implement the new systems. During this period, this group of consultants, the Financial Manager, Rural Credit Advisor, and senior WEDP officers will also identify the amount of A.I.D.-granted funds in the WED-1 account at the BKB and develop procedures for its orderly transfer to the WEDP credit fund.

Early in the second quarter of the second year USAID will make its first disbursement to the WEDP credit fund (assuming the Unit satisfies the month 15 performance conditions). This disbursement will permit field testing of the new credit management system at the four field offices where personnel had been trained. After about six months (near the end of the second year), the Unit will host a workshop for all WEDP professional staff to discuss field test results, determine what corrective action must be taken, and distribute instructional materials and operational manuals. The Credit Methodologies Specialist and the Management Information Systems Specialist will return to Bangladesh to counsel this workshop and conduct field visits.

After this point, the new credit management and accounting systems will be introduced as fast as possible to the remaining field offices, with systemic refinements undertaken as needed. (The minimum rate of introduction is set forth in the performance conditions for disbursement). The two expatriate consultants will return at the end of the third year to continue refining the credit management system.

Early in the third year, USAID will procure two months each of services from an expatriate Subsector Analyst and two local economic analysts to work with senior WEDP officers in developing the Microenterprise Recruitment and Support Needs Assessment and Action Plan. This group's Action Plan should be available by the beginning of the second quarter of the third year (around month 28) and USAID will approve it no later than the middle of the third year. The team will reconvene in the third quarter of the third year to train WEDP staff in the methodologies it developed and revised in light of its field testing. From this point on, WEDP field staff will be able to identify and solicit growth-oriented microenterprise borrowers, conduct subsector analyses in their respective regions, and provide appropriate support services to these borrowers.

No later than the first quarter of the third year, the Unit Director will convene the Committee on Future Directions to formulate a policy vision for WEDP and to determine the most promising institutional context for pursuing that vision. The Committee will issue a Policy Statement and Action Plan, USAID approval of which is one of the performance conditions for the mid-fourth year's credit fund disbursement.

Other implementation targets, especially concerning credit fund performance, geographic expansion of the project, and introduction of the new credit management system are set forth in the performance disbursement conditions.

The WEDP Unit will submit quarterly reports to USAID. Until the BDG audit agency is approved by RIG/Singapore, USAID will contract for project-funded annual audits with a RIG/Singapore-approved Bangladeshi accounting firm. Thereafter, the BDG audit agency will conduct these annual audits. Two project-funded external evaluations to be contracted for by USAID have been scheduled: the mid-term in the middle of the third year and the final early in the fifth year.

B. Administrative Plan

1. Government of Bangladesh (BDG) Responsibilities

a. Bangladesh Small and Cottage Industries Corporation (BSCIC)

BSCIC will be responsible for satisfying the conditions precedent and covenants concerning WEDP personnel authorities, project-funded positions, WEDP's retention of interest earnings, and the transfer of A.I.D.-granted funds in the WED-1 account to the WEDP account.

b. Women's Entrepreneurship Development Program (WEDP) Unit

In general, the Unit will be responsible for hiring, firing, deploying, transferring, and disciplining project personnel and for developing and implementing a personnel incentive system. It will determine the rate of field office expansion, the location of new field offices, and the closure of ineffective field offices.

With particular reference to the implementation schedule, after a USAID assessment determines that the contracting and financial management capabilities of the Unit are adequate, it will hire the Financial Manager and Rural Credit Advisor, engage an accounting firm, and procure project-funded commodities and vehicles. With the Credit Methodologies and Management Information Systems Specialists and with the Subsector Analyst, it will design, introduce, implement, and continue refinement of the new credit management and accounting systems and the Action Plan for increasing growth-oriented microenterprise borrowers. To this end, it will arrange all project-funded training -- both for its staff and for borrowers -- and translate all instructional materials prepared by expatriate consultants into Bangla. The Unit will identify members of, convene, and supervise the timely performance of the Committee on Future Directions so that its Policy Statement and

Action Plan for sustaining the project's benefits in the future are ready on schedule. The Unit also will undertake all the working-level discussions with the BKB regarding transfer of A.I.D.-granted WED-1 funds to WEDP. The Unit will be responsible for reporting to USAID (primarily on a quarterly basis) according to the reporting requirements established by Project Implementation Letter. It also will submit evidence of having satisfied the conditions upon which credit fund disbursements will depend according to the Performance Disbursement Plan.

2. A.I.D. Responsibilities

a. USAID/Bangladesh

USAID will prepare the Scope of Work for and coordinate the activities of the accounting firm which will perform the Financial Management Assessment at the beginning of the project. To the extent that local accounting firms perform annual project audits (as opposed to the BDG audit agency), USAID will play a similar role.

USAID's other implementation responsibilities will include performing the Host Country Contracting Capability Assessment, ascertaining that conditions precedent and performance disbursement conditions have been satisfied, processing disbursements, preparing procurement documentation for expatriate technical assistance and evaluation personnel, supervising the work of these personnel and assuring the adequacy of their performance, reviewing WEDP quarterly reports and evaluations and facilitating appropriate follow-through, and monitoring project financial statements.

b. AID/Washington

The office of FA/OP will coordinate with the Mission in procuring expatriate technical assistance through a centrally-managed project, such as Gender in Economic and Social Systems (GENESYS) or Growth and Equity through Microenterprise Investments and Institutions (GEMINI).

3. Technical Assistance Responsibilities

The project contemplates 18 months of expatriate technical assistance personnel. The Credit Methodologies Specialist and the Management Systems Information Specialist will have primary responsibility for the development, initial introduction, and subsequent refinement of the new credit management system. They will work closely with the Financial Manager and Rural Credit Advisor from the beginning so that the latter are completely familiar with the new system and able to instruct field personnel in Bangla. They will develop instructional materials for translation into Bangla.

A Subsector Analyst and two Bangladeshi economic analysts will form a team with senior WEDP officers (including the Financial Manager and the Rural Credit Advisor) to develop, field test, and train WEDP staff in ways to increase the proportion of growth-oriented borrowers. The consultants will be primarily responsible for drafting the Microenterprise Recruitment and Support Needs Assessment and Action

Plan and will also be responsible for preparing all the English language materials for and guiding the Microenterprise Workshop which will be conducted in Bangla for WEDP headquarters and field staff. This workshop will be an implementation course on the Microenterprise Needs Assessment and Action Plan. The workshop will instruct field office personnel in subsector analysis and growth-oriented microenterprise borrower recruitment and follow-up support.

A local accounting firm with computer programming capability will develop and train WEDP personnel in the use of a new WEDP computerized accounting system -- both for operations and for loans. This firm will be working at the same time as the Credit Methodologies Specialist and the Management Information Systems Specialist. These consultants, along with the Financial Manager and the Rural Credit Advisor, will assure that the credit management and the accounting systems are complementary and consistent with the objective of making project operations as cost-effective and businesslike as possible.

VII. Reporting:

A. Management Information System

A management information system will be a key ingredient of the new WEDP credit management system and project reporting system. The management information system will be tailored to project management and monitoring requirements and will set forth the kinds of information field offices and headquarters should collect, the ways in which it will be analyzed, the parties to whom it should be distributed, and the follow-through reporting required.

B. Quarterly Reports

Each calendar quarter the WEDP Unit will synthesize information submitted to headquarters by field offices and submit it to USAID. The first and third reports of each year will be amplified by a semi-annual supplement.

Quarterly reports will include, at a minimum:

- * number and location of new field offices;
- * appropriate staffing level of each field office and of headquarters, indicating vacant positions;
- * number of field offices directly managing credit, indicating whether old or new;
- * portfolio reports by field office on:
 - number and amount of loans disbursed;
 - amount of principal and interest received;
 - amount past due, by age of loan and reason for nonpayment (required after the first year); and,
 - amount written off and reason not paid (required after the first year);

- * disaggregation of loans by: amount; terms; type (working or capital); and, nature of borrower enterprise (gross and net receipts, subsector, profitability, years in business, loan history, paid employees, unpaid employees, e.g., family members);
- * report on beneficiaries borrowing 10,000 - 60,000 taka, indicating purpose of the loan, borrower's subsector, loan history, training and support needs of the borrower, and whether borrower had received any support services and, if so, their impact;
- * per-taka and per-borrower lending costs by field office and for the project as a whole;
- * WEDP balance sheet and income statement for the last month of the quarter and for year-to-date;
- * percent of operating costs each field office could pay from its interest earnings during the quarter;
- * status of transfer of WED-1 funds from BKB to WEDP;
- * status of procurement requests;
- * special implementation problems incurred during the quarter (e.g., special BDG interest forgiveness campaigns, disasters, too much demand for staff to service, too little demand);
- * description of each staff training session or workshop, identifying content and participants, and indicating any refresher training contemplated;
- * description of each borrower training session or workshop, identifying content and participants, and indicating any refresher training contemplated;
- * accounting of project expenditures for the reporting period and total expenditures to date by line item per Project Agreement and funding PIL(s);
- * accounting of accruals for the reporting period and for new expenditures projected for the next quarter by line item per Project Agreement; and,
- * updated credit demand projection for the next 12 months for WEDP-administered credit -- by field office and for the project as a whole.

C. Semi-Annual Supplements

Semi-annual supplements will contain, at a minimum:

- * status of host country contribution to the project, both cash and in-kind, in a format to be prescribed by USAID;
- * status of computerization of headquarters financial management;

- * status of formation and progress of the Committee on Future Directions;
- * report on subsector analyses conducted during the prior six months and on those contemplated for the next six months;

VIII. Evaluation and Audit:

A. Baseline Data

The Management Information Systems Specialist and the Credit Methodologies Specialist will assist the Unit in developing and implementing a baseline information collection and analysis effort. They will also develop a plan to collect analogous information prior to planned project evaluations so that quantitative and qualitative changes in the beneficiaries' well-being and the viability of their enterprises can be determined. Loan application forms will be an important tool of baseline information collection. These forms will record the following borrower information: name, address, age, occupational history, literacy level, household position (e.g., female-headed), decision-making role in the family/business/community, prior business ownership and/or management experience, and household income and assets. Information on husbands and children also will be collected, e.g., age, literacy level, and occupation.

There will be two external evaluations: the mid-term in the middle of the third year and the final early in the fifth year. USAID will procure the evaluation services.

B. Mid-Term Evaluation

The mid-term evaluation will assess:

- * the extent to which quantified benefits have been produced by the project compared to project costs to date;
- * the degree to which inputs have been provided efficiently;
- * the degree to which outputs are being produced on schedule;
- * the extent to which progress is being made toward realization of purpose-level indicators at an acceptable rate;
- * the appropriateness of performance-based disbursement to this project's implementation success and for USAID's and WEDP's workload;
- * the extent to which transfer of A.I.D.-granted WED-1 credit funds are being transferred satisfactorily from the BKB to WEDP;
- * the degree to which personnel and operational authorities delegated to the Unit in response to conditions precedent are being implemented in practice;
- * the degree to which outputs have been and are likely to be realized on schedule;
- * the appropriateness of technical assistance personnel;
- * the appropriateness of the Financial Manager and Rural Credit Advisor;
- * the extent to which key headquarters and field personnel are qualified for their jobs and performing satisfactorily;
- * the validity of then-current determinations of the "appropriate" staffing level of each field office;

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- * the appropriateness of the credit management and computerized accounting systems for project needs and the success with which they are being introduced and implemented;
- * the degree to which sufficient quality and quantity of information is being collected, managed, and analyzed to enable measurement of project progress and identification of problems;
- * the adequacy of baseline information;
- * the validity of the project's emphasis on increasing the proportion of growth-oriented borrowers;
- * the appropriateness of the Microenterprise Recruitment and Support Needs Assessment and Action Plan;
- * the adequacy of the rate at which the number of field offices have been added;
- * the adequacy of field office performance in terms of number of borrowers, number of loans, size of loans; and per-taka and per-borrower lending costs;
- * the validity of expecting field offices to be able to pay an increasing share of their operating expenses from interest earnings;
- * the quality of WEDP's outstanding portfolio;
- * the validity of expecting the Unit to be able to develop and implement a plan to sustain this project's benefit flow to the target population;
- * the continuing validity of the project purpose and end-of-project status indicators in light of project experience to date;
- * the degree to which the context in which the Unit exists impedes the Unit's project implementation; and,
- * the need for any mid-course corrections.

C. Final Evaluation

The final evaluation will focus on realization of the project purpose and assess:

- * realization of quantified (and nonquantifiable) results accruing from expenditure of project resources, including but not limited to, realization of end-of-project status indicators;
- * the adequacy of baseline information;
- * the probable sustainability of project benefits and ways to enhance sustainability;
- * the likelihood that the implementing Unit will be able to move acceptably quickly toward financial self-sufficiency, with recommendations as to how to accelerate this process;
- * the continuing validity of seeking out growth-oriented microenterprise clients;
- * the usefulness of subsector analysis in increasing the proportion of growth-oriented microenterprise borrowers;
- * the success with which field offices implemented the Microenterprise Recruitment and Support Needs Assessment and Action Plan;
- * the appropriateness of the current geographic reach of project activities;
- * retrospectively and prospectively (via recommendations for the future), the appropriateness of the number and professional mix of project personnel; and,

- * the appropriateness of the division of managerial authorities between WEDP headquarters and field offices, and recommendations for modification, if any.

D. Audits

Until the BDG audit agency is approved by RIG/Singapore, USAID will contract for project-funded annual audits with a RIG/Singapore-approved Bangladeshi accounting firm. Thereafter, the BDG audit agency will conduct these audits.

IX. Financial Plan:

The estimated life-of-project is five years, with total funding contributed by all parties projected at approximately \$5.475 million. All funding from all sources will be grant funds. The minimum BDG contribution will be about \$1.375 million (equivalent of Taka 53.5 million at the current exchange rate of 38.909). The BDG contribution is composed of:

Operational Expenses

headquarters staff salaries, salaries of the senior Extension Officer at each field office, part of the field office rent and utilities, vehicle operation, and expendable supplies;

Commodities

primarily office furniture and simple office equipment;

Credit Fund

Capitalization

may be made by transferring the A.I.D.-granted part of the WED-1 credit fund to the WEDP credit fund and, if there is a shortfall, from other sources; and,

Studies

as appropriate.

Planned project obligations are shown in the following Illustrative Financial Plan. Changes may be made to the plan by Project Implementation Letters signed by authorized representatives of the BDG and USAID named in the text of this Agreement, without formal amendment of the Agreement, provided such changes do not cause the A.I.D. contribution to exceed the total amount set forth in Section 3.1 of the Agreement or the BDG's contribution to be less than the amount set forth in Section 3.2 of the Agreement.

Table I : Summary of Project Costs by Expense Category and Source of Financing (US \$ 000)

<u>EXPENSE CATEGORY</u>	<u>USAID</u>		<u>USAID TOTAL</u>	<u>BDG LC</u>	<u>PROJECT TOTAL</u>
	<u>FX</u>	<u>LC</u>			
Operational Expenses	-	1,250	1,250	1,000	2,250
Commodities	-	310	310	20	330
Training	290	25	315	-	315
Technical Assistance	450	-	450	-	450
Credit	-	1,385	1,385	350	1,735
Studies/Audit/Evaluations	350	40	390	5	395
TOTAL:	1,090	3,010	4,100	1,375	5,475

SUMMARY OF 1992 A.I.D. OBLIGATIONS (US \$000)

	<u>AMOUNT</u>
Operational Expenses	300
Commodities	150
Training	150
Technical Assistance	350
Credit	400
Studies/Audit/Evaluations	150
<u>TOTAL</u>	<u>1,500</u>