TABLE OF CONTENTS
Small Enterprise Credit Project
Amendment No.1

SMALL ENTERPRISE CREDIT PROJECT
263-0228

I. EXECUTIVE SUMMARY

The Small Enterprise Credit Project (SECP) was authorized on April 1991 at a total funding level of $16 million, consisting of $9 million in grant funds and the equivalent of $7 million in Host Country owned local currency from the Special Account. The Project Assistance Completion Date (PACD) is September 1995. Project activities are located in Cairo.

This Project Amendment proposes to add $16 million in grant funds and extend the PACD by twenty five months to finance additional SECP activities in Upper Egypt. If approved, this Amendment will bring the total SECP funding to $38 million, which includes $25 million in USAID grant funds, local currency equivalent of $7 million from the Special Account and $6 million of NBD funding. The new proposed PACD is October 1997.

The implementing agency, the National Bank for Development, contributed an equivalent of $3 million for loan capital under the original project agreement, and will make an additional $3 million equivalent for loan capital under this amendment bringing the total NBD's contribution for the life of the project to $6 million.

II. BACKGROUND

The vital role of the small and micro enterprise (SME) sector in the Egyptian economy is linked to the income generating capacity and employment it provides. The SME sector is currently the primary generator of employment in Egypt. At least, 1,000,000 informal and formal SMEs exist throughout Egypt employing and providing income for the majority of the working population.[1] Specifically, the SME sector employs approximately two thirds of Egypt's economically active population, with the public sector absorbing 25 percent of Egypt's workers, leaving approximately 9 percent of the labor force working in other private sector companies[2]. Global experience with SME supported projects (both USAID and World Bank) has shown that SMEs are labor intensive, that they employ the majority of developing countries' labor, and that SMEs generate new employment faster per unit of investment than larger firms.

---

[1] Data obtained from CAPMAS, American University of Cairo (AUC), the Ministry of Local Government Services, and World Bank.

[2] Information obtained from World Bank, Cairo Office, April, 1994.

However, the SME sector faces numerous constraints to its growth, including inadequate sources of financing. While there are other constraints (such as marketing deficiencies, managerial inexperience, the lack of financial management skills, restrictive government laws and regulations, onerous taxation), the lack of access to financing is considered the most crucial problem. Most Egyptian banks have not channelled credit resources into the SME sector.

Most formal financial institutions believe the cost of evaluation, appraisal and follow-up for each SME loan transaction is high compared to the potential earnings on these loans. Furthermore, SMEs cannot offer sizeable guarantees or collateral. Preference for lending larger amounts of money to a smaller number of larger borrowers reflects the continued perception that SME borrowers present higher risk.

Yet, small and micro entrepreneurs, those having fixed assets of less than LE 25,000, excluding land and buildings, and less than six employees ("micro") or between six and fifteen employees ("small"), are in fact excellent clients.

USAID/Egypt's experience with small and micro enterprise activities confirms the considerable volume of unmet demand for SME credit at positive market interest rates, profitable lending opportunities, and an SME repayment rate superior to larger firms.

To provide credit to the SME sector in Greater Cairo, the SEC project (263-0228) agreement was signed on September 26, 1991, with a PACD of September 30, 1995, obligating the entire $9 million that was authorized, with an additional $7 million equivalent provided n local currency. The project provides credit through a private sector bank, the National Bank for Development, NBD, to entrepreneurs operating within the metropolitan areas of Cairo, Giza, and Kalubeya Governorate (Greater Cairo). The project currently uses thirteen branch offices of NBD as a home base for up to nine loan officers and support personnel for each branch. Loan officers visit target neighborhoods using mobile branches - on a rotating basis within their respective assignments seeking out potential borrowers, assisting them in calculating their loan requirements, and establishing their eligibility to participate in the program. Loans are primarily used for short term working capital to purchase raw materials and to support the increased output and employment by those firms. Loans are generally extended in the range of LE 250 to LE 5,000 for 4-12 months. NBD began SEC project end-use lending on July 1, 1993.

The performance of the SEC project has been excellent. NBD disbursed 16,000 loans to SMEs valued at LE 33 million with a 1 percent default rate in only 9 months and is ahead of schedule on financial break-even projections. In light of the most recent statistics from CAPMAS that indicates slightly less than 12% of all business owners in Cairo are women, women clients make up a favorable 9.7 percent of all SEC borrowers and about 10 percent of all SEC funds lent. A review of NBD's performance and SEC project achievements are presented in ANNEX H.

III. PROJECT AMENDMENT RATIONALE

Hundreds of thousands of SMEs can be found in Upper Egypt. TI/FI site analysis and experience with the Rural Small Scale Enterprise Pilot Credit activity indicate that there are literally thousands of small and micro businesses in Upper Egypt willing to pay positive market rates of interest for loans. Realizing the potential and importance of balanced economic growth, the SEC project paper supported the plan of extending the program into several Upper Egypt rural governorates, after the Cairo based SEC activities proved successful.

SMEs in Upper Egypt face the same constraints that undermine the expansion of SMEs in lower Egypt. SMEs in Upper Egypt, however, not only suffer from inadequate sources of financing but are also the victims of a general developmental bias that tend to favor major urban areas of Cairo and Alexandria. However, the Government of Egypt (GOE) and some international donors, including USAID, are focused on correcting that imbalance by providing resources for development in Upper Egypt.

While a few international donors, such as the Danish and the Canadians, provide limited assistance to Upper Egypt's vast SME sector, there is no effective mechanism in place to address the unmet demand for formal credit and technical assistance in that region. Accordingly, the intention of this project amendment is to establish the capacity to provide credit assistance to SMEs in Upper Egypt in the quickest, most efficient, and financially self-sustaining way.

The SEC project is implemented by the National Bank for Development (NBD), an established, private sector financial institution, with its headquarters in Cairo and branch offices throughout Egypt, including Upper Egypt. The institutional, administrative and MIS framework for the SEC project was established with the objective of providing for replication to any geographic area in Egypt to eliminate the need to reconstruct the basic organizational structure to accommodate an expansion of the project areas served. Enhancing the capacity of the Upper Egypt branch offices to effectively and efficiently reach out to SMEs would be the only major institutional modification. The same skilled NBD managers of the highly effective Cairo based SEC activity will direct the SEC project activities in Upper Egypt. Thus, the most effective means of providing SME credit to Upper Egypt is through an amendment of the SEC project.

IV. GOE COMMITMENT TO PRIVATE SECTOR DEVELOPMENT

The current GOE Five-Year Development Plan calls for private sector investments to meet the country's economic and social objectives. This SEC project amendment will address three of the four major GOE goals, namely:

* 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.

V. CONFORMITY WITH USAID'S DEVELOPMENT STRATEGY AND OTHER RELATED PROJECTS - The current project, as well as this proposed amendment, are in line with USAID's FY 92-96 Country strategy. The SEC project supports the Mission 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 SME groups are removed. The project is based on the premise that the potential of these groups to contribute to Egypt's economic growth is significant.

In addition to the SEC project, USAID/Cairo finances a second SME project, the Small and Micro Enterprise Development project (SMED). The SMED Project (263-0212) agreement was signed on September 30, 1988, with an authorization of $20 million and a PACD of September 30, 1995. In September 1992 the Mission added $24 million to the project and extended the PACD for two years, to September 30, 1997. Total project funding is $44 million. The SMED project is designed to establish a viable credit delivery system for small and micro enterprises in Egypt using up to seven non-profit foundations as financial intermediaries. Presently this is being accomplished by providing resources for credit and technical assistance to two private foundations that manage the delivery of credit, technical assistance and training to small entrepreneurs in Cairo and Alexandria. Up to five more foundations will be developed over the next few years. A collateral fund in a local commercial bank is established by each Foundation. The banks extend overdraft privileges against the collateral account which is used to make loans to eligible small and micro enterprises. As of May 1994, 26,000 loans were disbursed, in the amount of LE65 Million. Loan repayment rate exceeds 97 percent. The Alexandria foundation is financially self-sufficient, with the Cairo foundation 80% self-sustaining.

To date, the SEC and SMED projects have disbursed 42,000 loans, valued at LE 98 million. However, these project activities currently only include plans to support SME borrowers in Lower Egypt.

VI. PROJECT DESCRIPTION

A. The goal of this project remains the same: To expand the economic output of small entrepreneurs. The target beneficiaries of project are SMEs with less than fifteen employees and less that LE 25,000 in fixed assets, excluding land and buildings, located in the greater Cairo metropolitan area and in Upper Egypt (specifically Assiut, Qena, Sohag, Beni Suif, Aswan, Minia, and Fayoum).

B. The project purpose is the same: Increase small entrepreneurs' access to credit and other banking services.

C. Indications of purpose achievement and end of project status are: Under the original project, approximately 20,000 SMEs will be served with a loan fund portfolio of $20 million. Under this Amendment the project will add approximately 18,000 SMEs clients with an additional loan fund portfolio expected to be valued at $20 million, bringing the total number of SMEs served over the life of the project to approximately 38,000 clients and a total loan fund portfolio of approximately $40 million, including the principal amounts contributed under the project, and reflows occurring during the life-of-project.

D. Project Amendment Content: The project amendment will add $16 million in grant funds, of which approximately $4 million will be used to finance the initial costs of administration, training, technical assistance, and other program support activities. The balance of $12 million will be used to supplement the loan fund within the implementing bank, the National Bank for Development (NBD). In addition, NBD will contribute an additional equivalent of $3 million of its own resources to the loan fund to bring the total contribution for the life of the project to $6 million. The income generated by the program will be used to finance 12 additional vehicles for the 12 branches in Upper Egypt. In addition, the income generated by the program will cover all operating expenses after NBD reaches financial break-even, and the excess will be added to the loan fund.

The SEC project amendment will be implemented by an amendment to the bilateral grant agreement executed by USAID and the Ministry for International Cooperation (MIC), under which MIC will agree that USAID will provide additional grant funds to NBD to cover increased operating expenses and further capitalize the loan fund.

USAID and NBD will amend the "Small Enterprise Loan Fund Agreement" (SELFA) to provide:

- Funds for NBD'S operating and staff training costs under the project;
- Increased capitalization of the loan fund and to set forth understanding on the uses of the loan fund. The agreement will specify arrangements for the fund to be held permanently by NBD, barring the occurrence of an event of default, as is stated in the agreement;
- Use of an additional $12 million in SECP loan funds to be limited to lending for SMEs in Upper Egypt;
- An increase in the NBD contribution in the amount of the local currency equivalent of $3 million to the loan fund, which is also limited to lending for SMEs in Upper Egypt.

E. Project Approach: The SEC project amendment will essentially replicate and expand key elements of the successful mechanisms established under the ongoing SEC Project. The majority of project funding for operational costs will contribute to the expense of strengthening the capacity of NBD's branch offices to deliver and recover short-term credit to SMEs of Upper Egypt. The costs for training, initial operations, basic office and data processing equipment are also included. The project amendment will finance a limited level of technical assistance to NBD in developing and carrying out the Upper Egypt lending activities.

The project will also finance the lending resources, through added capitalization of the loan fund.

USAID support for operating and training costs will cease when the project reaches financial break-even, when USAID source loan capital is in full circulation, or 18 months from the date end-use lending begins, whichever comes first.

Egyptian professionals will be contracted to fill the positions of loan officers, management information system operators, supervisory and support personnel for the branch offices in Upper Egypt. As before, training will be performed by NBD. Nine existing offices of the NBD in Upper Egypt have been identified to accommodate twelve SEC branches, loan officers, and support personnel. Space will be provided by NBD and no new office facilities will be required. The new employees will be assigned to these branches.

The project amendment will operate in the same fashion as the ongoing SEC project activities. Loan officers will visit neighborhoods on a rotating basis within their respective areas.

They will visit specific neighborhoods at least once per week. Actions during the periodic visits will include promotion of the project, client identification, processing of loan applications, borrower follow-up, and delivery and recovery of loan funds and accompanying interest from borrow rs. The loan officers will seek out potential clients, assist them in calculating their loan requirements, and establish their eligibility to participate in the project. Completed loan applications will then be delivered to the branch offices for processing.

Loan officers are trained to assist small entrepreneurs in gaining basic financial skills needed to make cash flow projections. This will enhance borrowers' ability to identify their own loan-requirements and obtain formal financial assistance. Before receiving an approved loan, the borrower must place a minimum of ten percent of the requested loan amount in an NBD interest bearing savings account. Opening a savings account begins the client's education in the process of managing funds and saving. The loan officers will return to successful loan applicants at their place of business to deliver the loan documents and funds. Loans will be in the range of LE 250 to LE 5,000.

A stand alone work station will be installed in each of the branch offices along with a fax machine that allow information from the entire project to be readily available at the central project office of NBD, as well as facilitating information flow back to the branch offices.

The system provides regular reports to project management on loan amounts made and outstanding, delinquencies, borrower gender, savings generated, as well as operational costs and project income (leading to a break-even analysis). Personnel to operate the system will be contracted and trained under the Project.

The SEC amendment is institutionally feasible, based on NBD's demonstrated capacity to implement SME lending activities since 1989.

F. Project Outputs: At the end of life-of-project the following accomplishments are expected:

- NBD will have established an efficient and effective small and micro enterprise lending program in the greater Cairo area and in Upper Egypt which is financially self-sustaining.

- The SEC/SME lending program will be replicable to virtually any geographic area in Egypt.

G. Project Inputs: The following financial table sets forth projected financial inputs for the project. The Amendment will provide additional funding for technical assistance, training of

TOTAL ESTIMATED PROJECT COST

ITEMS	Project AID	Paper GOE*	NBD	This Amend. AID	GOE	NBD	Total - LOP AID	GOE	NBD
Loan Fund	7,000	4,150	3,000	12,000	0	3 000	19,000	4,150	6,000
O.E., T.A., Training	1,500	2,850	0	3,700	0	0	5,200	2,850	0
Eval./Audit	200	0	0	300	0	0	500	0	0
Contingency	300	0	0	0	0	0	300	0	0
TOTAL	9,000	7,000	3,000	16,000	0	3,000	25,000	7,000	6,000

* The Original Project Paper was designed to finance the total project funding of $ 16 million from the Grant Funds. However, the GOE financed the equivalent of $7 million from the Special Account.

AIDGOE.lotus

project personnel, initial salaries of project personnel, required office and data processing equipment, and part of the loan capital to be on-lent under the project. NBD will eventually take over project salaries, expenses for office space and management, and will make an additional equivalent of $3 million available for loan capital for Upper Egypt portfolio. NBD will provide the additional $3 million when the operational break-even occurs as it relates to lending by the additional 12 branches in Upper Egypt, when USAID-sourced loan capital is fully in circulation, or 18 months from the date upon which end-use lending begins, whichever occurs first. This additional $3 million will bring the total NBD contribution during the life of the project to $6 million.

VII. IMPLEMENTATION PLAN

A. Management and Administrative Arrangements

Principal Parties: The following three parties, which are outlined in the original project paper, will be the same parties for implementing the amendment:

1. **The GOE counterpart** for the proposed project amendment will continue to be the Ministry of International Cooperation, Department of Economic Cooperation with the USA (MIC). As with the original PP, USAID will enter into a bilateral Project Agreement with MIC in which the two parties will agree that USAID should undertake the necessary contract and agreement procedures to implement the project. The role of the GOE, in particular the MIC, as outlined in the original PP will still be the same for the Amendment. Among other things, the PROAG will include authority for USAID to extend the NBD agreement and to continue contracting with technical advisors. In addition, MIC will approve, in a timely manner, all other documents as needed.

2. **USAID:** Under the terms of the Project Grant Agreement Amendment, USAID will extend the agreement with NBD and contract with long and short term technical assistance as needed in order to implement the project. TI/FI will continue its role of monitoring all project activities and assist in the periodic evaluations and audits. In addition to the current TI/FI U. S. direct hire and FSN staff, we anticipate that a project funded U.S. PSC will be working closely with NBD, as well as other TI/FI SME activities, providing guidance on planned project activities.

3. **National Bank for Development (NBD):** NBD will have the same responsibilities as indicated in the original PP. The NBD Headquarters office in Cairo continues to be responsible for the overall management of the project.

TA Parties:

1. ACDI: Under the current Cooperative Agreement with ACDI which expires June 1995, ACDI will assist NBD with the SEC expansion in the following ways: a) locate and train SEC officers and support staff, b) collect and analyze financial data on loan projections, prepare operational budgets , and c) assist NBD in the procurement of equipment and vehicles. These tasks will be completed prior to end-use lending in Upper Egypt scheduled to begin in January 1995. Once all the arrangements are set up, operational and end-use lending begins in Upper Egypt it is anticipated that NBD will not require ACDI's technical assistance to disburse and collect loans. By that time, NBD will have had approximately six years of SME lending experience, through the RSSE and SEC projects.

2. Monitoring Assistance: ACDI's current Cooperative Agreement will expire June 1995. To establish the needed independent field monitoring and objective assessment of SEC's financial data and credit delivery system in Upper Egypt, USAID will amend the ongoing NCBA/EQI[3] contract (funded under the SMED project) to provide the needed SEC monitoring services. NCBA is supported by a very strong and experienced Egyptian sub-contractor called Environmental Quality, International (EQI). It has a large number of highly qualified Egyptian SME technical staff and has provided various kinds of technical assistance to SMEs over the years. Since foreigners have been advised against travelling to Upper Egypt, especially Assiut, using NCBA/EQI's highly qualified Egyptian staff to provide field monitoring is the best approach. This assistance is anticipated to start immediately after the expiration of the ACDI Cooperative Agreement in June 1995. A limited number of Egyptian employees from the NCBA/EQI team will serve as on-site field monitors. With analytical support from the Cairo office, field monitors will be responsible for collecting and monitoring information on loans disbursed, number of borrowers, average loan size, delinquency rates, default rates and breakeven analysis of the amended SEC project. Information on these indicators will determine the integrity, effectiveness and efficiency of the financial and credit systems in the additional 12 branches. Use of this monitoring approach will consolidate USAID's monitoring of the SME sector. This approach should also lower the overall cost of technical services for our SME portfolio, allow for more effective coordination among USAID SME projects, more consistent application of SME project

---

[3]USAID has a direct contract with NCBA under the Small and Micro Enterprise Development project. The purpose of the contract is to provide technical assistance to the foundations under the SMED project. The amendment to the contract will include additional services and assistance under the Small Enterprise Credit.

experience, and simplified administrative and contracting arrangements.

B. **Procurement Plan**: The procurement requirements for this amendment are limited to advisory services, office/units equipment and training. The authorized geographic code for the $16 million in additional funds provided by USAID is 000. This PP Amendment includes local procurement of some goods and services through USAID Handbook 1B exceptions. The waiver in Annex J covers those local procurements exceeding the exceptions stated in Handbook 1B, Chapter 18.

Technical Assistance Plan: Under the original PP, technical assistance was obtained through a non-competitive award of a Cooperative Agreement with ACDI. The major objective of ACDI was to develop the NBD capability to extend, supervise, and recover short term credit to small entrepreneurs, with a primary concentration on the areas of metropolitan Cairo. Under this SECP amendment, USAID will amend ACDI's cooperative agreement to increase ACDI's TA support to NBD by continuing to finance the current long-term advisors during the project's expansion into Upper Egypt. ACDI will assist NBD in the training of staff, financial projections, utilization and reporting on initial operational capital to be supplied by USAID. ACDI's assistance will be completed in June 1995.

Long-Term TA

The two current long term ACDI technical advisors will continue to provide assistance to the SEC Cairo based project activity and the SEC extension into Upper Egypt. They will also assist in coordination of the overall NBD activities related to the delivery and recovery of SME credit until the expiration of ACDI's CA in June 1995.

Short-Term TA

Project implementation will also require short term specialists to assist NBD to periodically review the technical performance of the lending mechanism, the MIS and the loan tracking systems and to recommend needed specific technical adjustments. The short-term specialists can be expatriate or Egyptian. The procurement of this short term technical assistance will be carried out locally or through the existing Buy-in mechanisms.

In addition, an independent field monitoring and objective assessment of SEC's credit delivery system in Upper Egypt will be established through the on-going NCBA/EQI contract. The current contract with NCBA/EQI, which is financed under the SMED project, will be modified in order to provide the needed SEC monitoring services.

Commodities Procurement Plan:

Office Equipment: Procurement of up to the local currency equivalent of approximately $300,000 of computer and other office equipment is planned for the expanded portfolio. The commodities procured under the project amendment will furnish 12 SECP branches operating from 9 existing NBD offices in Upper Egypt. The procurement will be carried out by NBD pending a satisfactory review of NBD's procurement practices by USAID. The same items needed to outfit the Cairo unit will also be needed to outfit Upper Egypt units, i.e., office machines, furniture, files, and computers. All of the equipment needed for the additional 12 branches will be purchased during the start-up period, before the proposed end-use lending for each phase of the expanded portfolio.

Local procurement is preferable because of the benefits associated with local warranty and repair contracts and the need for prompt procurement and installation of these goods so that lending can start in January 1995. The justification for a waiver to procure locally (Annex J) is similar to the justification addressed and approved in the original project paper.

Vehicles: Under the original project, the GOE Special Account was used to finance 13 mini-vans and 2 sedans. The purpose of this procurement was to provide transport for loan officers and serve as a mobile bank, collecting and disbursing cash. Twelve vehicles for the Upper Egypt extension will be financed from the revenue generated by NBD under the ongoing SEC lending activities.

Training Plan: Initial basic project training shall be performed for all of the new staff involved in the Upper Egypt program. In addition, credit training in each governorate is planned on a monthly basis. This training will focus on specific problems and experiences encountered in the field, and any administrative or reporting matters, in order to polish the staff's level of expertise. Once the computers are installed in the branches, the NBD computer specialist will train the MIS branch operator in how to use the programs and enter the data. Other specialized training, if recognized and approved as valuable, shall be instituted.

C. Implementation Schedule: Under the original project, ACDI was required to work out a detailed Master Plan of Action and Schedule detailing activities to be undertaken acceptable to NBD and USAID. ACDI was also required to update this Master Plan of Action and Schedule prior to the initiation of activities each year and submit it to USAID for review and approval. Under this Amendment, ACDI will continue to provide USAID with Master Plan and Schedules for the additional 12 branches. In addition, ACDI will be required to assist the NBD in the development of an annual work plan. This annual plan will serve as a monitoring report. This plan will aggregate and analyze administrative information so that USAID can track progress against predetermined activities. ACDI Master Plan should reflect ACDI's approach in assisting NBD to achieve the planned activities of the annual work plan.

An illustrative plan is contained in Annex G Table 6A of this amendment. This plan outlines also a detailed schedule of the steps leading to the commencement of end use lending during the project extension for the additional 12 branches.

D. **Evaluation Schedule**: Under the original project paper, an evaluation is scheduled for February 1995, approximately 18 months after the project commenced on July 1, 1993. This evaluation will focus on the 13 branches of Greater Cairo. Under this Amendment, the following evaluations are planned.

Internal Evaluation: NBD will be charged with conducting annual internal evaluations at the end of each year prior to the preparation of developing annual work plans and master plans. These internal evaluations will focus on activities undertaken, progress achieved toward meeting project goals, and constraints to achieving the planned activities.

Mid-Term Evaluation: In addition to the internal evaluation, a midterm evaluation is planned after the projected breakeven for the Upper Egypt program in June 1996. This evaluation will also review purpose level achievements of the Greater Cairo program.

Final Evaluation: The final evaluation is planned at the end of project in August 1997 before the PACD of the project, to serve as the final evaluation for the whole project. The mid term and final evaluations will be conducted by outside consultant teams under direct USAID contracts. Each evaluation will require approximately 12 person-weeks of services. Together the two evaluations and audits required under the SEC amendment will cost approximately $300,000 and will be financed with project funds. Annex G Table 2 outlines the budget.

E. **Audit Arrangements** Under the original project paper, an audit is scheduled prior to the mid term evaluation of Greater Cairo. This audit will be conducted for financial reports and loan activity. However, since NBD does not have funds to finance this audit, the current NBD agreement with USAID will be modified to add the needed funds to implement this activity.

Under this Amendment, NBD will be expected to conduct an annual audit before February 1995 and subsequent annual audits for the expanded portfolio in Upper Egypt. These audits will be conducted in compliance with generally accepted auditing principles as applied in the U.S. These audits will be carried out under NBD and local USAID approved CPA firms. USAID will approve the scopes of work for these contracts.

VIII. COST ESTIMATES AND FINANCIAL PLA"

The original SEC project paper which was signed in April 1991, justified a LOP Grant amount of $16 million with a four year LOP. However, the Project Authorization was for $9 million because the equivalent of $7 million was financed from the Special Account. This Amendment will add $16 million and twenty five months to the LOP, bringing the totals to $32 million and six year LOP. The $9 million of the original project was fully obligated in September 21, 1993.

The first obligation under the Amendment is expected in September 1994 in the amount of $8 million. The attached annual obligation table shows the annual projected obligations in fiscal years 1994 and 1995. In Addition, Annex G Table 1 shows the allocation of USAID financing for the major budget line items (Bank Capitalization, TA, Operating Expenses, and Audit/Evaluation). Also, Table 1 shows the amounts budgeted in the original PP and the proposed allocation under this project Amendment.

Capitalization of Funds: The requested loan funds will be disbursed through the modification of the agreement signed between USAID and NBD under the original PP. Loan funds will be disbursed quarterly based on NBD's projected loan volume. However, our experience indicates that the volume of loan funds disbursed to NBD does not necessarily grow at a constant rate. USAID's allocation of loan funds to NBD is based on a formula that includes the previous quarter's loan performance, reflows from outstanding loans, as well as NBD's projected requirements. Thus, Annex F represents several possible loan growth projections and loan fund disbursements for the 12 Upper Egypt branches and the projected total fund reflow.

Technical Assistance Projected Funds: NBD will continue to receive long term advisor assistance through the current ACDI Cooperative Agreement until June 1995. In addition, as indicated in Annex G, Table 4, supplementary short term technical assistance is estimated at $250,000.

Operating Expense Funds: As is implemented under the project, funds for initial operating expenses and training will be provided by USAID. A separate bank account is established for NBD within the USAID Project Cash Advance Account managed by the National Investment Bank (NIB). NBD draws on this account for operating and training costs and submits periodically vouchers to USAID for liquidation of advances from the project credit

Small Enterprise Credit Project
Project No. 263–0228
Annual Obligation

ITEMS	PREVIOUS OBLIGATION	AMEND. FY94/95	OBLIG. FY95/96	TOTAL OBLIGATION
Bank Capitalization	$7,000	$5,000	$7,000	$19,000
O.E., T.A., Training	$1,500	$2,850	$850	$5,200
Evaluation/Audit	$200	$150	$150	$500
Contingency	$300	$0	$0	$300
TOTAL	**$9,000**	**$8,000**	**$8,000**	**$25,000**

SECOBL.lotus

account. Operating costs eligible for USAID financing include salaries and benefits for staff, other direct costs (offices supplies etc.), training, and MIS.

USAID support for office equipment, training and MIS will cease when the loan fund is in full circulation, or 18 months from the date end-use lending begins, whichever comes first. Annex G, Table 2 shows the budget summary indicating the operating costs and loan fund cost for each phase of the Upper Egypt program. In addition, Table 2 illustrates the total cost for each major item for the two years of the project extension.

Annex G Table 3A shows the estimated budget for each branch in dollars and the total for the additional 12 branches. This cost includes salaries, office equipment, training, other direct costs and MIS. The total costs for the 12 branches is estimated at 2,638,211.

Annex G Table 5A outlines the additional level of effort for the headquarters; 13 additional staff. This includes 3 managers, 5 supervisors, 5 MIS supervisors. The cost for the additional 13 employees for the headquarters is estimated at $114,045. Table 5A also shows the manpower for each branch.

NBD Contribution: As reflected in Annex G Table 1, NBD will provide at least the equivalent of $3 million for additional capitalization of the loan fund at the point of operational breakeven related to lending by the additional 12 branches in Upper Egypt, when USAID-sourced loan capital, provided for Upper Egypt, is fully in circulation, or 18 months from the date upon which end-use lending begins, whichever comes first. Re-paid loan principal will reflow to the loan fund and interest earnings on SEC loans will be deposited into the loan fund, until such time as NBD makes its equivalent of $3 million contribution. Thereafter, NBD is required to use the interest earned from end-use lending for operational expenses, with any excess earnings being deposited in the loan fund. NBD will also make various in-kind contributions to the project, such as office space, utilities, etc. for the additional 12 branches.

IX. CONDITIONS AND COVENANTS

The Conditions Precedent and Covenants which were included in the Project Grant Agreement will also be applicable to the additional $16 million in grant funds which will be authorized pursuant to this Project Paper Amendment No. 1 and the first Amendment to the SEC Project Authorization. (Reference Section 7.0 of original SEC Project Paper)

Project Grant Agreement Covenants: The GOE will covenant that:

(i) it hereby authorizes AID to modify and amend the agreement with NBD, financed under the grant, pursuant to which NBD will carry out its responsibilities as a lending institution in Upper Egypt and implementing Agency for the Project.

(ii) barring a default by NBD, NBD is authorized to receive and retain for Project-related purposes all funds provided to it under its agreement with AID.

(iii) NBD shall be allowed to retain and utilize all project financed equipment, throughout the useful life of such equipment, for project related purposes.

(iv) in the event NBD fails to perform pursuant to the "default" terms set further in its agreement with AID, the principal provided to capitalize the loan fund under the Grant, which will be returned to the Grantee, shall be jointly reprogrammed by the Grantee and AID to provide loans to SMEs using a different lending mechanism other than NBD.

National Bank for Development: In order to upgrade NBD current institutional and MIS systems for Upper Egypt extension, the following conditions precedent to disbursement and covenants are expected to be negotiated with NBD and included in the Agreement between USAID and NBD shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

Conditions Precedent to Disbursement to NBD to Finance Lending Activities to Upper Egypt:

Prior to any disbursement of loan capital to NBD for Upper Egypt portfolio, or the issuance by AID of any documentation pursuant to which disbursement will be made, NBD shall, except as USAID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

(i) evidence that a full time Deputy Project Director has been appointed,

(ii) evidence that an independent MIS unit has been established and accommodated,

(iii) evidence that an independent training unit has been established and accommodated, and

(iv) evidence that a full time MIS Specialist and Training Specialist have been appointed.

(v) evidence that NBD has established the requisite separate account for loan funds and operating expense funds related to the Upper Egypt lending activities.

The above CPs and Covenants are additional to the CPs and Covenants stated in the original PP.

X. SUMMARIES OF ANALYSES

TI/FI thoroughly reviewed the analyses completed for the design of the original SEC project. Based on this review, it was determined that the major findings and recommendations related to the economic and social soundness analysis are still valid for application to the activities to be carried out under this amendment (further discussion on the economic and social soundness of the SEC amendment is included in Annexes C and D). TI/FI completed additional analyses to determine the feasibility of using the NBD institutional mechanism to carry out the planned project amendment. These analyses focused on NBD's institutional structure and functions, the lending approach, and the SME population in the target area. A summary is presented below.

A. Summary of the Organizational Structure

The NBD organizational structure (further described in Annex A) is managing the existing volume of SME lending activity of the 13 Greater Cairo branches of the SECP Project and can easily manage an additional 12 branches proposed in Upper Egypt.

The leadership of NBD (from the Chairman to the SECP project Director) is deeply committed to the on-going SEC project and is enthusiastic, prepared and awaiting the opportunity to extend the SEC project to Upper Egypt. NBD effectively trained 280 SECP employees (more than half are seconded from NBD) in forty-five days. As of May 1994 NBD disbursed 16,000 loans valued at LE33 million with a 1% default rate in only nine months and are ahead of schedule on break even projections. These are just a few, but fundamental, examples of outstanding leadership, dedication, and performance of NBD's top management.

Annex A describes in detail the well established and coherent management structure of the SEC Project. The design of the NBD SME lending model is the result of many years of valuable institutional experience. The model was originally developed and tested in 1989-90 as a pilot SME lending activity funded under the USAID Local Development II project. This pilot lending model has now been made fully operational for the greater Cairo area under the SEC Project with credit manuals, personnel policies, and MIS systems that are already in place and functioning well at SECP headquarters and in SECP's 13 Cairo branches.

These same effective and efficient systems will be used in the Upper Egyptian branches, with the SECP headquarters virtually ready to monitor the increase in financial data associated with the proposed SECP activity in Upper Egypt.

Furthermore, the extension into Upper Egypt does not require the building, purchasing or leasing of new NBD branch facilities in Upper Egypt. Nine NBD offices already exist. Those nine will accommodate twelve SECP branches in Upper Egypt. While obtaining and training additional staff is required, this is not a significant problem. Many officers for the SECP amendment will be obtained from within the NBD banking system, thereby reducing the need and time it takes to recruit a sizable number of trainee from outside the bank. This approach also allows the important advantage of beginning with people who already have a banking related background. Moreover, experienced staff from the ongoing SEC project will serve as trainers and mentors to officers hired for the SECP amendment, (whether from inside or outside the bank) making training for Upper Egypt easier and more efficient than in the original SEC project.

Using the SMED project model to extend SME credit access into Upper Egypt was also considered. Use of this approach, however, would require the development of several entirely new SME foundations (from board members to extension officers), one in every Upper Egyptian governorate. Implementation experience has shown that the SMED project approach tends to be a long, labor intensive and politically sensitive process of recruiting the appropriate business persons and forming and officially registering a business association with the Government of Egypt which would be required within each targeted Upper Egyptian Governorate. Furthermore, through each business association, facilities must be purchased/leased, inexperienced outside personnel recruited and trained, institutional structures developed and implemented, and operational systems installed, and banking arrangements solidified before an SME foundation is functional. In addition the SMED approach requires the regulation and supervision of individual USAID agreements with each foundation. In-short, the methodology for establishing a reliable SME foundation credit facility in Upper Egypt would be much more difficult and time consuming than expanding the SEC model to that target group.

In conclusion, the SEC project is the best vehicle to extend credit and other financial services to SMEs in Upper Egypt in a quick and effective way.

B. Summary of Site analysis

Experience gained from the RSSE project and the ongoing SEC project indicates that for an NBD branch to break-even it needs a sufficient number of potential SME borrowers who have the capacity to repay short-term loans bearing market interest rates. Thus a clear understanding of the size and diversity of the Upper Egypt SME sector is needed to justify the SEC project amendment.

While information on SMEs in Upper Egypt is limited, TI/FI estimates for Upper Egypt governorates were determined using data obtained from a variety of available sources. One important source was the field analysis carried out in Upper Egypt in 1992 as part of the design work for the SMED Project Paper Amendment. Current data on SMEs in selected governorates was also obtained from the local chapters of the Chambers of Commerce, the local offices of the Ministry of Local Administration, and local business groups. TI/FI also reviewed materials from the World Bank, consulting groups, and research organizations, such as the National Planning Institute, American University of Cairo (AUC), and CAPMAS.

The two critical factors included in the site analysis were:

1. **Market demand and financial feasibility** - which is defined as a sufficient number of SME borrowers to support the SECP amendment.

As indicated in Annex F Scenario 4, approximately 1000 SME borrowers with an average loan size of LE1000 is necessary for an NBD branch to breakeven in Upper Egypt.

The following table provide estimates of the number of potential SME borrowers available per governorate to support a NBD branch.

GOVERNORATES	POTENTIAL NUMBER OF BORROWERS
Assiut	70,083
Sohag	64,292
Qena	63,969
Aswan	28,811
Minia	62,554
Beni Suif	40,220
Fayoum	38,452

A more detailed site analysis is presented in Annex B.

Based on this analysis, TI/FI is confident that a sufficient number of potential SME borrowers exist in the Upper Egypt Governorates to support the planned SECP amendment.

2. **Institutional Capacity and Soundness** - defined as an institutional arrangement (i.e., facilities and systems) to facilitate the efficient and effective monitoring of the delivery and collection of short term credit.

Nine existing offices of NBD in Upper Egypt have been identified to accommodate twelve SECP branches, loan officers and support personnel (four branches in Assiut, two in Qena, two in Sohag, one in Minia, one in Fayoum, one in Beni Suif, and one in Aswan). Office space will be provided by NBD with no new office facilities required. The new employees will be assigned to these branches. The same successful financial system used in the SECP Cairo based activity will be used for the SECP extension into Upper Egypt.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

LOP: 6 years
From: FY91 to FY97
Total $ funding: $38 m.

PROJECT TITLE AND NUMBER: SMALL ENTERPRISE CREDIT (263-0228)

Narrative Summary	Objectively verifiable incidcato	Means of verification	Important assumptions
PROGRAM OR SECTOR GOAL: THE BROADER OBJECTIVE TO WHICH THIS PROJECT CONTRIBUTES: To expand the economic output of small and micro entrepreneurs.	MEASURES OF GOAL ACHIEVEMENT: - Increased employment by firms. - Increased net earnings by firms. - Increased wages or earned income to employees. - Increased levels of production. - Increased invest. in plant & equip.	- Baseline study. - NBD MIS reports. - Surveys of beneficiary firms. - Midterm and final evaluations.	ASSUMPTIONS FOR ACHIEVING GOAL TARGETS: - 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 magnitude and incidence of poverty.
PROJECT PURPOSE: To increase small entrepreneurs access to credit and other banking services.	CONDITIONS THAT WILL INDICATE PURPOSE HAS BEEN ACHIEVED (END OF PROJECT STATUS): - Approx. 38,000 SMEs assisted. - Total loan portfolio approx. $40 million.	- Baseline study. - NBD MIS reports. - Surveys of beneficiary firms. - Midterm and final evaluations.	ASSUMPTIONS FOR ACHIEVING PURPOSE: - SME's apply credit to enterprise improvement and expansion.
PROJECT OUTPUT: — establish a functioning program within the NBD to provide credit to small and micro enterprises in Greater Cairo and Upper Egypt. — replicate the SEC/SME lending program to virtually any geographic area in Egypt.	MAGNITUDE OF OUTPUTS: - Loan program financially self sufficient within 24 months. - Loan default rate of less than 1.5%. - 25 functioning branch offices.	- NBD MIS reports, financial statement and other reports. - Surveys of beneficiary firms. - Midterm and final evaluations.	ASSUMPTIONS FOR ACHIEVING OUTPUTS: - NBD is able to charge full cost of capital to borrowers through fees or interest. - Procedures for providing credit
INPUTS: Project funding for the following: - Bank Capitalization - TA - Training - Operations - Vehicles - Audit/Eval. TOTAL	IMPLEMENTATION TARGET (TYPE AND QUANTITY): ($000) $29,150 $2,762 $510 $4,328 $750 $500 $38,000	- Grant and subsidiary agreements. - USAID disbursement records. - NBD reports and records.	ASSUMPTIONS FOR PROVIDING INPUTS: - Availability of AID funding. - All CP's nd covenants are met.

ANNEX A

Organizational Structure
The National Bank for Development (NBD)
The Small Enterprise Credit Project (SECP)

A. Board of Directors of the NBD

Approves or disapproves credit above the authority of the NBD Chairman and approves bank policy, which includes approval of SECP, RSSE, and future Upper Egypt's SECP Program Expansion.
Performance reports are delivered to the Board through the NBD Chairman.

B. Credit Strategy Committee of NBD

This body sets bank wide credit policy and reviews existing credits and new programs and facilities. This committee receives reports on SECP and RSSE lending activity and monitors progress reports received through the Chairman.

C. Chairman of the Board Of NBD

The Chairman is the senior credit officer of the NBD, recommending all credit approval authority limits, policies and procedures, management positions and structures, administrative and credit processes in the NBD to include SECP and future Upper Egypt Program Expansion. The Chairman has specific responsibilities in SECP which include:

* Approving credit guidance for strategic plans;
* Establishing significant revisions to credit policy;
* Establishing credit portfolio diversification guidelines;
* Approving methodology used to determine risk;
* Approving the credit management structure;
* Waiving Exceptions to Credit Policy;
* Approving target market criteria;
* Chairing the Asset Management, and Credit Process Review Committees;
* Approving all draw downs of USAID Credit Funds;
* Monitoring Progress of SME/SECP;
* Represents the NBD to USAID on all policy matters.

SMALL ENTERPRISE CREDIT DEPARTMENT

The Small Enterprise Credit Department is a separate department within the overall structure of the NBD.

The NBD created a Small Enterprise Credit Project "SECP" Department headed by a Deputy General Manager who is appointed as The NBD/SECP Project Director, and reports officially through a General Manager to the Chairman. The NBD\SECP Project Director has also titular responsibility for the on-going former RSSE project in Sharkiya and Damietta, the Ford Foundation project in Minya, and the CIDA financed WID project in Qena.

The NBD/SECP organizational structure built the capacity and skilled personnel to effectively manage the existing volume of activities of the 13 Greater Cairo branches of the SECP Project, and will manage the proposed 12 branches of Upper Egypt.

The activities of the NBD operations in Sharkiya, Damietta, Minya, and now Qena/Luxor are either self-sustaining or managed locally using the SECP Project Director on a limited basis as an advisor at this time.

Structure of SECP Headquarters Unit:

NBD/SECP Project Director: Reports to the NBD Chairman. Has the overall responsibility for managing the SECP Credit and Administrative activities. He manages two main areas each headed by a Deputy General Manager:

The Development Department; with two units, Documentation & Translation and Administration and Training.
The main functions of this Department are general administration, train personnel, contract/agreements administration, conducting research and market studies as requested by the SECP management.

The Credit Administration; with two units, Credit and Financial Management unit, and the Accounting and Computer Unit.
The main function of this unit is to provide adequate internal control of all credit activities. In addition to this important role, this unit handles credit administration, reporting, and maintenance of the MIS and Accounting systems.

The FOLLOWING IS THE DETAILED CREDIT MANAGEMENT STRUCTURE OF THE SECP Department.

A.NBD/SECP Project Director

The SECP Project Director, who reports to the NBD Chairman, has overall responsibility of the SECP credit and administrative activities. Loan approval decisions are delegated to the SECP Branch Manager. However, unusual loans or loans that exceed the SECP Program loan size ceiling, will be submitted to Project Director in writing for approval.

The Project Director specific responsibilities are:

- Host and Chair all Executive Committee Meetings;
- Monitor and Report to USAID on the effectiveness of the technical assistance team;
- Represent the SECP to NBD Committees and Senior Management;
- Direct the SECP Headquarter Staff Credit Tasks;
- Direct the SECP Headquarter Credit Review Process;
- Direct Credit Training Programs;
- Review and report all Watch Listed loans;
- Direct recoveries of defaulted credit customers;
- Prepare special reports as needed;
- Plan future programs or expansions of SECP;

B. Deputy General Manager Credit Follow-up and Reporting

One of the two Deputy General Managers reporting to the Project Director has responsibility for the SECP Credit Units. This manager has overall day-to-day contact with the SECP Branch managers on credit issues and the credit process.
He ensures that branch managers are making timely decisions and are effectively managing their credit portfolio and branch staff. He also manages the Computer and Accounting Division, and two Credit Follow-up Units.

He has the authority to send people to check credit files, records, references, and ensure adherence to the target market and methodology statements. He has the authority to elevate the assistant branch mangers credit approval authority in the absence of the branch manager. He also has the responsibility to assure that credit and reporting goals are met. A description of the responsibilities of the Deputy General Manager are as follows:

* Enforce credit standards;
* Manage Branch Credit Process Discipline;
* Assure accuracy in credit documentation and reporting;
* Assure that credit staff are well managed;
* Report all watch listed credits to Project Director and Executive Committee;
* Assist the Project Director as assigned.
* Suggest up-dates to Credit Guidelines and other Manuals;
* Approve credit forecasting models;
* Monitor credit activities accomplishments of Technical Assistance Team;
* Chairing the Credit Process Review Committee of the Executive Committee;
* Assist in training of SECP and Branch Management and formulate future plans;
* Report on all accounting and computer related issues.

SECP Steering Committee

The Executive Committee of the SECP Project has as its members the Project Director (who also heads the SECP Department of the NBD), his two Deputies (who head their own sections), and the Team Leader and Credit Specialist of the Technical Assistance contractor. This body is responsible for managing the branch credit process that communicates policy to personnel. There is no formal credit authority with this group, but they are responsible for guidance and support of the operating branch units.

This Committee specifically has responsibility to review and make referral to NBD Management and USAID on the following and make corrections where appropriate:

- Consolidate all branch activity;
- Manage USAID credit funds;
- Manage the Branch Credit Process;
- Approve credit-related systems and operations issues; - Clarify issues affecting the credit process;
- Reduce significant Watch List credits;
- Reduce significant branch Past Dues or Defaults;
- Assure compliance with USAID Conditions Precedent and other on-going activities specified in agreements;
- Advise USAID and NBD Management on progress toward financial break-even;
- Determine future plans and enhancements to MIS and credit programs;

- Assign Headquarter Follow-up, Audit, and other reviews and evaluate branch credit and administrative performance;
- Manage Senior Branch and Team Leader performance, if required;
- Trouble shoot any branch problems;
- Liaison with USAID departments, evaluators, auditors;
- Plan and Communicate any policy or procedures changes;
- Revise Credit Policy Guidelines, yearly or as needed;
- Assist Project Management on Exceptions.
- Authorize charge-off of loans.

SECP BRANCH OFFICE STRUCTURE

The credit management structure of the current Small Enterprise Credit Program "SECP" is a decentralized structure that places credit authority with the SECP Branch Manager, who makes the final credit decision on all loans extended by his unit.

The Branch structure being used in the SECP Program will be used in the proposed Upper Egypt expansion.

The structure of the Branch system is as follows:

- Manager
- Assistant Manager
- Cashier
- 2 MIS clerks
- 1 controller
- 1 secretary
- 1 messenger
- 1 driver
- Nine (9) credit officers in 3 teams

This 18 person unit is the basic unit that successfully achieved strong results in the pilot phase of the RSSE project and the current SECP.

1. SECP Branch Managers

SECP Branch Managers are the key people in the SECP credit process. They have over-all responsibility for the day-to-day running of their SME/SECP credit production units, follow-up teams, and account reporting and MIS assistant. They must direct the credit process for the credit teams and give guidance to help them reach branch and individual goals.

He or she is expected to establish a credit approval and communications system to speed credit delivery from one week to ten business days on properly completed applications for credit based on the documentation received from CEPs - Team Leaders and team members, who solicit new business, collect on loans made, and report their activity

The Branch Manager also directs the Follow-Up unit, which verifies client references and SECP application form information and assures that savings deposits and documents are in place before disbursal of loan funds. He sees that the accounting and computer function (reporting) are coordinated with credit operations.

The SECP Branch Manager enforces loan and target market criteria, cash flow analysis, loan classification criteria, good community relations, non-discriminatory lending procedures, and assures high rates of repayment. He also assures dual controls on cash movement, reporting of expenses, credit recommendations from CEP, reporting to headquarters, and the inputing of data to the branch computer. The Branch Manager also settles any credit insurance settlements for clients who die with an unpaid balance, and manage Watch Listed loans (poor credits) in default.

3. Assistant Branch Manager

The SECP Assistant Branch Manager (ABM) assists the SECP Branch Manager and reports to him or her. The ABM screens all credit approvals before presentation to the Branch Manager for approval. He assures that all credit documentation is complete before presentation for approval and directs credit approvals back to the CEP Team Leaders. His initials on a credit application assure the branch manager that the application fits standard project credit criteria and is accurately completed and would be approved by him if authorized. He is also responsible to direct the branch follow-up team for reference checks, receipt and management of the required 10% saving account, and loan disbursal approved by the Branch Manager.

He also assists the Branch Manager with follow-up on past due clients and assures that applied-for-credits are entered into the ALTS (Loan Tracking System) computer system accurately.

4. Team Leaders

Team Leaders report to the Assistant Branch Manager (ABM) and the Branch Managers (BM) respectively. They provide direction to two other CEP assigned to them. They work to make good loans to good clients using the marketing and credit skills they learned.

They work toward the goal of having 150 active loans per person for their team, with no past dues or defaults, and proper documentation on all clients.

Team Leaders initiate and sponsor credit by personal calling at the client's place of business. Screen clients according to the target market criteria of SECP, and take applications from qualified borrowers. These leaders are skilled in interviewing techniques, communication of project philosophy and objectives, and cash flow analysis of potential borrowers. They also help clients decide repayment schedule that match their cash flow and income cycle, and disallow loans that do not make economic or practical sense.

They are able to relate well socially and form sound professional relationships with their superiors, other NBD personnel, and potential clients.

Team Leaders also have the responsibility of reporting their transactions accurately, maintaining excellent team credit files and client saving and repayment (borrower's) card documentation.

They insure credit data is inputed into the branch computer accurately and in a timely fashion. They are supported by their two CEPs, the Follow-up Team, specialists from SECP headquarters and SECP Branch management.

5. Credit Extension Personnel (CEP)

Two CEPs report to each of the branch's three credit Team Leaders. They work to achieve team and branch goals and work in dual control fashion with each other or their Team Leader. They solicit clients, conduct interviewing and screening of clients. They help clients complete required forms. They cross check cash receipts and disbursal that they make in the course of business. They disburse loans and settle accounts together with the Team Leader, who should obtain two initials of team members on all documentation to create an audit trail of their business actions. The dynamics of Team action requires experience and strong cooperation and coordination of tasks. These should be fairly delegated mutually by the CEP's Team Leader and his managers and agreed to by CEPs to establish a sound routine of effective work.

6. Follow-Up Personnel

Two staff members are assigned to every SECP branch reporting to the Branch Manager and Assistant Branch Manager. They verify the work and documentation of the three credit teams. They also make independent checks on client's references and if found to be questionable they document their findings by memo to the credit file and ABM, who presents their findings to the Branch Manager. Follow-Up teams also prepare and safe keep Promissory Notes to be signed by the clients if a loan is made, and they arrange the cash disbursal of loans to clients with the Accountant and Credit Team Leaders, when credit is approved. Should problems arise they trouble-shoot for Credit personnel and handle problem collections under the direction of and reporting to the Branch Manager.

7. Credit Reporting Personnel

a. MIS Clerk

Each Branch has two computer operators who input credit data from the ABM, who directs their work, which is recording (inputing) from primary files and original documentation the relevant material for the branch data base. The credit work (inputed to ALTS) is cross checked for accuracy by Credit Teams when they receive returned applications from branch management credit committee meetings.

Under the direction of the ABM or BM and Branch Accountant, the MIS clerks also input branch operating expenses on a schedule again from primary sources such as third party receipts for goods or services.

Any errors of team credit portfolio reports are reported to the ABM by the Credit Team Leader, responsible for the loan, who checks the information and asks the ABM to direct the MIS Clerk to correct any errors.

b. Branch Accountant

Each branch has an assigned accountant/controller cashier reporting to the Branch Manager in the follow-up unit. This person aids in the preparation of the credit reporting function to the headquater Branch management. He or she completes the weekly and monthly report from the MIS systems designed for that purpose.

An detailed spot check against primary documentation found in the credit files kept at the branch is made and any notable exceptions are documented by the Branch Accountant to his counterpart in the SECP H.Q., accounting section, and the branch manager, simultaneously.

The accountant is also responsible for the preparation of branch financial statements and payment of approved branch expenses presented by branch management against original invoices. He also manages safekeeping and management control functions of the Branch.

SITE ANALYSIS ANNEX B

Introduction:

In the absence of precise information on number of SMEs in Egypt, particularly in Upper Egypt, this site analyses is an attempt to provide an overview of the SME sector in the governorates of Upper Egypt. The CAPMAS Census of 1986 was found as the most reliable source of data and information on the SME sector in Upper Egypt, particularly the informal SME sector.

The methodology used in estimating the number of potential SMEs in the informal sector of a particular governorate was to divide the average urban family size of a particular governorate into the urban population of that same governorate. The result is an estimate of the number of urban families. From that number comes a portion of families doing business informally. For example, in the Assiut governorate the average urban family size of 4.8 persons is divided into the estimated number of urban inhabitants, 834,000. This results in a estimated number of urban families of 173,750 . Given the limited job opportunities provided by the government, public sector companies, and the registered private establishments, it is estimated that approximately 30% of the families households are engaged in informal income generating activities, and thus are potential borrowers of the SEC credit program.

The number of urban privately owned establishments provided in CAPMAS report was included in this site analyses since the average number of workers was found less than 3 workers per establishment. The definition of establishment as stated in CAPMAS 1986 census is that "it is a place where a certain activity is undertaken, it may be related to an individual or private/public entity, such as: Grocery, lawyer office, trade stores, hospitals, etc. It is assumed that even a fixed vehicle on the road , or in which an economic activity is being practiced, is considered an establishment whether it is inside or outside a fenced market area."

Assiut Governorate

Assiut: Is known as the capital of Upper Egypt because of its large, active and diverse economic activities. It has the largest university in Upper Egypt Governorates and a large number of technical and regular schools. Other than the National Bank for Development "NBD", there is an absence of credit programs to serve the important SME sector. Despite Assiut's very active private sector, particularly in the urban SME sector, neither the Government of Egypt nor the International Donors give enough attention to the potential economic and social development of this sector.

The CAPMAS 1986 census indicated that the population of the Assiut Governorate reached 2,223,034. Using the rate of increase identified between the years 1976 and 1986, it is estimated that the present population is in excess of 3 million. The number of urban inhabitants is over 834,000, representing 27.8% of the Assiut Governorate population. Because of the limited job opportunities provided by the Government and public sector companies, and given the size of family of 4.8 persons in Assiut urban areas, it is estimated that 173,750 families are engaged in off-farm, income generating activities. 76,450 of the total urban families of the Assiut Governorate live in the city of Assiut representing 44.3% of the total urban families. It is estimate that a minimum of 30% of these families (23,000 families) are potential clients for the SECP program, only in the city of Assiut.

The governorate of Assiut is divided into Assiut City, and 10 administrative units called Markaz, each possessing a large city: Manfalout; Abu Teeg; Abnoub; Dayrout; El Kossia; El Badary; El Ghanaim; Sahel Selim; Sedfa; and El Fatah.

> Markaz Manfalout, Abu Teeg, Abnoub;, Dayrout and El Kossia each accommodate 7% of urban families. Using the same ratio of potential borrowers in Assiut City, there are at least 3,650 potential borrowers in each of those five cities (markaz).
>
> Markaz El Badarie, El Ghanayem, and Sahel Selim each account for at least 2,500 potential borrowers.
>
> Markaz Sedfa and El Fattah each account for 870 potential borrowers.

In addition to the informal sector potential borrowers, there are a total of 19,593 privately owned and registered establishments operating in the urban areas of Assiut Governorate that employ approximately 35,267 workers (19,593 X 1.8). The definition of establishment as stated in CAPMAS 1986 census is that "it is a place where a certain activity is undertaken, it may be related to an individual or private/public entity, such as: Grocery, lawyer office, trade stores, hospitals, etc. It is assumed that even a fixed vehicle on the road , or in which an economic activity is being practiced, is considered an establishment whether it is inside or outside a fenced market area."

The following table provide the number of privately owned establishments operating in urban areas of Assiut Governorate per CAPMAS report, and the number of estimated potential urban informal borrowers located in Assiut City and the 10 administrative urban units:

Administrative Unit	Estimated # of Potential Informal Sector Borrowers	Number of Private Owned Establishment	Total
Assiut City	23,000	9,101	32,101
Manfalout	3,650	1,404	5,054
Abu Teeg	3,650	1,720	5,370
Abnoub	3,650	1,179	4,829
Dayrout	3,650	2,157	5,807
El Kossia	3,650	1,591	5,241
El Badari	2,500	721	3,221
El Ghanim	2,500	447	2,947
Sahel Selim	2,500	551	3,051
Sedfa	870	551	1,421
El Fattah	870	171	1,041
Total	50,490	19,593	70,083

Conclusion:

Given the relatively large size of Assiuts' small business community, and the absence of credit programs to serve this important sector, it is strongly justified that an SECP program is appropriate for Assiut needs. Up to four branches can operate, using SECP credit delivery methodology, and reach break even within the expected time frame of 18 months of end use-lending from start-up date, and to reach administrative and financial self-sufficiency within the SECP amendment PACD.

NBD will deliver credit to SECP borrowers in Assiut Governorate, using mobile branches, operating from the existing two NBD offices in Assiut City as work stations. It is expected that end-use lending will start in Assiut City and the five markaz of Manfalout, Abu Teeg, Abnoub, Dayrout and El Kossia (30 minutes average drive time to each markaz from Assiut City). Therefore, the expected number of borrowers of 1,500 per branch will be met by the PACD.

The same methodology used in Assiut small business site analyses is applied to the remaining Governorates of Upper Egypt.

SOHAG

Total population of 2,455,134 per CAPMAS census of 1986. The estimated number of present population is over 3,363,000 using the rate of increase of 4.6% identified for Sohag Governorate between the years of 1976-1987. The total number of urban inhabitants is estimated to be 739,860, representing 22% of present population. Given the average size of urban family of 4.9 persons per family, it is estimated that the total number of families living in urban areas is 150,000 families.

Sohag Governorate contains Sohag city, and ten Markaz, each having an urban area (City). The following table provides the estimated number of potential informal borrowers, and number of privately owned establishments located in the urban areas (cities) of Sohag:

Administrative Units	Estimated Number of Informal Borrowers	Number of Private Own Establishments	Total
Sohag City	10,800	3,786	14,586
Gerga	5,850	3,753	9,603
Akhmeem	5,850	1,959	7,809
Tahta	4,860	2,554	7,414
Temma	3,915	1,636	5,551
El Monshaa	3,150	1,375	4,525
El Baliana	2,700	1,689	4,389
El Maragha	2,700	867	3,567
Johaina	2,700	790	3,490
Dar El Salam	1,350	513	1,863
Sakalta	1,125	370	1,495
Total	45,000	19,292	64,292

The National Bank for Development will deliver credit to SECP borrowers in Sohag City, Gerga, Akhmeem and Tahta using two mobile branches. Given the size of the small business community in Sohag, it is expected that these two branches will reach operational break-even within 18 months of end-use lending start up date, and to reach administrative and financial self-sufficiency by the PACD.

QENA

Total population of 2,252,315 million per CAPMAS census of 1986. The estimated number of present population is over 3,000,000 using the rate of increase of 4.7% identified for Qena Governorate between the years of 1976-1987. The total number of urban inhabitants is estimated to be 690,000 representing 23% of present population. Given the average size of urban family of 4.8 persons in Qena's urban areas, it is estimated that the total number of families living in urban areas is 148,750 families.

Qena Governorate contains Qena city and ten Markaz, each having an urban area (City). The following table provide the estimated number of potential informal borrowers, and number of privately owned establishments located in the urban areas (cities) of Qena:

Administrative Units	Estimated Number of Informal Borrowers	Number of Private Own Establishments	Total
Qena City	9,817	4,686	14,503
Luxor	10,710	4,341	15,051
Armant	4,641	1,078	5,719
Aous	3,570	1,561	5,131
Esna	3,653	1,999	5,652
Dishna	3,213	1,118	4,331
Farshout	2,811	1,399	4,210
Naga Hammadi	2,409	2,261	4,670
Nefada	1,138	758	1,896
Keft	1,138	718	1,856
Abu Tesht	669	288	957
Total	43,769	20,207	63,969

The National Bank for Development will deliver credit eligible borrowers in Qena City using one mobile branch operating from the NBD branch office in Qena City. A second mobile branch will deliver credit in Luxor using the NBD branch office in Luxor city as a work station. Given the size of the small business community in Qena and Luxor, it is expected that these two branches will reach operational break-even within 18 months of end-use lending start up date, and to reach administrative and financial self-sufficiency by the PACD.

ASWAN

Total population of 801,402 per CAPMAS census of 1986. The estimated number of present population is over 881,000 using the rate of increase of i.6% identified for Aswan Governorate between the years of 1976-1987. The total number of urban inhabitants is estimated to be 352,400 representing 40.% of the present population. Given the average size of urban family of 5.1 persons in Aswan's urban areas, it is estimated that the total number of families living in Aswan's urban areas is 69,098 families.

Aswan Governorate contains Aswan city and three Markaz, each having an urban area (City). The following table provides the estimated number of potential informal borrowers, and number of privately owned establishments located in the urban areas (cities) of Aswan:

Administrative Units	Estimated Number of Informal Borrowers	Number of Private Own Establishments	Total
Aswan City	12,437	5,696	18,133
Kom Ombo	3,420	2,500	5,920
Edfu	2,902	1,371	4,273
Nasr El Noba	310	175	485
Total	19,069	9,742	28,811

The National Bank for Development will deliver credit to eligible borrowers in Aswan, Kom Ombo, and Edfu using one mobile branch operating from the NBD branch office in Aswan City. Given the size of the small business community in Aswan, it is expected that one branch will reach operational break-even within 18 months of end-use lending start up date, and to reach administrative and financial self-sufficiency by the PACD.

MINIA

Total population of 2,648,043 per CAPMAS census of 1986. The estimated number of present population is over 3,395,772 using the rate of increase of 5.1% identified for Minia Governorate between the years of 1976-1987. The total number of urban inhabitants is estimated to be 679,154 representing 20.% of present population. Given the average size of urban family of 4.8 persons in Minia's urban areas, it is estimated that the total number of families living in urban areas is 147,642 families.

36

Minia Governorate contains Minia city and eight Markaz, each having a urban area (City). The following table provides the estimated number of potential informal borrowers, and number of privately owned establishments located in the urban areas (cities) of Minia:

Administrative Units	Estimated Number of Informal Borrowers	Number of Private Own Establishments	Total
Minia City	14,616	6,250	20,866
Abu Korkas	3,986	1,559	5,545
El Addawa	885	243	1,128
Bani Mazar	3,986	2,243	6,219
Dair Mawass	1,771	523	2,294
Samalout	3,882	2,042	5,924
Mattai	2,241	731	2,945
Maghagha	3,986	1,974	5,960
Mallawi	7,972	3,701	11,673
Total	43,325	19,266	62,554

The National Bank for Development will deliver credit to eligible borrowers mainly in Minia City and Mallawi using one mobile branch operating from the NBD branch office in Minia City. Given the size of the small business community in Minia and Mallawi, it is expected that this branch will reach operational break-even within 18 months of end-use lending start up date, and to reach administrative and financial self-sufficiency by the PACD.

Beni Suif

Total population of 1,443,981 per CAPMAS census of 1986. The estimated number of present population is over 1,714,169 using the rate of increase of 2.9% identified for Bani Suif Governorate between the years of 1976-1987. The total number of urban inhabitants is estimated to be 428,542 representing 24% of present population. Given the average size of urban family of 4.6 persons per family in urban areas, it is estimated that the total number of families live in urban areas is 93,161 families.

Beni Suif Governorate contains Beni Suif city and six Markaz, each having an urban area (City). The following table provide the estimated number of potential informal borrowers, and number of privately owned establishments located in the urban areas (cities) of Bani Suif:

Administrative Units	Estimated Number of Informal Borrowers	Number of Private Own Establishments	Total
Beni Suif City	11,738	5,659	17,397
El Fashen	2,794	1,449	4,243
El Wasta	2,235	1,180	3,415
Ahnasia	1,676	581	2,257
Beba	3,353	1,433	4,786
Samasta	1,956	633	2,589
Naser	4,192	1,341	5,533
Total	27,944	12,276	40,220

The National Bank for Development will deliver credit to eligible borrowers mainly in Beni Suif City using one mobile branch operating from the NBD branch office in Beni Suif City. Given the size of the small business community in Beni Suif, it is expected that this branch will reach operational break-even within 18 months of end-use lending start up date, and to reach administrative and financial self-sufficiency by the PACD.

El Fayoum

Total population of 1,544,047 per CAPMAS census of 1986. The estimated number of present population is over 1,898,027 using the rate of increase of 3.5% identified for El Fayoum Governorate between the years of 1976-1987. The total number of urban inhabitants is estimated to be 436,546 representing 23.% of present population. Given the average size of urban family of 5 persons in El Fayoum's urban areas, it is estimated that the total number of families living in urban areas is 87,092 families.

El Fayoum Governorate contains Fayoum city and four Markaz, each having an urban area (City). The following table provides the estimated number of potential informal borrowers, and number of privately owned establishments located in the urban areas (cities) of El Fayoum:

Administrative Units	Estimated Number of Informal Borrowers	Number of Private Own Establishments	Total
Fayoum City	15,558	8,167	23,725
Ebshawai	2,482	1,241	3,723
Etssa	2,090	595	2,685
Sanours	4,049	1,446	5,495
Tamia	2,090	738	2,824
Total	26,269	12,187	38,452

The National Bank for Development will deliver credit to eligible borrowers mainly in El Fayoum City using one mobile branch operating from the NBD branch office in Fayoum City. Given the size of the small business community in El Fayoum, it is expected that this branch will reach operational break-even within 18 months of end-use lending start up date, and to reach administrative and financial self-sufficiency by the PACD.

ANNEX C

TECHNICAL AND ADMINISTRATIVE ANALYSES

Small and micro entrepreneurs, herein described as those having fixed assets of less than LE25,000, excluding land and buildings, and less than fifteen employees, have limited access to formal credit in Egypt, especially Upper Egypt. There is only a relatively small amount of SME credit being delivered to Upper Egypt through other donors. In the absence of formal finance or vibrant financial intermediaries, credit demand is unmet. Recent research indicates that small and micro entrepreneurs are predominantly dependent on expensive credit terms from suppliers, and, to a lesser extent, pre-payment by customers.

The technical analysis is primarily based on the on-going SEC project activities. The approach is sound. Implementation of this project expansion to Upper Egypt will be done by NBD, a technical assistance team, with oversight by the USAID TI/FI project office. The basic methodology has been tested and is successful. The Mission can be confident of project success.

The SEC project is implemented by the National Bank for Development (NBD), an established, private sector financial institution, with its headquarters in Cairo and branch offices throughout Egypt, including Upper Egypt. NBD created a Small Enterprise Credit Project (SECP) headquarters Department based in Cairo headed by a SECP Project Director, who reports officially through a General Manager to the Chairman. The SECP Project Director also holds the title of Deputy General Manager within NBD.

The SEC Department is divided into two main offices headed by the SEC Project Director. One office is the Development Office, composed of two Units, the Documentation & Translation Unit and the Administration and Training Unit, each headed by a Manager. These units are to handle overall project administration, train personnel, and manage a Headquarters secretarial group.

The second office is Credit Administration, composed of two units, the Credit and Financial Management Unit, and the Accounting and Computer Unit, each headed by a Deputy General Manager. The Credit and Financial Management unit has Internal Control and Credit Administration functions and the Accounting and Computer Unit handles the reporting and maintenance of the MIS and accounting systems.

Each SECP Branch throughout Cairo has a standardized management structure, which is now part of the NBD system. Each branch is assigned a Branch Managers who reports to the head of the Headquarters Credit Unit on credit performance and to the head of the Accounting and Computer Unit on financial matters.

The structure of the Branch system is as follows:

- Manager
- Assistant Manager
- Cashier
- 2 MIS clerks
- 1 controller
- 1 secretary
- 1 messenger
- 1 driver
- Nine (9) credit officers in 3 teams

This 18 person unit is the basic branch unit that is successfully implementing current SECP.

Project methodology is described in Section E, Project Approach. The key elements of this methodology are as follows.

- The small-scale entrepreneur is much less concerned with interest rates than with the accessibility, speed and reliability of the credit delivery system.

- Most SMEs have a very high return on investment as evidenced by the high interest rates, often in excess of 100 percent, which SMEs pay to informal moneylenders.

- The credit program will be financially viable if the interest rates are competitive with the local market.

The most pressing need for SMEs is for working capital to increase inventory of raw materials, purchase spare parts, or repair existing equipment.

Due to the relatively small loan size and the wide range of SME business activities, the credit system should not and will not require lengthy individual borrower loan appraisal.

- Frequent follow-up on borrowers by extension officers, coupled with Egyptian traditional social and religious values that reinforce honoring commitments, compel a borrower to repay.

- The prospect of qualifying for larger loans of longer maturities represents an important repayment incentive for borrowers.

- The small business Egyptian entrepreneur does not require a lot of expensive technical assistance to manage money and business activity, given the limited investment and simplicity of the business.

- Personal savings can be mobilized in Egypt if savings instruments are easily accessible, secure, and offer competitive rates of interest.

The organization structure for project implementation and monitoring is an expansion of the on-going SEC project activity. The principal components of the structure are as follows:

- USAID's Office of Finance and Investment is responsible for the technical design of the SEC Project expansion, overall monitoring of project implementation, and general project direction. The responsible personnel currently consist of one USDH, two FSNs, and one personal services contractor (PSC).

- SEC Project headquarters at the NBD in Cairo will be responsible for overall implementation of the SEC project expansion, including staffing, procurement, reporting, receiving and transferring credit funds, management of the operational budget, staff identification, hiring, and training.

- Twelve NBD Branch offices in Upper Egypt have been identified to serve as the "home base" for loan officers and for supervisory and support personnel that will implement the SEC project expansion. Each branch office will have, at maximum, a project manager, an assistant manager, 9 loan officers, up to 2 MIS personnel, an internal control officer, and a secretary. Branch managers will be primarily responsible for monitoring overall branch performance and reporting back to the SEC headquarters in Cairo.

- ACDI will provide technical assistance through a long-term advisor until June 1995. They will also provide a range of short term advisors, as required. It is also assumed that a limited number of local support personnel will be required under the project.

ANNEX D

ECONOMIC AND FINANCIAL ANALYSES

The economic analysis examines two issues, the economic rationale of the project expansion and its sustainability.

The project expansion is expected to solve the problem of low credit access faced by SMEs in Upper Egypt. Once they prove to be efficient, repay their loans on time and manage to expand their business, they will contribute to economic growth and reduce unemployment. Also, other financial institutions presumably would be eager to have them as customers.

Providing credit to SMEs in Upper Egypt is also justified on the grounds that it creates positive externalities in Upper Egypt, an area too often neglected in Egypt's push for economic development. In addition, there is direct economic impact on its beneficiaries. The direct benefits enjoyed by the SME served by the project are in improved performance in terms of sustained higher income and profitability as well as increased wage levels for labor.

In addition to the economic benefits of the SEC project expansion, there are two other points to consider: Additionality and sustainability. Additionality suggests that the project would make funds available to SMEs in Upper Egypt and allow for business expansion that could not have been possible without the project expansion. A salient point in Upper Egypt. As mentioned before only a few donors provide limited assistance to Upper Egypt's SME sector, while USAID provides none.

Sustainability means that the project's activities will continue after the completion of USAID funding ends. To achieve this goal and to make sure that loan revenues are directed to the highest valued sources, the pricing of the loan should be such that revenues cover recurrent operating costs (cost of funds, inflation and provision for bad debts) and earn a profit for reinvestment and expansion. This is successfully being done with the Cairo based component of the SEC project and will continue with the project expansion.
The financial results of the on-going SEC project activities indicate that the financial approach of the SEC project is sound. All of the analysis performed supports the believe that the objectives of the SEC project expansion will be reached. Even in a scenario where the loan size in Upper Egypt is smaller than expected, the project can still expect to break even in a reasonable period of time. The financial analysis assumes two major phases of project expansion. The first phase emphasizes hiring, training and mobilizing the loan officers before loan funds are fully extended. The second phase begins when funds are no longer being supplied by USAID, and project management focuses on maximizing revenues from loans to borrowers from principal and income reflows.

ANNEX E

SOCIAL SOUNDNESS/WID ANALYSES

There is a consensus that the SME sector is growing very rapidly throughout Egypt. SMEs produce a wide range of products including: food products, leather goods, cosmetics, wooden furniture, and fabricated metal products. SMEs in Egypt possess problems endemic to the sector. They experience poor access to credit for working capital and investments, due primarily to a lack of collateral and little contact with established financial institutions. In addition, there exist certain legal impediments to formalize businesses and the workers employed there.

Unless SME credit programs are specifically designed and implemented in both lower and Upper Egypt and account for social and economic difference within the communities, they will reinforce inequality by promoting additional opportunities for the more privileged. Including the issues of equity, 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:

- Targeting credit to those with minimum income;
- Requiring that assets of borrowers and their firms not exceed a specific value;
- Strictly limiting the amount available for any given loan. The smaller the loan, the more likely it is that poorer individuals, and especially women, will benefit.

The target group (direct beneficiaries) this SEC project expansion will identify and serve will be borrowers who possess the following qualifications:

- Owners of existing, small and micro enterprises, in Upper Egypt, including the commercial and services industry;
- Primarily involved in the productive value added private sector of the economy, for example: light manufacturing and assembly operations; maintenance transport, storage and distribution services; and agricultural product processing and marketing;

- An entrepreneur with a minimum of one year of operation;

- Credit worthy, as determined through personal references or a credit history in the project;

- Employ less than 6 people, a micro enterprise, and for a small enterprise between 6 and 15 people and have fixed assets not exceeding LE 25,000, not including buildings and land; and

- Utilize the loans for specific purposes, such as short term working capital needs to purchase inventory, acquisition of small capital equipment and tools, etc.

In addition, care will be taken by the NBD to avoid any concentration of loans to any one group or specific sector, as is the case with the on-going Cairo focused SEC project component. Other criteria include:

- Actively promoting the participation of women and women's groups in the project, both in terms of beneficiaries of project loan monies, as well as in staff, trainee, or policy advisory capacities within the implementing organization. Loans to women under the on-going SEC Cairo project component are approximately 10-20 percent; NBD will target the employment of women for at least 10 percent of the loan officer positions under the project.

- Extend loans to qualified beneficiaries in a range not less than LE 250 nor more than LE 5,000. This upper limit, however, will be granted only in cases where (1) the past credit history of the borrower in the project has been exemplary and (2) the cash flow analysis supports this decision.

As a result of the expansion of the SEC Project into Upper Egypt, it is expected that the total number of beneficiaries to be reached by the project during life-of-project will be:

- 38,000 beneficiaries, i.e, loan recipients; Indirectly, we expect thousands of non-family member employee benefitting from improved earnings and members of households who benefit from improved earnings, quality of life, and greater freedom of choice in the market place.

The overall population in the selected governorates of Upper Egypt will benefit from a more efficient local economy, greater liquidity, greater employment opportunity, and higher income.

With the tourist industry in a economic slump, the need to diversify, strengthen and create jobs has never been stronger in Upper Egypt. World-wide experience has shown that investment in small and micro 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 these enterprises; because they rely on simple technologies, especially for the less skilled, than other forms of enterprise. With their impact on the distribution of skills and opportunities, they will therefore be seen as forces that increase stability and democratic change.

Dissemination of the program within Upper Egypt sector can be expected to be relatively rapid, with the resulting use of the credit program enhancing SME's productivity and the level of value added. Experience under RSSE and the on-going SEC project has shown that many businesses learn of the program through neighboring enterprises which are participating in the program. However, additional efforts such as marketing, technical assistance to indigenous and alternate sources of inputs, research, and lobbying must 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.

Women's limited access to capital in the face of their creditworthness 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.

The SEC project expansion to Upper Egypt will continue to focus on reaching women borrowers with flexibility in loan application and review; flexible loan terms; and built-in repayment incentives. To date, women's participation in the on-going Cairo focused SEC project component is approximately 9.7%. Efforts to increase this percentage will be undertaken as part of project implementation.

Introduction

With the aid of four models to illustrate four scenarios, two of which are essentially the same except for scale of operation (Scenario 4 is a single branch version of Scenario 2), Annex F represents several possible loan growth projections and loan fund disbursements for the 12 Upper Egypt branches and the projected total fund reflow. The models are similar, but not identical in construction to those in the original Project Paper. The scenarios illustrated for lending operations in Upper Egypt have the following common factors:

- Nine loan officers for each branch, each loan officer produces an average of 13 loans per month.
- Operating costs include salaries (19 persons per branch plus a pro rata portion of the 13 additional Head Office Staff required to manage the program) and other direct costs.
- Lending interest rate is 19% (16% + 3% transportation fee).
- Loan provision reserve of 5% (on both interest and principal) for bad debt.
- Average loan length of 6 months.
- The net reflow of interest and principal (after allocation for loan provision default) goes into a revolving fund to be available for future lending.
- "Total New Loan Funds Required" indicates cumulative program requirements through the end of each month.
- "Incremental Loan Funds Required" indicates the new loan funds required from USAID or NBD for a specific month.
- Profit or loss is indicated on both a monthly and a cumulative (from beginning of start-up period) basis.
- All scenarios except Scenario 1 assume a 15% annual increase in operating costs from the beginning of the start-up period. Scenario 1 assumes no change in costs.
- All scenarios assume a three month start-up period during which personnel would be recruited and trained. Month four would be the beginning of lending operations.

Each scenario has some distinct characteristics. Scenario 1 is the most ambitious in terms of breaking even, surpassing even the actual situation for SECP as of May 1994. Unlike other scenarios, Scenario 1 assumes a constant loan size of LE 2,000. Scenario 2, and its single branch rendition, Scenario 4, represent what is considered the likely outcome of lending experience in Upper Egypt. Scenario 3 is a conservative estimate of lending operations assuming a smaller initial loan size than the other scenarios, and much slower growth in loan size. Each scenario is summarized as follows:

Scenario 1:

- o Month 1 loan officer performance is 50% of normal, thereafter 100%.
- o Average loan size LE 2,000 throughout scenario.
- o Operational break even during month 11.
- o Full utilization of USAID and NBD loan funds during month 23.

Scenario 2: (Also Scenario 4, single branch)

- o Quarter 1 loan officer performance is 50% of normal, quarter 2, 75%, thereafter performance is 100% of normal.
- o Initial loan size of LE 1,000, with 30% increase in average size every 6 months.
- o Operational break even during month 18.
- o Full utilization of USAID and NBD loan funds during month 27.

Scenario 3:

- o Quarter 1 loan officer performance is 50% of normal, quarter 2, 75%, thereafter performance is 100% of normal.
- o Initial loan size of LE 800, with 20% increase every 6 months.
- o Operational break even during month 25.
- o Full utilization of USAID and NBD loan funds during month 35.

SEC UPPER EGYPT EXPANSION

Scenario 1

New Loans/ Month/ Officer	Avg Loan Amount (LE)	No of Loan Officers/ Branch	No of Branches	Interest Rate	Average Default	Five Month Loan Length	Cost of Funds
13	2,000	9	12	19.00%	5.00%		0.00%

LFPUPP12.WK4

25-May-94
12:23:23 PM

Month 1 performance rate per loan officer is assumed to be 50% of normal
Break even during Month 11 assuming no allocation for cost of funds
Operating costs = Salaries + Other Direct Costs

F-3

	Startup Period (3 months)			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Loans Extended (cumulative)				702	2,106	3,510	4,914	6,318	7,722
Cumulative Amount Extended LE (a)				1,404,000	4,212,000	7,020,000	9,828,000	12,636,000	15,444,000
Gross Principal Repaid LE (b)				0	280,800	842,400	1,404,000	1,965,600	2,527,200
Allowance for Default LE (c)				0	14,040	42,120	70,200	98,280	126,360
Net Principal Repaid LE (b-c)				0	266,760	800,280	1,333,800	1,867,320	2,400,840
Gross Int Income LE (d)				0	22,230	66,690	111,150	155,610	200,070
Allowance for Default LE (e)				0	1,112	3,335	5,558	7,781	10,004
Net Interest Repaid LE (d-e)				0	21,119	63,356	105,593	147,830	190,067
Total Fund Reflow (net principal + net interest) (f)				0	287,879	863,636	1,439,393	2,015,150	2,590,907
Total New Loan Funds Required (LE) (g) = (a-f)				1,404,000	3,945,240	6,219,720	8,494,200	10,768,680	13,043,160
Incremental Loan Funds Required (LE) (g)-(previous column's g)				1,404,000	2,641,240	2,274,480	2,274,480	2,274,480	2,274,480
RECURRENT COSTS									
Operating costs	360,993	360,993	360,993	360,993	360,993	360,993	360,993	360,993	360,993
Interest on Funds @					0	0	0	0	0
Monthly costs	360,993	360,993	360,993	360,993	360,993	360,993	360,993	360,993	360,993
Cumulative Costs	360,993	721,986	1,082,979	1,443,972	1,804,966	2,165,958	2,526,951	2,887,944	3,248,937
Net Interest Income	0	0	0	0	21,119	63,356	105,593	147,830	190,067
Monthly Costs	360,993	360,993	360,993	360,993	360,993	360,993	360,993	360,993	360,993
Monthly Profit(Loss)	(360,993)	(360,993)	(360,993)	(360,993)	(339,875)	(297,638)	(255,401)	(213,164)	(170,927)
Cumulative Profit (Loss)	(360,993)	(721,986)	(1,082,979)	(1,443,972)	(1,783,847)	(2,081,484)	(2,336,885)	(2,550,048)	(2,720,975)

ANNEX F

49

SEC UPPER EGYPT EXPANSION

Scenario 1

LFPUPP12.WK4

F-4

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Loans Extended (cumulative)	9,126	10,630	11,934	13,338	14,742	16,146
Cumulative Amount Extended LE (a)	18,252,000	21,060,000	23,868,000	26,676,000	29,484,000	32,292,000
Gross Principal Repaid LE (b)	3,088,800	3,650,400	4,212,000	4,773,600	5,335,200	5,896,800
Allowance for Default LE (c)	154,440	182,520	210,600	238,680	266,760	294,840
Net Principal Repaid LE (b-c)	2,934,360	3,467,880	4,001,400	4,534,920	5,068,440	5,601,960
Gross Int Income LE (d)	244,530	288,990	333,460	377,910	422,370	466,830
Allowance for Default LE (e)	12,227	14,450	16,673	18,896	21,119	23,342
Net Interest Repaid LE (d-e)	232,304	274,641	316,778	359,015	401,252	443,489
Total Fund Reflow (net principal + net interest) (f)	3,166,664	3,742,421	4,318,178	4,893,935	5,469,692	6,045,449
Total New Loan Funds Required (LE) (g) = (a-f)	15,317,640	17,692,120	19,866,600	22,141,080	24,415,560	26,690,040
Incremental Loan Funds Required (LE) (g)-(previous column's g)	2,274,480	2,274,480	2,274,480	2,274,480	2,274,480	2,274,480

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
RECURRENT COSTS						
Operating costs	360,993	360,993	360,993	360,993	360,993	360,993
Interest on Funds @	0	0	0	0	0	0
Monthly costs	360,993	360,993	360,993	360,993	360,993	360,993
Cumulative Costs	3,609,930	3,970,923	4,331,916	4,692,909	5,053,902	5,414,896
Net Interest income	232,304	274,541	316,778	359,016	401,252	443,489
Monthly Costs	360,993	360,993	360,993	360,993	360,993	360,993
Monthly Profit(Loss)	(128,690)	(86,453)	(44,216)	(1,979)	40,259	82,496
Cumulative Profit (Loss)	(2,849,664)	(2,936,117)	(2,980,332)	(2,982,311)	(2,942,052)	(2,859,557)

20

SEC UPPER EGYPT EXPANSION

Scenario 1

LFPUPP12.WK4

		Month 13	Month 14	Month 15	Month 16	Month 17	Month 18
Loans Extended (cumulative)		17,550	18,954	20,358	21,762	23,166	24,570
Cumulative Amount Extended LE	(a)	35,100,000	37,908,000	40,716,000	43,524,000	46,332,000	49,140,000
Gross Principal Repaid LE	(b)	6,458,400	7,020,000	7,581,600	8,143,200	8,704,800	9,266,400
Allowance for Default LE	(c)	322,920	351,000	379,080	407,160	435,240	463,320
Net Principal Repaid LE	(b-c)	6,135,480	6,669,000	7,202,520	7,736,040	8,269,560	8,803,080
Gross Int. Income LE	(d)	511,290	556,750	600,210	644,670	689,130	733,590
Allowance for Default LE	(e)	25,565	27,788	30,011	32,234	34,457	36,680
Net Interest Repaid LE	(d-e)	485,726	527,963	570,200	612,437	654,674	696,911
Total Fund Reflow (net principal + net interest)	(f)	6,621,206	7,196,963	7,772,720	8,348,477	8,924,234	9,499,991
Total New Loan Funds Required (LE)	(g) = (a-f)	28,964,520	31,239,000	33,513,480	35,787,960	38,062,440	40,336,920
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	2,274,480	2,274,480	2,274,480	2,274,480	2,274,480	2,274,480

	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18
RECURRENT COSTS						
Operating costs	360,993	360,993	360,993	360,993	360,993	360,993
Interest on Funds @	0	0	0	0	0	0
Monthly costs	360,993	360,993	360,993	360,993	360,993	360,993
Cumulative Costs	6,776,868	6,136,861	6,497,874	6,858,867	7,219,860	7,580,853
Net Interest Income	485,726	527,963	570,200	612,437	654,674	696,911
Monthly Costs	360,993	360,993	360,993	360,993	360,993	360,993
Monthly Profit(Loss)	124,733	166,970	209,207	251,444	293,681	335,918
Cumulative Profit (Loss)	(2,734,824)	(2,567,866)	(2,358,648)	(2,107,206)	(1,813,524)	(1,477,607)

JC

SEC UPPER EGYPT EXPANSION

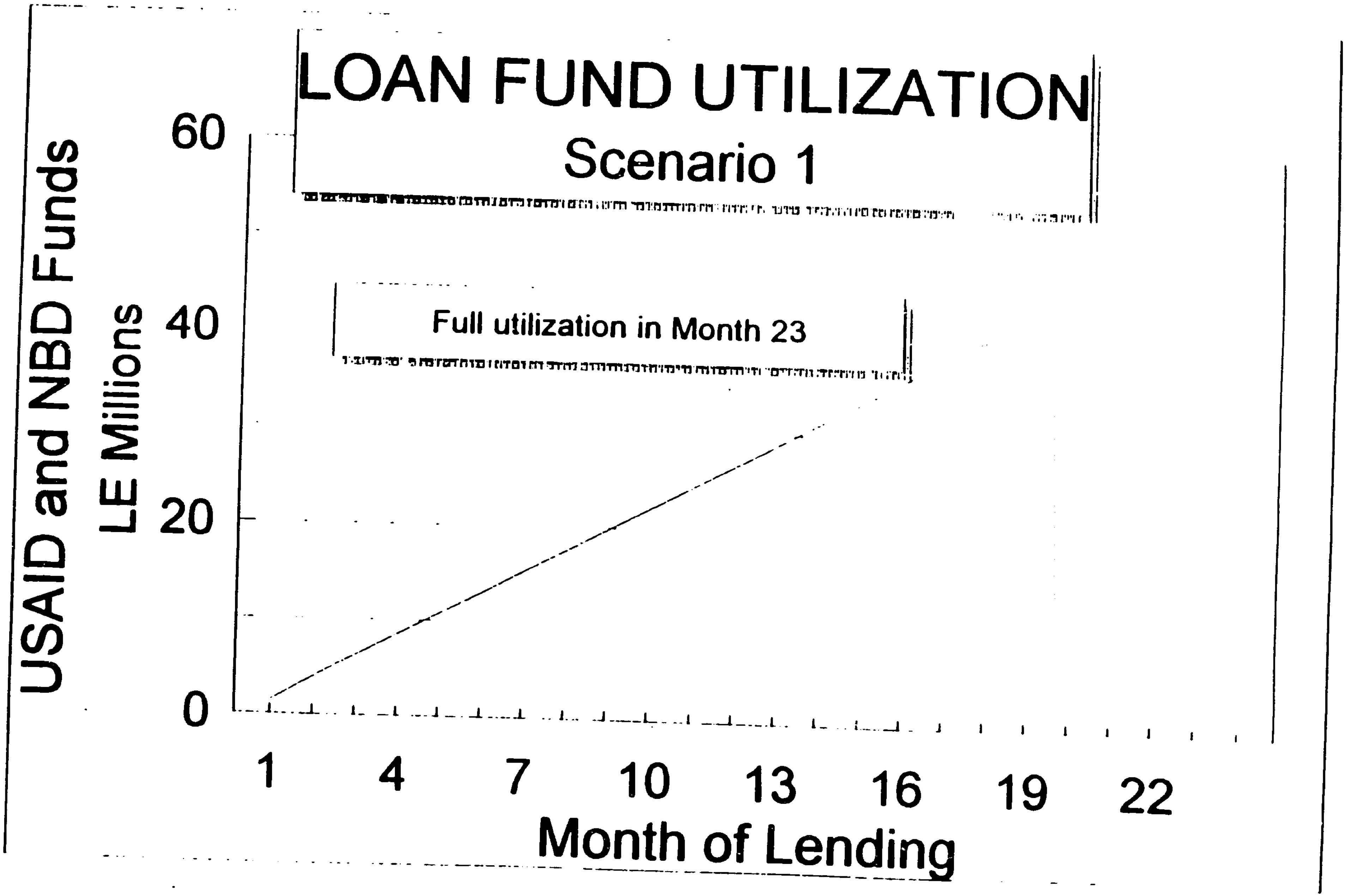
Scenario 1

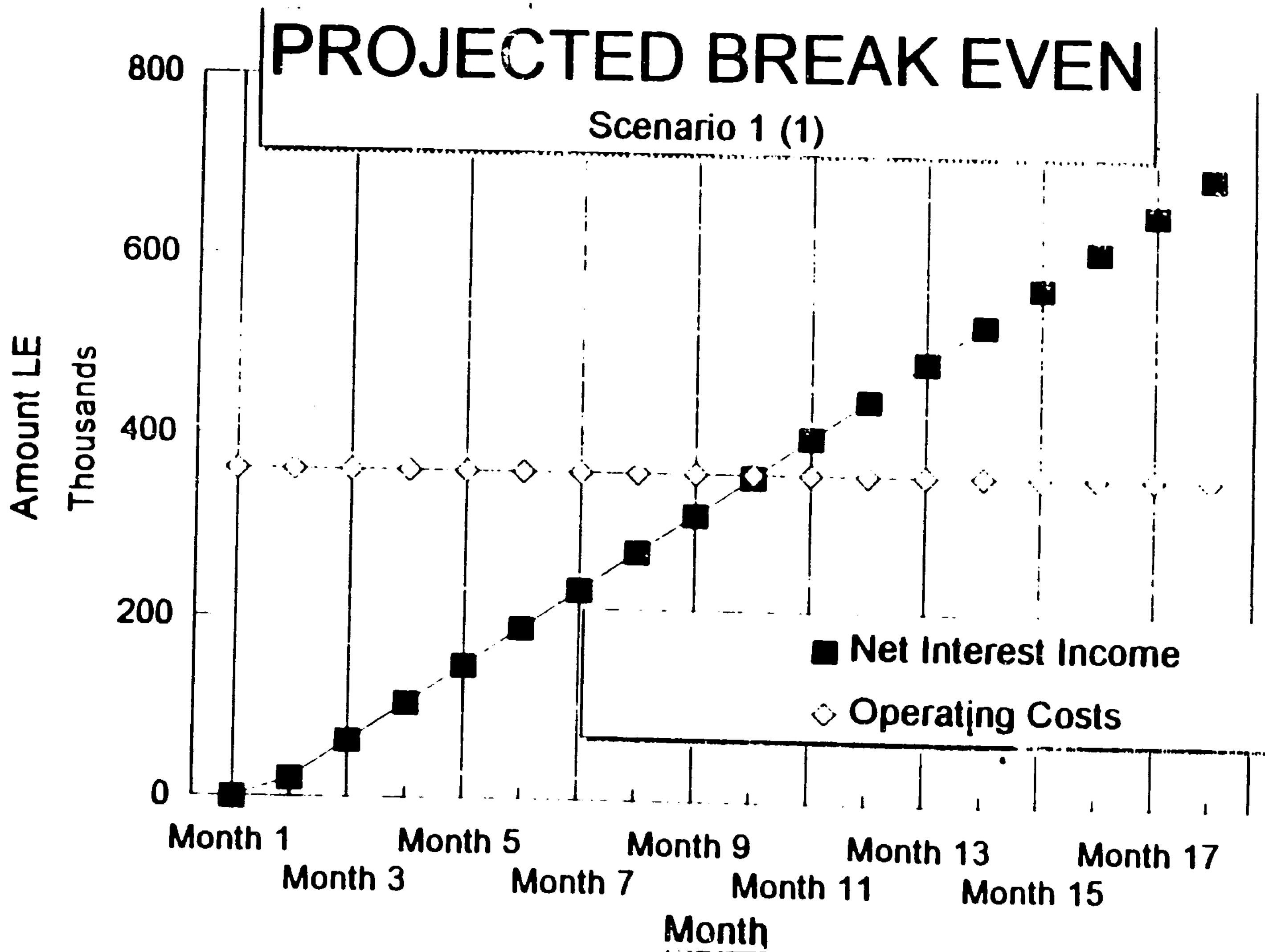
LFPUPP12 WK4

		Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
Loans Extended (cumulative)		25.974	27.378	28.782	30 186	31.590	32 994
Cumulative Amount Extended LE	(a)	61.948.000	54.756.000	57 564.000	60.372 000	63 180 000	65 988.000
Gross Principal Repaid LE	(b)	9.828.000	10.389.600	10 951.200	11 512.800	12 074 400	12 636.000
Allowance for Default LE	(c)	491.400	519.480	547.560	575.640	603 720	631.800
Net Principal Repaid LE	(b c)	9.336.600	9.870.120	10 403.640	10 937.160	11.470.680	12.004.200
Gross Int Income LE	(d)	778.060	822.610	866 970	911.430	955.890	1.000.350
Allowance for Default LE	(e)	38.903	41.126	43 349	45.672	47.795	50.018
Net Interest Repaid LE	(d-e)	739.148	781.385	823.622	865.859	908.096	950.333
Total Fund Reflow (net principal + net interest)	(f)	10.075.748	10.651.605	11.227.262	11.803.019	12.378.776	12.954.533
Total New Loan Funds Required (LE)	(g) = (a-f)	42.611.400	44.886.880	47.160.360	49.434.840	51 709.320	53 983.800
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	2.274.480	2.274.480	2.274.480	2.274.480	2.274.480	2.274.480

RECURRENT COSTS	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
Operating costs	360.993	360.993	360.993	360.993	360.993	360.993
Interest on Funds @	0	0	0	0	0	0
Monthly costs	360.993	360.993	360.993	360.993	360.993	360.993
Cumulative Costs	7.941.846	8.302.839	8.663.832	9.024.825	9.386.818	9.746.811
Net Interest Income	739.148	781.386	823.622	865.869	908 096	950.333
Monthly Costs	360.993	360.993	360.993	360.993	360.993	360.993
Monthly Profit(Loss)	378.166	420.392	462.629	504.866	547.103	589.340
Cumulative Profit (Loss)	(1.099.452)	(679.061)	(216.432)	288.434	835.536	1.424.876

SEC UPPER EGYPT EXPANSION





1. No cost of funds has been imputed

SEC UPPER EGYPT EXPANSION

Scenario 2

LFPU619 WK4

New Loans/ Month/ Officer	Avg Loan Amount (LE) By 6 Mo Period Periods 1-6	# of Loan Officers/ Unit	No of Branches	Interest Rate	Average Default	Five Month Loan Length	Cost of Funds
13	1,000	9	12	19 00%	5 00%		0 00%
	1300						
	1690						
26-May-94	2197						
12:44:46 PM	2856						
	3712						

Quarter 1 performance rate per loan officer is assumed to be 50% of normal, quarter 2, 75%, thereafter 100%.
Break even during Month 18 assuming no allocation for cost of funds
Operating costs = Salaries + Other Direct Costs Operating costs increase 16% each 12 months

	Startup Period (3 months)	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Loans Extended (cumulative)		702	1,404	2 106	3,159	4 212	5 265
Cumulative Amount Extended LE (a)		702,000	1,404,000	2,106 000	3 159,000	4 212,000	5 265 000
Gross Principal Repaid LE (b)		0	140,400	280 800	421,200	631 800	842 400
Allowance for Default LE (c)		0	7,020	14 040	21 060	31 590	42 120
Net Principal Repaid LE (b c)		0	133,380	266 760	400 140	600 210	800 280
Gross Int Income LE (d)		0	11,115	22 230	33 345	50 018	66 690
Allowance for Default LE (e)		0	556	1 112	1,667	2 501	3 335
Net Interest Repaid LE (d-e)		0	10,559	21 119	31,678	47 517	63 356
Total Fund Reflow (net principal + net interest) (f)		0	143,939	287,879	431,818	647,727	861 636
Total New Loan Funds Required (LE) (g) = (a-f)		702,000	1,270,620	1,839,240	2,758,860	3,611,790	4 464 720
Incremental Loan Funds Required (LE) (g)-(previous column's g)		702,000	868,620	568,620	919,620	852,930	852 930

RECURRENT COSTS									
Operating costs	90,248	90,248	90,348	180,497	270,746	360,993	360,993	360,993	360 993
Interest on Funds					0	0	0	0	0
Monthly costs	90,248	90,248	90,248	180,497	270,745	360,993	360,993	360,993	360 993
Cumulative Costs	90,248	180,496	270,744	461,241	721,986	1,082,979	1,443,972	1,804,966	2,165,958
Net Interest Income	0	0	0	0	10,559	21,119	31,678	47,517	63 356
Monthly Costs	90,248	90,248	90,248	180,497	270,746	360,993	360,993	360 993	360 993
Monthly Profit(Loss)	(90,248)	(90,248)	(90,248)	(180,497)	(260,186)	(339,875)	(329,315)	(313,476)	(297 638)
Cumulative Profit (Loss)	(90,248)	(180,496)	(270,744)	(461,241)	(711,427)	(1,081,301)	(1,380,617)	(1,694,093)	(1,991 730)

Cumulative No of Borrowers 5265

F-9

55

SEC UPPER EGYPT EXPANSION

Scenario 2

LFPU519 WK4

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Loans Extended (cumulative)	6,669	8,073	9,477	10,881	12,285	13,689
Cumulative Amount Extended LE (a)	7,090,200	8,915,400	10,740,600	12,565,800	14,391,000	16,216,200
Gross Principal Repaid LE (b)	1,053,000	1,418,040	1,783,080	2,148,120	2,513,160	2,878,200
Allowance for Default LE (c)	52,650	70,902	89,154	107,406	125,658	143,910
Net Principal Repaid LE (b-c)	1,000,350	1,347,138	1,693,926	2,040,714	2,387,502	2,734,290
Gross Int Income LE (d)	83,363	112,262	141,161	170,060	198,959	227,858
Allowance for Default LE (e)	4,168	5,613	7,058	8,503	9,948	11,393
Net Interest Repaid LE (d-e)	79,194	106,648	134,102	161,557	189,011	216,465
Total Fund Reflow (net principal + net interest) (f)	1,079,544	1,453,786	1,828,028	2,202,271	2,576,613	2,950,755
Total New Loan Funds Required (LE) (g) = (a-f)	6,089,860	7,868,262	9,046,674	10,525,086	12,003,498	13,481,910
Incremental Loan Funds Required (LE) (g)-(previous column's g)	1,626,130	1,478,412	1,478,412	1,478,412	1,478,412	1,478,412

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
RECURRENT COSTS						
Operating costs	360,993	360,993	360,993	416,142	416,142	415,142
Interest on Funds ●	0	0	0	0	0	0
Monthly costs	360,993	360,993	360,993	415,142	416,142	416,142
Cumulative Costs	2,526,961	2,887,944	3,248,937	3,664,079	4,079,221	4,494,363
Net Interest Income	79,194	106,648	134,102	161,667	189,011	216,466
Monthly Costs	360,993	360,993	360,993	415,142	415,142	415,142
Monthly Profit(Loss)	(281,799)	(254,345)	(226,891)	(253,585)	(226,131)	(198,677)
Cumulative Profit (Loss)	(2,273,529)	(2,527,874)	(2,754,764)	(3,008,350)	(3,234,481)	(3,433,158)

F-10

56

SEC UPPER EGYPT EXPANSION

Scenario 2

LFPU519 WK4

Loans Extended (cumulative)	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18
Cumulative Amount Extended LE (a)	15,093	16,497	17,901	19,305	20,709	22,113
Gross Principal Repaid LE (b)	18,588,960	20,961,720	23,334,480	25,707,240	28,080,000	30,452,760
Allowance for Default LE (c)	3,243,240	3,717,792	4,192,344	4,666,896	5,141,448	5,616,000
Net Principal Repaid LE (b-c)	162,162	186,890	209,617	233,345	257,072	280,800
Gross Int Income LE (d)	3,081,078	3,531,902	3,982,727	4,433,551	4,884,376	5,335,200
Allowance for Default LE (e)	266,757	294,325	331,894	369,463	407,031	444,600
Net Interest Repaid LE (d-e)	12,838	14,716	16,595	18,473	20,352	22,230
Total Fund Reflow (net principal + net interest) (f)	243,919	279,609	315,299	350,989	386,680	422,370
Total New Loan Funds Required (LE) (g) = (a-f)	3,324,997	3,811,511	4,298,026	4,784,541	5,271,055	5,757,570
	15,507,882	17,429,818	19,351,753	21,273,689	23,195,624	25,117,560
Incremental Loan Funds Required (LE) (g)-(previous column's g)	2,026,972	1,921,936	1,921,936	1,921,936	1,921,936	1,921,936

F-11

RECURRENT COSTS						
Operating costs	415,142	415,142	415,142	415,142	415,142	415,142
Interest on Funds @	0	0	0	0	0	0
Monthly costs	415,142	415,142	415,142	415,142	415,142	415,142
Cumulative Costs	4,909,506	5,324,647	5,739,789	6,154,931	6,570,073	6,985,215
Net Interest Income	243,919	279,609	315,299	350,989	386,680	422,370
Monthly Costs	415,142	415,142	415,142	415,142	415,142	415,142
Monthly Profit(Loss)	(171,223)	(135,533)	(99,843)	(64,153)	(28,462)	7,228
Cumulative Profit (Loss)	(3,604,382)	(3,739,915)	(3,839,758)	(3,903,910)	(3,932,372)	(3,925,144)

Cumulative No of Borrowers

12425

SEC UPPER EGYPT EXPANSION

Scenario 2

LFPU519.WK4

		Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
Loans Extended (cumulative)		23,517	24,921	26,325	27,729	29,133	30,537
Cumulative Amount Extended LE	(a)	33,537,348	36,621,936	39,706,524	42,791,112	45,875,700	48,960,288
Gross Principal Repaid LE	(b)	6,090,552	6,707,470	7,324,387	7,941,305	8,558,222	9,175,140
Allowance for Default LE	(c)	304,528	335,373	366,219	397,065	427,911	458,757
Net Principal Repaid LE	(b-c)	5,786,024	6,372,096	6,958,168	7,544,240	8,130,311	8,716,383
Gross Int. Income LE	(d)	482,169	531,008	579,847	628,687	677,526	726,365
Allowance for Default LE	(e)	24,108	26,550	28,992	31,434	33,876	36,318
Net Interest Repaid LE	(d-e)	458,060	504,458	550,855	597,252	643,650	690,047
Total Fund Reflow (net principal + net interest)	(f)	6,244,086	6,876,554	7,509,023	8,141,492	8,773,961	9,406,430
Total New Loan Funds Required (LE)	(g) = (a-f)	27,761,324	30,249,840	32,740,356	35,246,872	37,745,389	40,243,905
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	2,633,764	2,498,516	2,498,516	2,498,516	2,498,516	2,498,516

	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
RECURRENT COSTS						
Operating costs	415,142	415,142	415,142	477,413	477,413	477,413
Interest on Funds @	0	0	0	0	0	0
Monthly costs	415,142	415,142	415,142	477,413	477,413	477,413
Cumulative Costs	7,400,367	7,815,499	8,230,641	8,708,064	9,185,467	9,662,880
Net Interest Income	458,060	504,458	550,855	697,262	643,650	690,047
Monthly Costs	415,142	415,142	415,142	477,413	477,413	477,413
Monthly Profit(Loss)	42,918	89,316	135,713	119,839	166,237	212,634
Cumulative Profit (Loss)	(3,882,226)	(3,792,910)	(3,667,198)	(3,537,358)	(3,371,122)	(3,158,488)

SEC UPPER EGYPT EXPANSION

Scenario 2

LFPU519.WK4

		Month 25	Month 26	Month 27	Month 28	Month 29	Month 30
Loans Extended (cumulative)		31,941	33,346	34,749	36,153	37,557	38,961
Cumulative Amount Extended LE	(a)	62,970,112	66 979,936	60,989,760	64,999,584	69,009 408	73 019,232
Gross Principal Repaid LE	(b)	9,792,058	10,594,022	11,395,987	12,197,952	12,999,917	13,801,882
Allowance for Default LE	(c)	489,603	529,701	569,799	609,898	649 996	690,094
Net Principal Repaid LE	(b c)	9,302,466	10,064,321	10,826,188	11,588,054	12,349,921	13,111,788
Gross Int Income LE	(d)	775,206	838,693	902,182	966,671	1,029,160	1,092,649
Allowance for Default LE	(e)	38,760	41,936	46,109	48,284	51,458	54,632
Net Interest Repaid LE	(d-e)	736,444	796,759	857,073	917,388	977,702	1,038,017
Total Fund Reflow (net principal + net interest)	(f)	10,038,899	10,861,080	11,683,261	12,505,442	13,327,623	14,149,804
Total New Loan Funds Required (LE)	(g) = (a-f)	43,667,667	46,915,615	50,163,572	63,411,630	56,659,487	59,907,444
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	3,423,752	3,247,957	3,247,967	3,247,967	3,247,957	3,247,957

	Month 25	Month 26	Month 27	Month 28	Month 29	Month 30
RECURRENT COSTS						
Operating costs	477,413	477,413	477,413	477,413	477,413	477,413
Interest on Funds @	0	0	0	0	0	0
Monthly costs	477,413	477,413	477,413	477,413	477,413	477,413
Cumulative Costs	10,140,293	10,617,706	11,096,119	11,572,532	12,049,945	12,527,358
Net Interest Income	736,444	796,759	857,073	917,388	977,702	1,038,017
Monthly Costs	477,413	477,413	477,413	477,413	477,413	477,413
Monthly Profit(Loss)	259,031	319,346	379,660	439,975	500,289	560,604
Cumulative Profit (Loss)	(2,899,456)	(2,580,110)	(2,200,450)	(1,760,476)	(1,260,187)	(699,583)

59

SEC UPPER EGYPT EXPANSION

Scenario 2

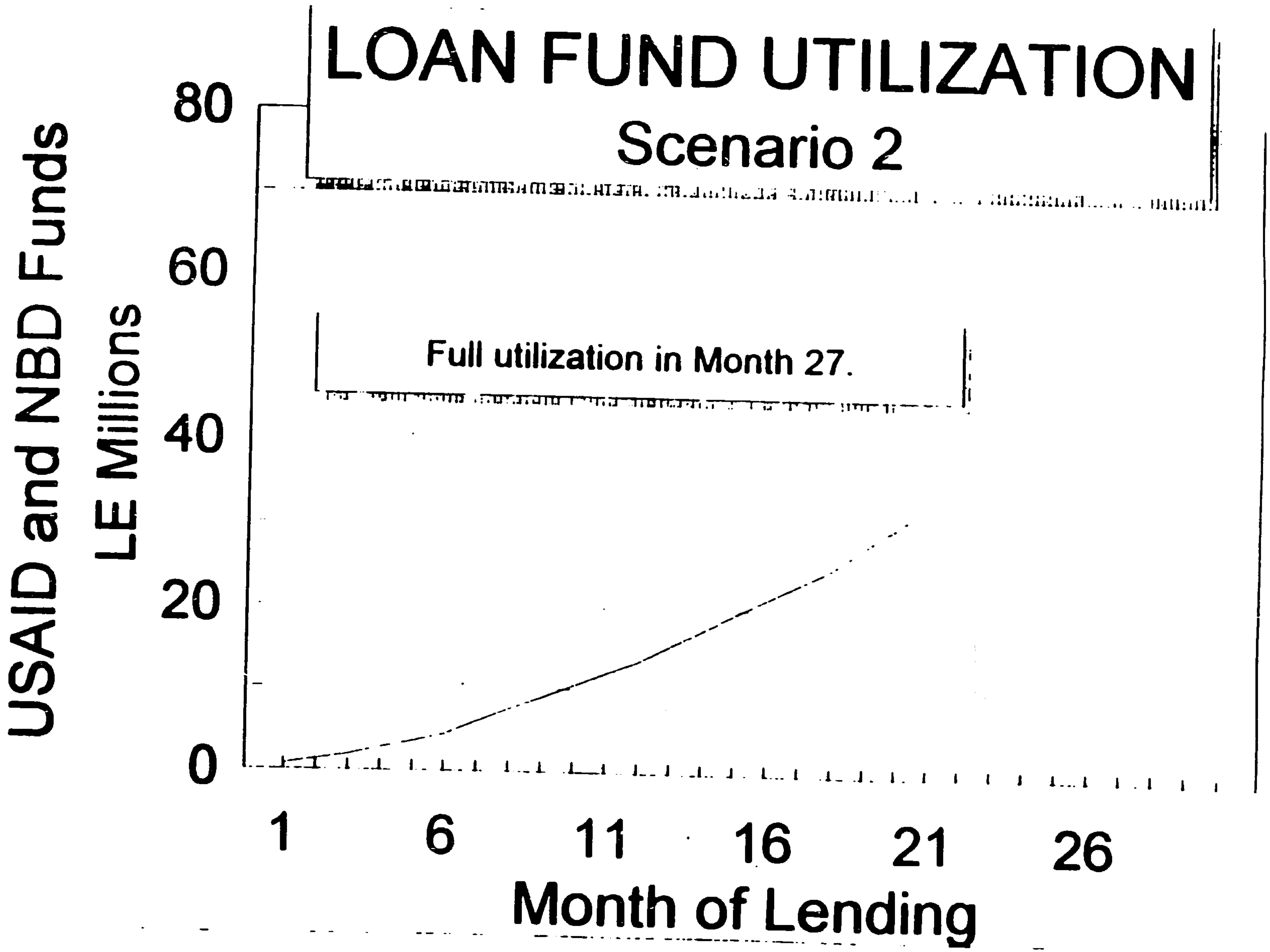
LFPU619 WK4

		Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
Loans Extended (cumulative)		40,365	41,769	43,173	44,577	45,981	47,385
Cumulative Amount Extended LE	(a)	78,230,880	83,442,528	88,654,176	93,865,824	99,077,472	104,289,120
Gross Principal Repaid LE	(b)	14,603,846	15,646,176	16,688,506	17,730,835	18,773,165	19,815,494
Allowance for Default LE	(c)	730,192	782,309	834,425	886,542	938,658	990,775
Net Principal Repaid LE	(b c)	13,873,654	14,863,867	15,854,080	16,844,293	17,834,507	18,824,720
Gross Int Income LE	(d)	1,156,138	1,238,656	1,321,173	1,403,691	1,486,209	1,568,727
Allowance for Default LE	(e)	57,807	61,933	66,059	70,185	74,310	78,436
Net Interest Repaid LE	(d-e)	1,098,331	1,176,723	1,255,115	1,333,507	1,411,898	1,490,290
Total Fund Reflow (net principal + net interest)	(f)	14,971,985	16,040,590	17,109,196	18,177,800	19,246,405	20,315,010
Total New Loan Funds Required (LE)	(g) = (a-f)	64,367,226	68,878,661	72,800,056	77,021,531	81,242,965	85,464,400
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	4,449,781	4,221,436	4,221,436	4,221,436	4,221,435	4,221,436

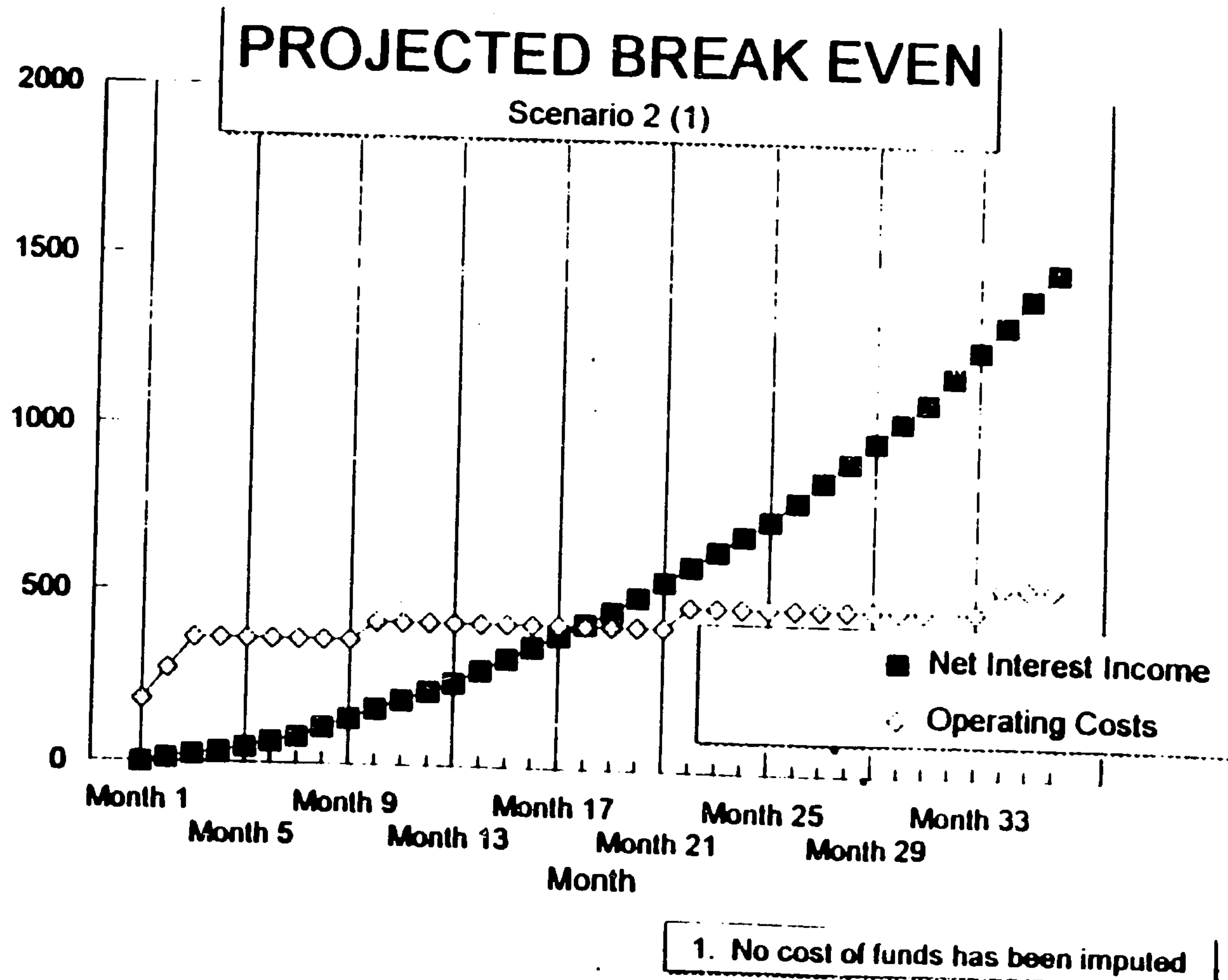
	Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
RECURRENT COSTS						
Operating costs	477,413	477,413	477,413	549,026	549,025	549,026
Interest on Funds @	0	0	0	0	0	0
Monthly costs	477,413	477,413	477,413	549,026	549,026	549,026
Cumulative Costs	13,004,771	13,482,184	13,959,597	14,508,622	15,057,647	15,606,672
Net Interest Income	1,098,331	1,176,723	1,255,115	1,333,507	1,411,898	1,490,290
Monthly Costs	477,413	477,413	477,413	549,026	549,025	549,026
Monthly Profit(Loss)	620,918	699,310	777,702	784,482	862,873	941,268
Cumulative Profit (Loss)	(78,668)	620,646	1,398,346	2,182,828	3,045,701	3,986,967

F-14

SEC UPPER EGYPT EXPANSION



SEC UPPER EGYPT EXPANSION



SEC UPPER EGYPT EXPANSION

Scenario 3

Initial Loan Size LE 800
20% semi-annual loan size increase

LFPU36 WK4

25-May-94
01:41 67 PM

New Loans/ Month/ Officer	Avg Loan Amount (LE) By 6 Mo Period Periods 1-6	# of Loan Officers/ Unit	No of Branches	Interest Rate	Average Default	Five Month Loan Length	Cost of Funds
13	800	9	12	19 00%	5 00%		0 00%
	960						
	1150						
	1380						
	1655						
	1985						

Quarter 1 performance rate per loan officer is assumed to be 50% of normal quarter 2 75% thereafter 100%.
Break even during Month 25 assuming no allocation for cost of funds
Operating costs = Salaries + Other Direct Costs Operating cost increase of 15% each 12 months

Startup Period (3 months)

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Loans Extended (cumulative)	702	1,404	2 106	3 159	4 212	5 265
Cumulative Amount Extended LE (a)	561,600	1,123,200	1,684 800	2,527,200	3 369 600	4 212 000
Gross Principal Repaid LE (b)	0	112,320	224 640	336 960	505 440	673 920
Allowance for Default LE (c)	0	5,616	11 232	16 848	25 272	33 696
Net Principal Repaid LE (b c)	0	106 704	213 408	320,112	480 168	640 224
Gross Int Income LE (d)	0	8,892	17 784	26 676	40 014	[illegible]
Allowance for Default LE (e)	0	445	889	1 334	2 001	2 668
Net Interest Repaid LE (d e)	0	8 447	16 895	25 342	38 013	50 684
Total Fund Reflow (net principal + net interest) (f)	0	115,151	230 303	345 454	518 181	690 400
Total New Loan Funds Required (LE) (g) = (a-f)	561,600	1,016,496	1,471 392	2 207 088	2 889 432	3 571 776
Incremental Loan Funds Required (LE) (g)-(previous column's g)	561,600	454,896	454,896	735 696	682 344	682 344

RECURRENT COSTS

Operating costs	90,248	90,248	90,248	180,497	270,746	360,993	360 993	360,993	360 993
Interest on Funds ●					0	0	0	0	0
Monthly costs	90,248	90,248	90,248	180,497	270,746	360,993	360 993	360,993	360 993
Cumulative Costs	90,248	180,496	270,744	461,241	721,986	1,082,979	1,443,972	1,804,965	2 165 958
Net Interest Income	0	0	0	0	8,447	16 895	25,342	38 013	50 684
Monthly Costs	90,248	90,248	90,248	180,497	270,745	360,993	360 993	360,993	360 993
Monthly Profit(Loss)	(90,248)	(90,248)	(90,248)	(180,497)	(262,298)	(344,098)	(336,651)	(322,980)	(310,309)
Cumulative Profit (Loss)	(90,248)	(180,496)	(270,744)	(461,241)	(713,539)	(1,057,637)	(1 393,288)	(1,716,267)	(2 026 576)

Cumulative No of Borrowers 5265

F-17

63

SEC UPPER EGYPT EXPANSION

Scenario 3

Initial Loan Size LE 800
20% semi-annual loan size increase

LFPU36 WK4

F-18

		Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Loans Extended (cumulative)		6,669	8,073	9,477	10,881	12,285	13,689
Cumulative Amount Extended LE	(a)	5,559,840	6,907,680	8,255,520	9,603,360	10,951,200	12,299,040
Gross Principal Repaid LE	(b)	842,400	1,111,968	1,381,536	1,651,104	1,920,672	2,190,240
Allowance for Default LE	(c)	42,120	55,598	69,077	82,555	96,034	109,512
Net Principal Repaid LE	(b-c)	800,280	1,056,370	1,312,459	1,568,549	1,824,638	2,080,728
Gross Int Income LE	(d)	66,690	88,031	109,372	130,712	152,053	173,394
Allowance for Default LE	(e)	3,335	4,402	5,469	6,536	7,603	8,670
Net Interest Repaid LE	(d-e)	63,356	83,629	103,903	124,177	144,451	164,724
Total Fund Reflow (net principal + net interest)	(f)	863,636	1,139,999	1,416,362	1,692,726	1,969,089	2,245,452
Total New Loan Funds Required (LE)	(g) = (a-f)	4,759,660	5,851,310	6,943,061	8,034,811	9,126,562	10,218,312
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	1,187,784	1,091,750	1,091,750	1,091,750	1,091,750	1,091,750

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
RECURRENT COSTS						
Operating costs	360,993	360,993	360,993	415,142	415,142	415,142
Interest on Funds @	0	0	0	0	0	0
Monthly costs	360,993	360,993	360,993	415,142	415,142	415,142
Cumulative Costs	2,626,961	2,887,944	3,248,937	3,664,079	4,079,221	4,494,363
Net Interest Income	63,356	83,629	103,903	124,177	144,461	164,724
Monthly Costs	360,993	360,993	360,993	415,142	415,142	415,142
Monthly Profit(Loss)	(297,638)	(277,364)	(257,090)	(290,965)	(270,691)	(250,418)
Cumulative Profit (Loss)	(2,324,213)	(2,601,577)	(2,858,667)	(3,149,632)	(3,420,324)	(3,670,742)

Cumulative No of Borrowers

9477

Scenario 3

Initial Loan Size LE 800
20% semi-annual loan size increase

LFPU36 WK4

	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
Loans Extended (cumulative)	23,517	24,921	26,325	27,729	29,133	30,537
Cumulative Amount Extended LE (a)	23,924,160	25,861,680	27,799,200	29,736,720	31,674,240	33,611,760
Gross Principal Repaid LE (b)	4,397,328	4,784,832	5,172,336	5,559,840	5,947,344	6,334,848
Allowance for Default LE (c)	219,866	239,242	268,617	277,992	297,367	316,742
Net Principal Repaid LE (b-c)	4,177,462	4,545,590	4,913,719	5,281,848	5,649,977	6,018,106
Gross Int. Income LE (d)	348,122	378,799	409,477	440,154	470,831	501,509
Allowance for Default LE (e)	17,406	18,940	20,474	22,008	23,542	25,075
Net Interest Repaid LE (d-e)	330,716	359,859	389,003	418,146	447,290	476,433
Total Fund Reflow (net principal + net interest) (f)	4,508,177	4,905,450	5,302,722	5,699,994	6,097,267	6,494,539
Total New Loan Funds Required (LE) (g) = (a-f)	19,746,690	21,316,090	22,885,481	24,464,872	26,024,263	27,593,654
Incremental Loan Funds Required (LE) (g)-(previous column's g)	1,630,746	1,569,391	1,569,391	1,569,391	1,569,391	1,569,391
RECURRENT COSTS						
Operating costs	416,142	416,142	416,142	477,413	477,413	477,413
Interest on Funds @	0	0	0	0	0	0
Monthly costs	416,142	415,142	416,142	477,413	477,413	477,413
Cumulative Costs	7,400,367	7,816,499	8,230,641	8,708,054	9,185,467	9,662,880
Net Interest Income	330,716	359,859	389,003	418,146	447,290	476,433
Monthly Costs	416,142	415,142	416,142	477,413	477,413	477,413
Monthly Profit(Loss)	(84,426)	(55,283)	(26,139)	(59,267)	(30,123)	(980)
Cumulative Profit (Loss)	(4,771,737)	(4,827,020)	(4,853,159)	(4,912,426)	(4,942,649)	(4,943,629)

Cumulative No of Borrowers 14952

69

SEC UPPER EGYPT EXPANSION

Scenario 3

Initial Loan Size LE 800
20% semi-annual loan size increase

LFPU36 WK4

		Month 25	Month 26	Month 27	Month 28	Month 29	Month 30
Loans Extended (cumulative)		31,941	33,345	34,749	36,153	37,557	38,961
Cumulative Amount Extended LE	(a)	35,935,380	38,259,000	40,582,620	42,906,240	45,229,860	47,553,480
Gross Principal Repaid LE	(b)	6,722,352	7,187,076	7,651,800	8,116,524	8,581,248	9,045,972
Allowance for Default LE	(c)	336,118	359,354	382,590	405,826	429,062	452,299
Net Principal Repaid LE	(b-c)	6,386,234	6,827,722	7,269,210	7,710,698	8,152,186	8,593,673
Gross Int Income LE	(d)	532,186	568,977	605,768	642,558	679,349	716,139
Allowance for Default LE	(e)	26,609	28,449	30,288	32,128	33,967	35,807
Net Interest Repaid LE	(d-e)	506,577	540,528	575,479	610,430	645,381	680,332
Total Fund Reflow (net principal + net interest)	(f)	6,891,811	7,368,250	7,844,689	8,321,128	8,797,567	9,274,006
Total New Loan Funds Required (LE)	(g) = (a-f)	29,649,146	31,431,278	33,313,410	35,195,642	37,077,674	38,959,807
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	1,965,491	1,882,132	1,882,132	1,882,132	1,882,132	1,882,132

	Month 25	Month 26	Month 27	Month 28	Month 29	Month 30
RECURRENT COSTS						
Operating costs	477,413	477,413	477,413	477,413	477,413	477,413
Interest on Funds @	0	0	0	0	0	0
Monthly costs	477,413	477,413	477,413	477,413	477,413	477,413
Cumulative Costs	10,140,293	10,617,706	11,095,119	11,572,532	12,049,945	12,527,358
Net Interest Income	506,577	540,528	575,479	610,430	645,381	680,332
Monthly Costs	477,413	477,413	477,413	477,413	477,413	477,413
Monthly Profit(Loss)	28,164	63,115	98,066	133,017	167,968	202,919
Cumulative Profit (Loss)	(4,916,366)	(4,852,250)	(4,754,184)	(4,621,167)	(4,453,198)	(4,250,279)

6

Cumulative No of Borrowers

17058

Scenario 3

Initial Loan Size LE 800
20% semi-annual loan size increase

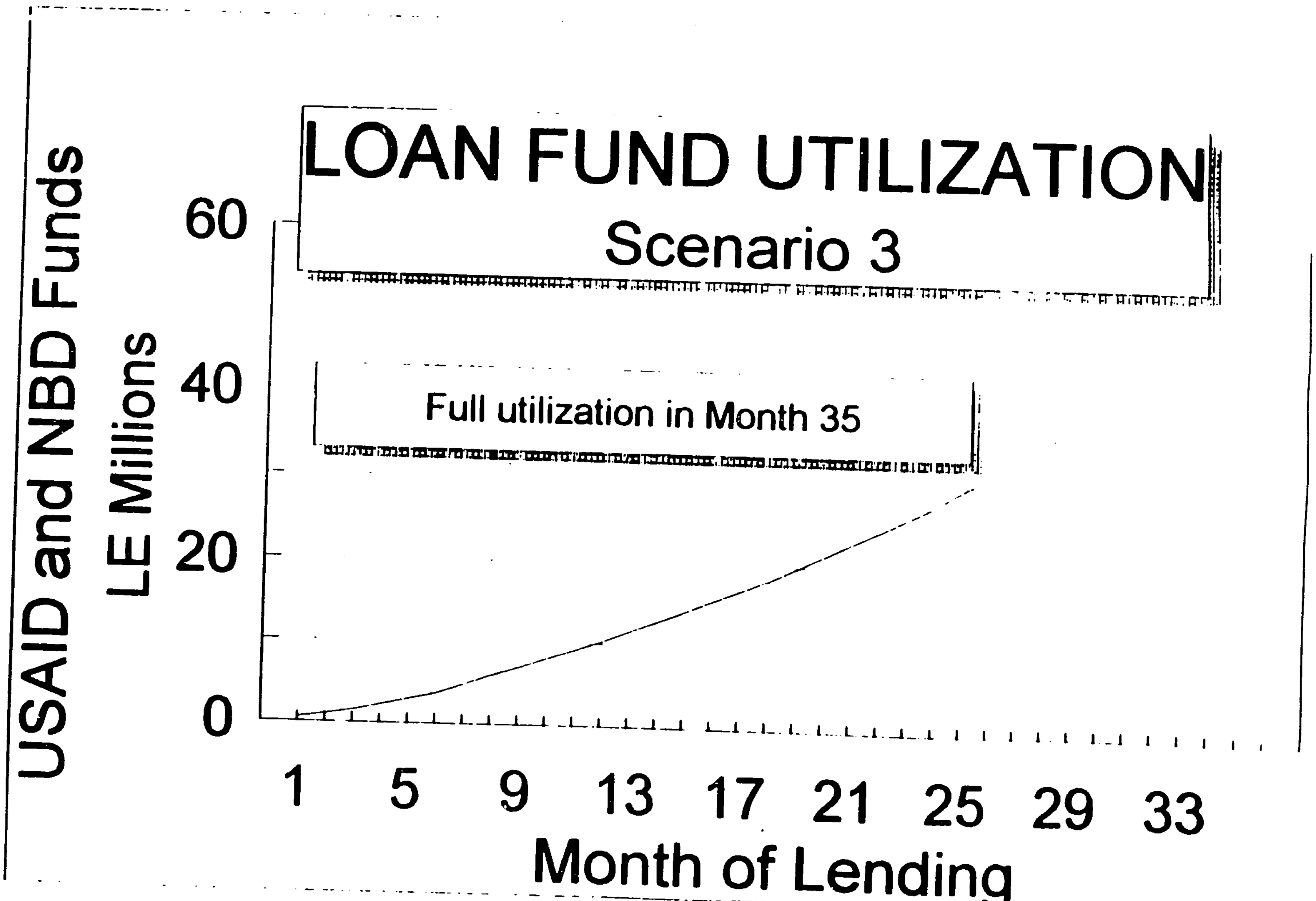
LFPU36.WK4

		Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
Loans Extended (cumulative)		40.365	41.769	43.173	44.577	45.981	47.385
Cumulative Amount Extended LE	(a)	50.340.420	53.127 360	55 914.300	58.701.240	61.488 180	64 275.120
Gross Principal Repaid LE	(b)	9.510.696	10.068.084	10 625 472	11.182 860	11.740 248	12 297.636
Allowance for Default LE	(c)	475.535	503.404	531.274	559.143	587 012	614.882
Net Principal Repaid LE	(b c)	9.035.161	9.564.680	10 094.198	10.623.717	11 153 236	11 682 754
Gross Int Income LE	(d)	752.930	797.057	841.183	885.310	929 436	973.563
Allowance for Default LE	(e)	37.647	39.853	42.059	44.265	46 472	48.678
Net Interest Repaid LE	(d-e)	716.284	757.204	799.124	841.044	882.964	924.886
Total Fund Reflow (net principal + net interest)	(f)	9.760.446	10.321.884	10.893.322	11.464.761	12.036.200	12 607.639
Total New Loan Funds Required (LE)	(g) = (a-f)	41.305.269	43.562.680	45.820.102	48.077.523	50.334.944	52.592.366
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	2.345.462	2.267.421	2.257.421	2.267.421	2.257.421	2.257.421

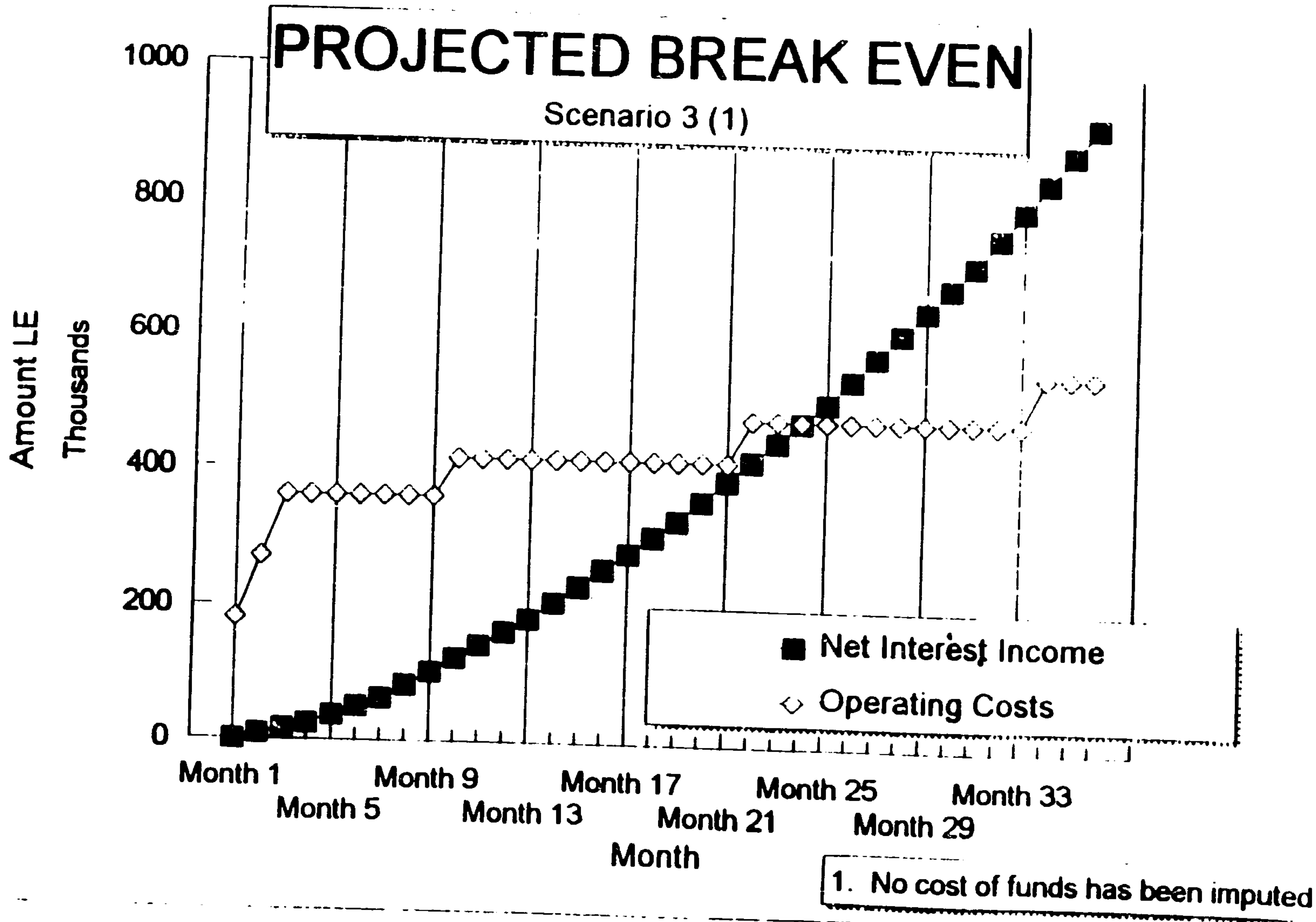
	Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
RECURRENT COSTS						
Operating costs	477.413	477.413	477.413	549.026	549.025	549.025
Interest on Funds @	0	0	0	0	0	0
Monthly costs	477.413	477.413	477.413	549.026	549.025	549.025
Cumulative Costs	13.004.771	13.482.184	13.959.697	14.608.622	15.057.647	15.606.672
Net Interest Income	716.284	757.204	799.124	841.044	882.964	924.885
Monthly Costs	477.413	477.413	477.413	549.026	549.025	549.025
Monthly Profit(Loss)	237.871	279.791	321.711	292.019	333.939	375.860
Cumulative Profit (Loss)	(4.012.408)	(3.732.617)	(3.410.906)	(3.118.887)	(2.784.948)	(2.409.088)

Cumulative No of Borrowers

SEC UPPER EGYPT EXPANSION



SEC UPPER EGYPT EXPANSION



SCENARIO 4

SINGLE BRANCH MODEL

LFPU6191.WK4

24-May-94
12:20:25 PM

New Loans/ Month/ Officer	Avg Loan Amount (LE) By 6 Mo Period Periods 1-6	# of Loan Officers/ Unit	No of Branches	Interest Rate	Average Default	Five Month Loan Length	Cost of Funds
13	1 000	9	1	19 00%	5 00%		0 00%
	1300						
	1690						
	2197						
	2856						
	3712						

Quarter 1 performance rate per loan officer is assumed to be 50% of normal quarter 2 75% thereafter 100%
Break even during Month 18 assuming no allocation for cost of funds
Operating costs = Salaries + Other Direct Costs Operating cost increase of 15% each 12 months

	Startup Period (3 months)	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Loans Extended (cumulative)		69	117	176	263	351	439
Cumulative Amount Extended LE (a)		68,500	117,000	175,500	263,260	351 000	438,750
Gross Principal Repaid LE (b)		0	11,700	23,400	35 100	52 650	70 200
Allowance for Default LE (c)		0	685	1,170	1,756	2 633	3 510
Net Principal Repaid LE (b-c)		0	11 115	22,230	33 346	50 018	66 690
Gross Int Income LE (d)		0	926	1,853	2,779	4 160	5 558
Allowance for Default LE (e)		0	46	93	139	208	278
Net Interest Repaid LE (d-e)		0	880	1,760	2 640	3 960	5 280
Total Fund Reflow (net principal + net interest) (f)		0	11 995	23 990	35 986	53 977	71 970
Total New Loan Funds Required (LE) (g) = (a-f)		58,500	105 885	153,270	229 905	300 983	372 060
Incremental Loan Funds Required (LE) (g)-(previous column's g)		68,500	47 385	47,386	76,635	71 078	71 078

F-24

RECURRENT COSTS									
Operating costs	7,821	7,821	7,621	16,041	22,562	30,083	30,083	30 083	30 083
Interest on Funds @					0	0	0	0	0
Monthly costs	7,821	7,621	7,521	16,041	22 662	30,083	30 083	30 083	30 083
Cumulative Costs	7,821	16,042	22,663	37,604	60,166	90,249	120,332	150,415	180 498
Net Interest Income	0	0	0	0	880	1,760	2 640	3 960	5 280
Monthly Costs	7,821	7,621	7,521	16,041	22,662	30 083	30 083	30,083	30 083
Monthly Profit(Loss)	(7,821)	(7,821)	(7,621)	(16,041)	(21,682)	(28,323)	(27,443)	(26,123)	(24 803)
Cumulative Profit (Loss)	(7,821)	(15,042)	(22,663)	(37,604)	(59,286)	(87,609)	(115 062)	(141 176)	(165 979)

Cumulative No. of Borrowers

SINGLE BRANCH MODEL

LFPU6191.WK4

		Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Loans Extended (cumulative)		656	673	790	907	1,024	1,141
Cumulative Amount Extended LE	(a)	690,860	742,950	895,050	1,047,150	1,199,250	1,351,350
Gross Principal Repaid LE	(b)	87,760	118,170	148,890	179,010	209,430	239,850
Allowance for Default LE	(c)	4,388	5,909	7,430	8,961	10,472	11,993
Net Principal Repaid LE	(b-c)	83,363	112,262	141,161	170,060	198,959	227,858
Gross Int. Income LE	(d)	6,947	9,365	11,763	14,172	16,680	18,988
Allowance for Default LE	(e)	347	468	588	709	829	949
Net Interest Repaid LE	(d-e)	6,600	8,887	11,175	13,463	15,751	18,039
Total Fund Reflow (net principal + net interest) (f)		89,962	121,149	162,336	183,523	214,709	245,896
Total New Loan Funds Required (LE)	(g) = (a-f)	607,488	630,689	763,890	877,091	1,000,292	1,123,493
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	135,428	123,201	123,201	123,201	123,201	123,201

RECURRENT COSTS						
Operating costs	30,083	30,083	30,083	34,696	34,696	34,596
Interest on Funds @	0	0	0	0	0	0
Monthly costs	30,083	30,083	30,083	34,696	34,696	34,595
Cumulative Costs	210,881	240,664	270,747	305,342	339,937	374,532
Net Interest Income	6,600	8,887	11,176	13,463	15,751	18,039
Monthly Costs	30,083	30,083	30,083	34,696	34,696	34,596
Monthly Profit(Loss)	(23,483)	(21,196)	(18,908)	(21,132)	(18,844)	(16,656)
Cumulative Profit (Loss)	(189,463)	(210,660)	(229,566)	(250,698)	(269,642)	(286,098)

Cumulative No. of Borrowers

790

SINGLE BRANCH MODEL

LFPU6191.WK4

		Month 13	Month 14	Month 15	Month 16	Month 17	Month 18
Loans Extended (cumulative)		1,260	1,376	1,492	1,609	1,726	1,843
Cumulative Amount Extended LE	(a)	1,549,080	1,746,810	1,944,540	2,142,270	2,340,000	2,537,730
Gross Principal Repaid LE	(b)	270,270	309,816	349,362	388,908	428,454	468,000
Allowance for Default LE	(c)	13,514	15,491	17,468	19,445	21,423	23,400
Net Principal Repaid LE	(b-c)	256,757	294,326	331,894	369,463	407,031	444,600
Gross Int. Income LE	(d)	21,396	24,527	27,658	30,789	33,919	37,050
Allowance for Default LE	(e)	1,070	1,226	1,383	1,539	1,696	1,853
Net Interest Repaid LE	(d-e)	20,327	23,301	26,275	29,249	32,223	35,198
Total Fund Reflow (net principal + net interest)	(f)	277,083	317,626	358,169	398,712	439,255	479,798
Total New Loan Funds Required (LE)	(g) = (a-f)	1,292,324	1,452,485	1,612,646	1,772,807	1,932,969	2,093,130
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	160,831	160,161	160,161	160,161	160,161	160,161

F-26

RECURRENT COSTS						
Operating costs	34,596	34,596	34,596	34,596	34,596	34,595
Interest on Funds ●	0	0	0	0	0	0
Monthly costs	34,596	34,596	34,596	34,596	34,596	34,595
Cumulative Costs	409,127	443,722	478,317	512,912	547,507	582,102
Net Interest Income	20,327	23,301	26,275	29,249	32,223	35,198
Monthly Costs	34,596	34,596	34,596	34,596	34,596	34,595
Monthly Profit(Loss)	(14,268)	(11,294)	(8,320)	(5,346)	(2,372)	603
Cumulative Profit (Loss)	(300,367)	(311,661)	(319,981)	(325,327)	(327,699)	(327,096)

Cumulative No. of Borrowers

SINGLE BRANCH MODEL

LFPU6191.WK4

Loans Extended (cumulative)		Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
		1,960	2,077	2,194	2,311	2,428	2,545
Cumulative Amount Extended LE	(a)	2,794,779	3,051,828	3,308,877	3,565,926	3,822,975	4,080,024
Gross Principal Repaid LE	(b)	607,546	658,956	610,366	661,775	713,185	764,595
Allowance for Default LE	(c)	26,377	27,948	30,518	33,089	35,659	38,230
Net Principal Repaid LE	(b-c)	482,169	531,008	579,847	628,687	677,526	726,365
Gross Int. Income LE	(d)	40,181	44,261	48,321	52,391	56,460	60,530
Allowance for Default LE	(e)	2,009	2,213	2,416	2,620	2,823	3,027
Net Interest Repaid LE	(d-e)	38,172	42,038	45,905	49,771	53,637	57,504
Total Fund Reflow (net principal + net interest)	(f)	620,340	573,046	625,752	678,458	731,163	783,869
Total New Loan Funds Required (LE)	(g) = (a-f)	2,312,610	2,620,820	2,729,030	2,937,239	3,145,449	3,353,659
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	219,480	208,210	208,210	208,210	208,210	208,210

F-27

RECURRENT COSTS	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
Operating costs	34,696	34,696	34,695	39,784	39,784	39,784
Interest on Funds @	0	0	0	0	0	0
Monthly costs	34,696	34,696	34,696	39,784	39,784	39,784
Cumulative Costs	616,697	651,292	685,887	726,671	765,465	805,239
Net Interest Income	38,172	42,038	45,906	49,771	53,637	57,504
Monthly Costs	34,696	34,696	34,696	39,784	39,784	39,784
Monthly Profit(Loss)	3,677	7,443	11,310	9,987	13,853	17,720
Cumulative Profit (Loss)	(323,619)	(316,076)	(304,767)	(294,780)	(280,926)	(263,206)

Cumulative No. of Borrowers

1246

73

SINGLE BRANCH MODEL

LFPU5191.WK4

		Month 25	Month 26	Month 27	Month 28	Month 29	Month 30
Loans Extended (cumulative)		2,662	2,779	2,896	3,013	3,130	3,247
Cumulative Amount Extended LE	(a)	4,414,176	4,748,328	6,082,480	5,416,632	6,750,784	6,084,936
Gross Principal Repaid LE	(b)	816,006	882,836	949,666	1,016,496	1,083,326	1,150,157
Allowance for Default LE	(c)	40,800	44,142	47,483	50,825	54,166	57,508
Net Principal Repaid LE	(b-c)	775,206	838,693	902,182	965,671	1,029,160	1,092,649
Gross Int. Income LE	(d)	64,600	69,891	75,182	80,473	85,763	91,054
Allowance for Default LE	(e)	3,230	3,495	3,759	4,024	4,288	4,553
Net Interest Repaid LE	(d-e)	61,370	66,397	71,423	76,449	81,476	86,501
Total Fund Reflow (net principal + net interest)	(f)	836,576	905,090	973,606	1,042,120	1,110,636	1,179,150
Total New Loan Funds Required (LE)	(g) = (a-f)	3,638,971	3,909,635	4,180,298	4,450,961	4,721,624	4,992,287
Incremental Loan Funds Required (LE)	(g)-(previous column's g)	286,313	270,663	270,663	270,663	270,663	270,663

F-28

RECURRENT COSTS	Month 25	Month 26	Month 27	Month 28	Month 29	Month 30
Operating costs	39,784	39,784	39,784	39,784	39,784	39,784
Interest on Funds	0	0	0	0	0	0
Monthly costs	39,784	39,784	39,784	39,784	39,784	39,784
Cumulative Costs	845,023	884,807	924,591	964,375	1,004,159	1,043,943
Net Interest Income	61,370	66,397	71,423	76,449	81,476	86,501
Monthly Costs	39,784	39,784	39,784	39,784	39,784	39,784
Monthly Profit(Loss)	21,586	26,613	31,639	36,665	41,691	46,717
Cumulative Profit (Loss)	(241,620)	(215,007)	(183,369)	(146,704)	(105,012)	(58,295)

Cumulative No. of Borrowers 1422

74

SINGLE BRANCH MODEL

LFPU6191.WK4

	Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
Loans Extended (cumulative)	3,364	3,481	3,598	3,715	3,832	3,949
Cumulative Amount Extended LE (a)	6,619,240	6,953,544	7,387,848	7,822,152	8,256,456	8,690,760
Gross Principal Repaid LE (b)	1,216,987	1,303,848	1,390,709	1,477,570	1,564,430	1,651,291
Allowance for Default LE (c)	60,849	65,192	69,535	73,878	78,222	82,565
Net Principal Repaid LE (b-c)	1,156,138	1,238,656	1,321,173	1,403,691	1,486,209	1,568,727
Gross Int. income LE (d)	96,348	103,221	110,098	116,974	123,851	130,727
Allowance for Default LE (e)	4,817	5,161	5,505	5,849	6,193	6,536
Net Interest Repaid LE (d-e)	91,528	98,060	104,593	111,126	117,658	124,191
Total Fund Reflow (net principal + net interest) (f)	1,247,666	1,336,716	1,425,766	1,514,817	1,603,867	1,692,917
Total New Loan Funds Required (LE) (g) = (a-f)	5,363,102	5,714,888	6,066,675	6,418,461	6,770,247	7,122,033
Incremental Loan Funds Required (LE) (g)-(previous column's g)	370,818	351,786	351,786	351,786	351,786	351,786

F-29

RECURRENT COSTS						
Operating costs	39,784	39,784	39,784	45,762	45,762	45,752
Interest on Funds @	0	0	0	0	0	0
Monthly costs	39,784	39,784	39,784	45,762	45,752	45,752
Cumulative Costs	1,083,727	1,123,511	1,163,296	1,209,047	1,254,799	1,300,551
Net Interest Income	91,528	98,060	104,683	111,126	117,658	124,191
Monthly Costs	39,784	39,784	39,784	45,762	45,762	45,752
Monthly Profit(Loss)	51,744	58,276	64,809	65,374	71,906	78,439
Cumulative Profit (Loss)	(6,882)	51,726	116,534	181,907	253,813	332,262

Cumulative No. of Borrowers

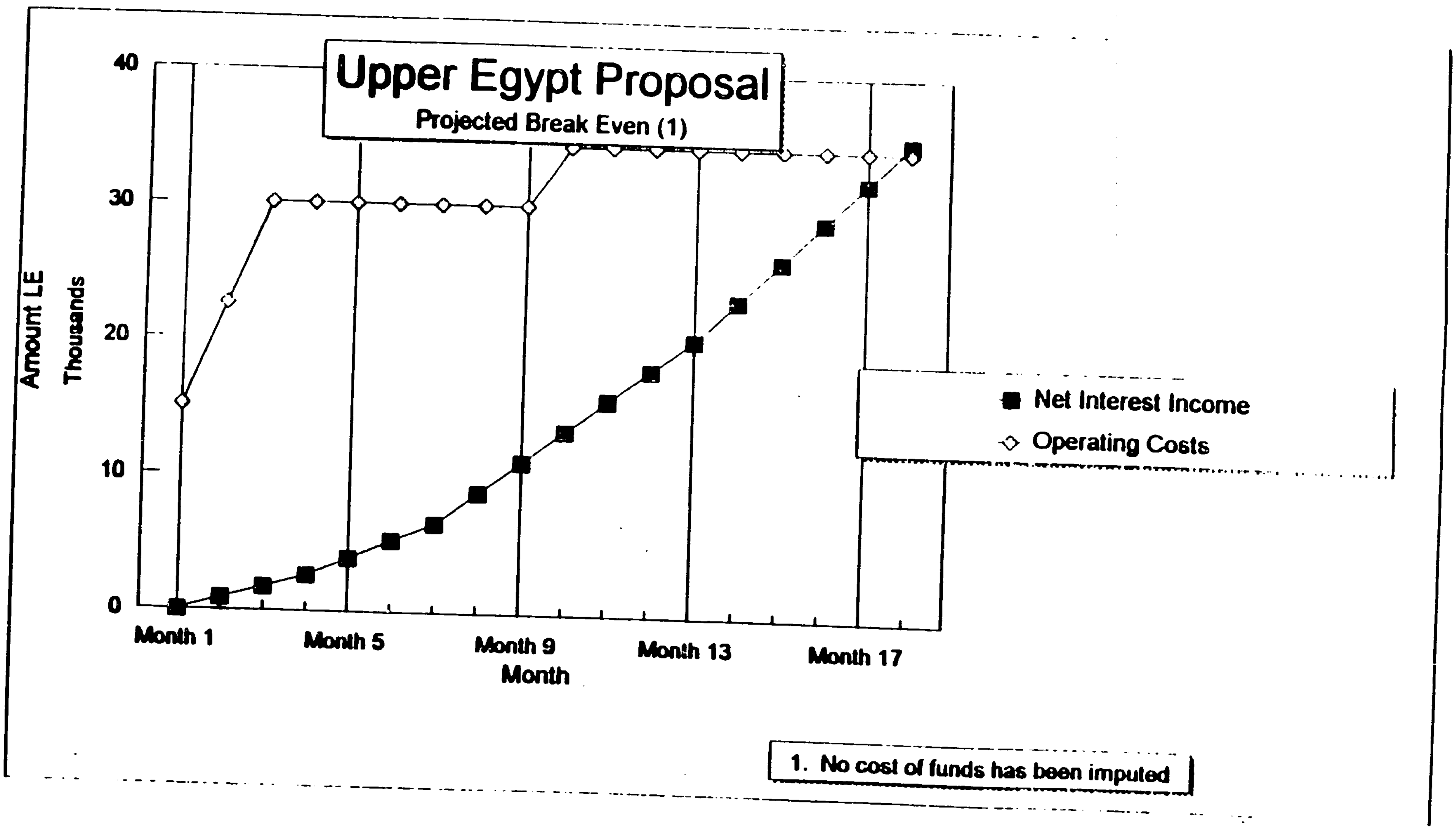

Upper Egypt Proposal
Projected Break Even (1)
40
30
20
10
0
Amount LE
Thousands
Month 1
Month 5
Month 9
Month 13
Month 17
Month
Net Interest Income
Operating Costs
1. No cost of funds has been imputed

TABLE 1

TOTAL ESTIMATED PROJECT COST

ITEMS	Project Paper AID	Project Paper GOE*	Project Paper NBD	This Amend. AID	This Amend. GOE	This Amend. NBD	Total – LOP AID	Total – LOP GOE	Total – LOP NBD
Loan Fund	7,000	4,150	3,000	12,000	0	3,000	19,000	4,150	6,000
O.E., T.A., Training	1,500	2,850	0	3,700	0	0	5,200	2,850	0
Eval./Audit	200	0	0	300	0	0	500	0	0
Contingency	300	0	0	0	0	0	300	0	0
TOTAL	9,000	7,000	3,000	16,000	0	3,000	25,000	7,000	6,000

* The Original Project Paper was designed to finance the total project funding of $ 16 million from the Grant Funds. However, the GOE financed the equivalent of $7 million from the Special Account.

AIDGOE.lotus

TABLE 2

FINANCIAL PLAN

BUDGET SUMMARY

PHASE I

9 branches: 4 Assuit, 2 Qena, 1 Souhag, 1 Luxur, 1 Aswan

-- Operating Cost	$ 1,978,652
-- Loan Fund	$ 9,000,000
SUBTOTAL	$10,978,652

PHASE II

3 branches: 1 Beni Sweif, 1 Menia, 1 Fayoum

-- Operating Cost	$ 659,559
-- Loan Fund	$ 3,000,000
SUBTOTAL	$ 3,659,559

TOTAL COST FOR PHASE I & II

UPPER EGYPT BUDGET

Line Item	Projected Budget
-- Operating Cost	$ 2,638,211
-- Loan fund	$12,000,000
-- TA cost	$ 1,062,000
-- Audit/Eval.	$ 300,000
TOTAL	$16,000,211
Round Down	$16,000,000

TABLE 3A

ESTIMATED BUDGET IN $
FOR UPPER EGYPT EXTENSION

Item	Mobilization	End-Use Lending	Total/ per branch	Total for 12 branches
Salaries	$5,439	$134,885	$140,324	$1,683,882
Office Equip	$23,284	$0	$23,284	$279,404
Training	$16,717	$0	$16,717	$200,596
Other Direct Cost	$11,940	$19,254	$31,194	$374,329
MIS	$8,334	$0	$8,334	$100,000
TOTAL	$65,714	$154,139	$219,853	$2,638,211

secbd.wk

Table 3B

OFFICE FURNITURE, EQUIPMENT PER BRANCH IN UPPER EGYPT

Quantity	Items	Cost ($)
1	Computer and Peripherals (U.S. origin)	6,500
1	Photocopier (U.S. origin)	6,500
1	Fax (U.S origin)	1,500
1	Typewriter (U.S. origin)	1,200
Sub-Total		$15,700 per branch
	Furniture:	$7,584 per branch
1	Desk, Mgr.	
1	Desk, Deputy Mgr.	
2	Desk, Controller	
2	Tables, Credit Officers	
6	Metal File Cabinets	
1	Wooden Bookcase	
2	Fireproof Document Cabinet	
2	Swivel Chairs, Mgr.	
16	Side Chairs	
1	Computer Table	
1	Steel Safe	
	Other Items (side trays, side tables,..etc.)	
Total per Branch		$23,284
Total for 12 Branches		$279,408
Rounded Up		$300,000

TABLE 4

PROJECTED TECHNICAL ASSISTANCE

PROJECTED TA	DOLLAR
ACDI CA MODIFICATION	350,000
NCBA MONITORING	200,000
SHORT TERM AS NEEDED	250,000
PSC	262,000
TOTAL	1,062,000

TA.lotus

UPPER EGYPT EXPANSION

SCHEDULE 1:
NBD SALARY/PERSONNEL PARAMETERS

LE/$ 3.36

	Annual NBD Salary Scale LE	LE/QTR	$/QTR		MOBILIZATION	Q-1	Q-2	Q-3	Q-4	Q-5	Q-6	TOTAL QUARTER UNITS
					QUARTER (1 UNIT = 1 FULL TIME PERSON / QTR)							
26-May-94	54,000	13,500	4,018									
DEPUTY GEN. MGRS HQ	38,700	9,675	2,879									0
MANAGERS HQ	26,100	6,525	1,942									0
SUPERVISORS HQ	20,700	5,175	1,540		3	3	3	3	3	3	3	18
MIS SUPERVISORS HQ	14,580	3,645	1,085		5	5	5	5	5	5	5	30
EXECUTIVE SECRETARY HQ	14,400	3,600	1,071		5	5	5	5	5	5	5	30
SECRETARIES HQ	12,600	3,150	938									0
DRIVERS HQ	7,650	1,913	569									0
MESSENGERS HQ	7,200	1,800	536									0
BRANCH MANAGERS	23,400	5,850	1,741									0
ASSISTANT BRANCH MANAGERS	20,700	5,175	1,540		12	12	12	12	12	12	12	72
TEAM LEADERS (CREDIT) BR	17,100	4,275	1,272		12	12	12	12	12	12	12	72
LOAN OFFICERS BR	14,580	3,645	1,085		36	36	36	36	36	36	36	216
INTERNAL CONTROLLER BR	14,580	3,645	1,085		72	72	72	72	72	72	72	432
CASHIER BR	11,880	2,970	884		24	24	24	24	24	24	24	144
MIS CLERKS BR	10,800	2,700	804		12	12	12	12	12	12	12	72
SECRETARY BR	10,800	2,700	804		24	24	24	24	24	24	24	144
DRIVER BR	7,650	1,913	569		12	12	12	12	12	12	12	72
MESSENGER BR	7,200	1,800	536		12	12	12	12	12	12	12	72
TOTAL PERSONS					12	12	12	12	12	12	12	72
				0	241	241	241	241	241	241	241	1446

Note: This Schedule represents the additional personnel required to implement an expanded SECP in Upper Egypt encompassing 12 branches. Additional Head Office personnel are required to effectively supervise the increase in field activity. Three manager positions, five supervisor positions and five MIS and section head positions are required as head office additions.

Table 5A

UPPER EGYPT EXPANSION

26-May-94

SCHEDULE 3:
SALARIES IN DOLLARS

LE/$
3.36

Position/Location (HQ, BR)		Mobilization	QTR-1	QTR-2	QUARTER QTR-3	QTR-4	QTR-5	QTR-6	TOTAL
GEN. MGR, NAT'L PROJECT DIRECTOR	0	0	0	0	0	0	0	0	0
DEPUTY GEN MGRS HQ	0	0	0	0	0	0	0	0	0
MANAGERS HQ	0	1,456	4,369	5,826	5,826	6,700	6,700	6,700	37,577
SUPERVISORS HQ	0	1,925	5,776	7,701	7,701	8,856	8,856	8,856	49,671
MIS SUPERVISORS HQ	0	1,356	4,068	5,424	5,424	6,238	6,238	6,238	34,985
EXECUTIVE SECRETARY HQ	0	0	0	0	0	0	0	0	0
SECRETARIES HQ	0	0	0	0	0	0	0	0	0
DRIVERS HQ	0	0	0	0	0	0	0	0	0
MESSENGERS HQ	0	0	0	0	0	0	0	0	0
BRANCH MANAGERS	0	5,223	15,670	20,893	20,893	24,027	24,027	24,027	134,759
ASSISTANT BRANCH MANAGERS	0	4,621	13,862	18,482	18,482	21,254	21,254	21,254	119,210
TEAM LEADERS (CREDIT) BR	0	11,451	34,353	45,804	45,804	52,674	52,674	52 674	295,433
LOAN OFFICERS BR	0	19,527	58,580	78,107	78,107	89,823	89,823	89 823	503,791
INTERNAL CONTROLLER BR	0	6,509	19,527	26,036	26,036	29,941	29,941	29,941	167,930
CASHIER BR	0	2,652	7,955	10,607	10,607	12,198	12,198	12,198	68,416
MIS CLERKS BR	0	4,821	14,464	19,286	19,286	22,179	22,179	22,179	124,393
SECRETARY BR	0	2,411	7,232	9,643	9,643	11,089	11,089	11,089	62,196
DRIVER BR	0	1,708	5,123	6,830	6,830	7,855	7,855	7,855	44,056
MESSENGER BR	0	1,607	4,821	6,429	6,429	7,393	7,393	7,393	41,464
TOTAL SALARY $	0	65,267	195,800	261,067	261,067	300,227	300,227	300,227	1,683,882

Note: Salaries during the mobilization period have been calculated at 25% of normal to reflect the fact that the employees will be in training. During the first quarter, salaries are calculated at 75% of normal, since the employees will not have an established track record for incentives. Salaries are increased 15% after 1 year.

Table 5B

ILLUSTRATIVE IMPLEMENTATION PLAN

Key: ** Milestone
x on-going
@ Start
! Breakeven

Activity	1994 Q2 AMJ	1994 Q3 JAS	1994 Q4 OND	1995 Q1 JFM	1995 Q2 AMJ	1995 Q3 JAS	1995 Q4 OND	1996 Q1 JFM	1996 Q2 AMJ	1996 Q3 JAS	1996 Q4 OND	1997 Q1 JFM	1997 Q2 AMJ	1997 Q3 JAS	1997 Q4 OND
PP Amendment	@x														
MIC Grant Agreement		@xx													
NBD SELFA Amendment		@x													
Phase I			**												
— Master Plan/AW Plan			x												
— Branches Mobil.			@xx												
— End use lending				@xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
— Breakeven									!!!						
— Mid-term eval.										xxx					
Phase II					**										
— Master Plan/AW Plan					x										
— Branches Mobil.					@xx										
— End use lending						@xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
— Project Final Eval.											!!!			xx	x
— PACD															x

SECIP.wks

Table 6A

DETAILED IMPLEMENTATION PLAN

Activity	May 94 W1	W2	W3	W4	June 94 W1	W2	W3	W4	July 94 W1	W2	W3	W4	Aug. 94 W1	W2	W3	W4	Sept. 94 W1	W2	W3	W4
<u>PPA Development</u>																				
Project Desciption	xxx	xxx																		
Implementation Plan	xxx	xxx																		
Procurement Plan	xxx	xxx																		
Monitoring Plan	xxx	xxx																		
Financial Plan	xxx	xxx																		
Summary of Analysis	xxx	xxx																		
CPs	xxx	xxx																		
Log frame	xxx	xxx																		
Institutional Analysis	xxx	xxx																		
Illustriave Impl Plan	xxx	xxx																		
<u>PPA Project Team Review</u>			xxx	xxx	xxx	xxx	xxx	xxx												
<u>PPA Authorization</u>							xxx	xxx			xxx									
<u>Project Grant Agreement</u>																				
GA Illustrative Budget										xxx										
GA Draft										xxx	xxx									
Clearance process												xxx	xxx							
Concurrence process															xxx	xxx				
<u>NBD SELFA</u>																				
Amendment Draft															xxx	xxx				
Conc. process																	xxx	xxx		

IPW.wk

Table 6B

DETAILED IMPLEMENTATION PLAN FOR PHASE I

Activity	Oct. 94 W1	Oct. 94 W2	Oct. 94 W3	Oct. 94 W4	Nov. 94 W1	Nov. 94 W2	Nov. 94 W3	Nov. 94 W4	Dec. 94 W1	Dec. 94 W2	Dec. 94 W3	Dec. 94 W4	Jan. 95 W1	Jan. 95 W2	Jan. 95 W3	Jan. 95 W4	Feb 95 W1	Feb 95 W2	Feb 95 W3	Feb 95 W4
Phase I																				
Master Plan/AW Plan	xxx	xxx																		
MPlan/AW Plan approval			xxx	xxx																
Mobilization																				
Office Equipment			xxx	xxx	xxx	xxx														
MIS development					xxx	xxx	xxx													
Recruitment and hiring							xxx	xxx	xxx											
Training										xxx	xxx	xxx								
End-use lending													xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx

TABLE 6C

DETAILED IMPLEMENTATION PLAN FOR PHASE II

Activity	Mar. 95 W1	W2	W3	W4	Apr. 95 W1	W2	W3	W4	May 95 W1	W2	W3	W4	June 95 W1	W2	W3	W4	July 95 W1	W2	W3	W4
Phase II																				
Master Plan/AW Plan					xxx	xxx														
MPlan/AW Plan approval							xxx	xxx												
Mobilization																				
Office Equipment					xxx	xxx	xxx	xxx												
MIS development							xxx	xxx	xxx											
Recruitment and hiring									xxx	xxx	xxx									
Training												xxx	xxx	xxx	xxx	xx				
End-use lending																	xxx	xxx	xxx	xxx

IPWP.wks

TABLE 6D

SEC ACHIEVEMENT

BACKGROUND

The Small Enterprise Credit (SEC) project was signed in April 1991 for four year LOP with an amount of $16 million. The Project Authorization was made for $9 million because the equivalent of $7 million was financed from the Special Account.

Under SEC, USAID entered into a Cooperative Agreement with ACDI in March 1992. The purpose of this CA was to develop the NBD capability to extend, supervise, and recover short term credit to small entrepreneurs, with a primary concentration on the areas of metropolitan Cairo. This assistance is scheduled to terminate with the expiration of ACDI's CA in February 1995.

Because of prolonged negotiation the Small Enterprise Loan Fund Agreement (SELFA) was signed between USAID and NBD on August 16, 1992. This caused a delay in the funding for the start-up and the grant money to activate the approved recruitment, procurement, MIS and Training Plans. Under this SELFA agreement, $2,950,000 was allocated to financed the Operational Expenses, and $11,150,000 was allocated to furnish funds to operate and capitalize a Small Enterprise Loan Fund.

The SEC lending officially began on July 1, 1993, marking the start of the operational phase of the project. In accordance with provisions of the SELFA agreement, NBD will add the equivalent of $3 million to the credit funds either 18 months after the date the first loan is made from the Small Enterprise Loan Funds, or when Loans equivalent to $11,150,000 have been made from the Loan Fund, or when the breakeven point is reached whichever event occurs first.

EXECUTIVE SUMMARY

SECP has completed nine months of lending operations as of April 1994. NBD has succeeded in exceeding the targeted number and value of loans during this period. In addition, remarkably low rates of late payments on installments have been achieved. Economies of scale, such as client referrals for new customers and granting of repeat loans to established small business clients, are beginning to take root as loan extension personnel establish their service reputation with the target market. Project management also is gaining confidence and has prudently raised the allowable loan limits, controlled portfolio competition, brought the program to nearly full field staff numbers, pushed hard for completion of automation of the management information system, and defended the program's incentives policy for SEC employees who have exceeded targeted production and loan quality standards.

Follow-up visits to specific clients continue to confirm that the SEC program is not subject to any potential competition, is very popular and is readily accepted by the targeted population of small scale entrepreneurs. Potential clients who have never visited a bank continue to go to NBD branches to inquire loan eligibility, and the thousands of entrepreneurs already served by the project are pleased with their access to funds during this period of economic hardship.

PROGRESS TO DATE:

Start Up Phase

The start-up Phase finished in June 1993. During this period, 13 branches were fully remodeled and equipped with furniture and computer equipment. Recruitment of project staff was completed. About 280 employees divided to three groups received training conducted by the Project Director and TA team. Training for the three groups included:

- -- orientation providing solid foundation in the project model and methodology,
- -- marketing and comparative lending systems,
- -- loan terms and conditions, and
- -- loan management and reports,

In addition, on-going weekly in-house training sessions followed at the Headquarter with a focus on credit, forms, completion and case studies of real clients. The TA team assisted NBD in developing and implementing policies, procedures for bookkeeping, accounting, accurate financial controls and timely reporting. In addition, the TA team assisted NBD in the projection, utilization, and reporting on initial operational capital to be supplied by USAID.

Official Operation Phase

The end-use lending was initiated by NBD as of July 1, 1993, Here is NBD's achievement in three different areas:

Credit Management and Policy Module: Achievements exceeded the expectations of all parties. The lending staff has now disbursed 16,079 loans and loans averaged LE 2,000 with a total actual principal disbursed of LE 32,589,300 as of May 5, 1994. In addition to achieving remarkable success in disbursing loan funds, SEC loan officers have already established an impressive rate of installment collection. LE 23,739,926 in principal, fees, and advances payments has been collected to date, with virtually no late payments. Attachment A shows the number and value of disbursed loans.

Part I of this report describes the financial analysis of SECP's first three quarters. Part 2 reports the expectation of SEC breakeven. It outlined 3 different methods of assessing the breakeven situation. The three of them predicts that NBD will reach the breakeven point in June or July 1994.

An internal procedures and financial audit of the 13 participating branches were conducted by the SEC Headquarter Follow-up team supported by the TA team and concluded no significant items to question.

The program continues to have a positive impact on the small scale business people who are the targeted beneficiaries. The following are samples of the types of impact that are being achieved:

Business: Leather products
Loan: LE 500 for 2 months/LE 1,500 for 5 months/LE 2,500 for five months/ and LE 4,000 for 8 months

Total number of loans: 4 loans
Total value of loans: LE 8,500 (cumulative)
Result:
-- Four additional workers
-- increase in enterprise output

Business: Wood Products
Loan: LE 2,000 for 6 months/ LE 3,000 for 8 months
Total number of loans: 2 loans
Total value of loans: LE 5,000
Result:
-- Three additional workers
-- increase in production and productivity

Not only did SEC exceed projections, it also established and maintained a high level of credit quality. Portfolio distribution, bad debts, portfolio composition, and savings were all within the established guidelines. The loan sector objectives are to concentrate on the investment and production sectors, which are used by borrowers to purchase capital equipment or raw materials. Service loans to enhance or expand premisses are limited to 20% of a portfolio, while commercial loans to purchase inventory are to be no more that 15% of any portfolio. The distribution of loan sector is as follows as of March 1994:

investment	40%
production	29%
service	16%
commercial	15%

Since one of the SEC objectives is to better serve the market segment of female borrowers through more loans, number of loans to women reached about 1,513 for LE 2,645,600. Late payment rate is very low about 0.57% of total principal disbursed loans.

Management Information System: Computers were received and installed in headquarter and all branches. The procurement procedures for the accounting software were completed. The accounting software was reviewed, tested and selected by NBD committee supported by ACDI's MIS specialist. The Automated Loan Tracking System (ALTS) was installed on each branch Pcs and data entry has been in process. ACDI's MIS specialist recommended in his report to design and develop transaction module and integration module between ALTS and accounting system. Technical Specification for the module necessary to integrate the existing ALTS with the selected accounting software were developed.

Management Support Module: The project director's decision making authority appears clear as a result of increased frequency of Steering Committee meetings. In addition, the Executive Committee meetings were modified to widen communication with senior project managers and thereby better coordinate tasks and consolidate plans. These meetings are productive and improve HQ personnel's understanding of NBD plans and their ability to solve problems. NBD accounting staff were trained to prepare operating expense reports. A monthly expenditure report that was designed by ACDI was enhanced with a detailed set of instructions.

Olfat Gamal, TIFI
Secachiev.rep

Attachment A

SECP

STATEMENT OF DISBURSED LOANS DISTRIBUTED ACCORDING TO ACTIVITY
AS OF 5/5/1994

DESCRIPTION	DISBURSED LOANS NO	DISBURSED LOANS VALUE	PERCENTAGE NO %	PERCENTAGE VALUE %
PRODUCTIVE LOANS	4663	10090000	29.00	30.96
SERVICE LOANS	2486	4482750	15.46	13.76
COMMERCIAL LOANS	2375	4523550	14.77	13.88
INVESTMENT LOANS	6555	13493000	40.77	41.40
TOTAL	16079	32589300	100	100

91

DEVELOPMENT OF ACTIVITIES IN THE BRANCHES AS OF 5/5/1994

COMPARED WITH THE STATE OF ACTIVITY LAST WEEK

BRANCH	5/5/94		28/4/94		CHANGE		PERCENTAGE	
	NO	VALUE	NO	VALUE	NO	VALUE	NO %	VALUE %
GIZA	1821	3754200	1760	3609450	61	144750	3 17	[illegible]
HELWAN	1719	2945600	1689	2892600	30	53000	1 78	1 83
SHOBA KHEMA	1024	2094350	1002	2061300	22	33050	2 20	1 60
SAWAH	1842	3568950	1795	3449850	47	119100	2 62	3 45
GARDEN CITY	1159	2645600	1131	2562300	28	83300	2 48	3 25
HELIOPOLIS ISL	1199	2193050	1198	2191550	1	1500	008	0 07
HELIOPOLIS COMM	1141	2142650	1126	2107750	15	34900	1 33	1 66
ZAMALEK	1346	2839700	1314	2773700	32	66000	2 44	2 38
BAB EL LOUK	995	2234400	978	2195900	17	38500	1 74	1 75
EL AZHAR	935	2107250	913	2059000	22	48250	2 41	2 34
KASR ELNIL	1027	2142000	993	2074000	34	68000	3 42	3 28
AL OPERA	1055	2331750	1031	2274250	24	57500	2 33	2 53
BORSA	816	1589800	801	1555800	15	34000	1 87	2 19
TOTAL	16079	32589300	15731	31807450	348	781850	2 21	2 46

92

PART 1

FINANCIAL ANALYSIS OF SECP'S FIRST THREE QUARTERS

To reach operational break-even and profitability, SECP must control the cost per loan and the cost coverage ratio. The following measures were reviewed in previous periods, and indicate the rate at which the program is moving toward profitability on a cumulative basis. These measures will be subject to review and expansion when the financial analyst is added to the TA Team. The financial analyst will have adequate time to conduct both a wider variety of analyses and a more intensive analysis of each measure utilized.

Cost Per Loan

TOC = Total Operating Cost for the period (cumulative)

TOC/# of Loans = Cost per Loan

LE 3,107,314/13,676 = LE 227

The LE 227 per loan compares with LE 222 as of December 31, 1993. The salary for 292 people (including 47 in the H.Q. unit) is the most significant operating expense component contributing to the LE 227 figure. Salaries currently are approximately LE 356,000 per month.

Cost Coverage Ratio

When interest income and transportation fees for the period are compared to operating costs the project shows that 45.4% of costs are currently being covered versus 34.4% in the previous reporting period. The calculation is as follows:

Total Income/Total Expense - Cost Coverage Ratio (cumulative)

LE 1,412,504 /LE 3,107,314 = 45.4%

NBD Management of Operating Costs

The NBD is responsible for, and controls, its own project operating funds and the credit funds of SECP, which were projected to be utilized for the first 18 months of loan operations. Funds appear to be on target regarding usage of start-up and operational funds as allocated; and credit funds are reaching the target market and have no losses or appreciable late payments. Project income is added to the credit fund and reserves during this 18 month period.

The NBD budget provided by USAID is divided at the beginning of lending between PRE-OPERATING EXPENSES [including the initial three month training expenses, salaries and allowances prior to operations (July 1, 1993); procurement of required equipment; vehicle purchase; and subsequent training] and OPERATING EXPENSES AFTER JULY 1 [including Salaries and Other Direct Costs (ODC)]. The operating expenses shall be compared to project income to determine project break-even.

The budget for procurement that is not yet expended shall be utilized to make final payments on computers for example, but shall not be included in the break-even calculation with USAID. Such an expense is considered a pre-operation expense under the NBD's agreement with USAID.

PROJECT INCOME
AS OF MARCH 31, 1994

Amount (LE)	Type of Income	Application
1,190,208.79	Interest Received	To Credit Funds
222,295.67	Transport Fees	To Credit Funds
338,579.88	Insurance Revenue	To Insurance Reserve
252,493.04	Late Payment Revenue	Held for Refund
2,003,577.38	TOTAL	

Note that a 5% loan loss reserve is allowable under the NBD's agreement with USAID, but is not reflected in the above table.

PROJECT EXPENSES (LE)
AS OF MARCH 31, 1994

Item	Pre-Operational Expense	Operational Expense	Total
Salaries	1,223,530	2,764,972	3,988,502
ODC	298,945	342,342	641,287
Vehicles	1,235,340		1,235,340
Office Equipment	1,375,796		1,375,796
Training	507,396		507,396
TOTAL	4,641,007	3,107,314.00	7,748,321

ACTUAL EXPENDITURES VERSUS BUDGET
(LE) AS OF MARCH 31, 1994*

Item	Actual	Budget	Remaining Budget
Salaries	3,988,502	5,140,260	1,151,758
ODC	641,287	751,500	110,213
Vehicles	1,235,340	1,302,600	67,260
Equipment	1,375,795	1,419,500	43,705
Training	507,396	738,140	230,744
TOTAL	7,748,320	9,352,000	1,603,680

PART 2

STATUS REPORT
SECP BREAK EVEN EXPECTATIONS
AS OF
MARCH 31, 1994

Background:

Earlier financial analysis performed on SECP included utilizing cumulative figures which could give an indication of when all costs might be recovered against all income. That type of analysis could help an institution determine the length of time it would take to recover all operating costs for a program. In the case of SECP, USAID is providing initial operating funds to NBD and cumulative cost recovery is not relevant. The definition of the term "operational break even" which is set forth in the SELFA Agreement between USAID and NBD is relevant. Meeting the definition requires first that the total of operating income in a single continuous 30 day period divided by operating expenses in the same period be greater than one. Although this situation may occur in a single month, a second condition is that this situation must occur in three consecutive months. According to SELFA, income may be reduced by 5% to reflect an allowance for bad debts. Income utilized in this analysis includes interest plus transportation fees. Late payment fees and insurance fees are not included. Although the late payment fees are revenue to the project, they are refunded to the borrowers upon paying the loan in full, provided payments have been made on time. Only those late payment fees for payments that are actually delayed are retained by NBD. Since late payments are extremely small, the actual portion of these fees that are retained because of delayed payment are minuscule. Insurance fees are applied to a reserve account and held to pay off loans of deceased borrowers plus pay a small burial benefit to the family.

This report treats income on an individual monthly basis, rather than on a cumulative basis. Income has been reduced by 5% to reflect the reserve for losses allowed by SELFA. Operating expenses have been obtained from monthly operating reports submitted by NBD to USAID. As prescribed in SELFA, not all the expenses contained in the reports are included in the definition of operating expenses. Any expenditure incurred prior to July 1, 1993 the beginning of lending operations is excluded. Also excluded are expenses for training and procurement. The exclusions result in the utilization of just two expense line items: Salaries and Other Direct Costs (ODC). The actual figure has been utilized for salaries each month, but since ODC expenditure has been sporadic it has been modified slightly. Actual ODC expenditure over the nine month period in consideration has been averaged to smooth out the sharp fluctuations in the individual months figures. The slightly modified monthly operating cost used for analysis in this report consists of actual salaries and average ODC.

Results of the analysis are presented below. One very important factor needs to be emphasized: this analysis <u>DOES NOT INCLUDE</u> an allocation for cost of funds. This exclusion is not an oversight

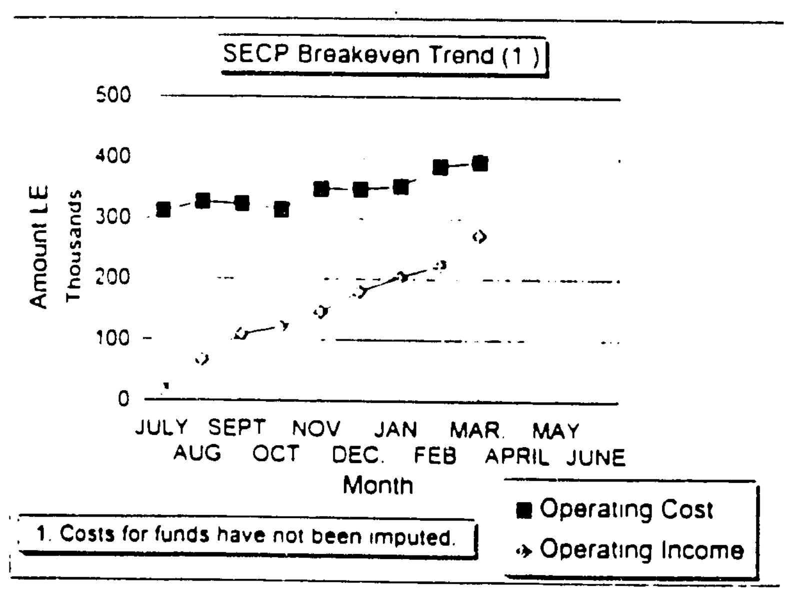
96

in analysis, but merely compliance with SELFA's operational break even criteria which does not address cost of funds. Operational break even should not be confused with profitability. Any measure of profitability for SECP would need to address the issue of cost of funds. In regular operations, banks recognize that the funds they are lending have a cost associated with them. This might approximate the average amount paid for savings. Banks allocate an internal cost of funds so they are able to determine the profitability of various uses of funds. In order to make a profit, a bank would need to recover all operating expenses and the cost of funds (also some fixed costs, which are not addressed here).

Results:

Charts are used to aid analysis in this report. The underlying datum from which all charts were derived is available from SECP upon request. Chart 1 illustrates the trend in monthly income and monthly operating expenses from July 1, 1993, the beginning of lending through March 31, 1994, the end of the ninth month of lending. The trend is readily identifiable, and suggests monthly operating income could cover monthly operating expenses (break even) in three to four months from the end of March, or approximately June or July 1994.

Chart 1:

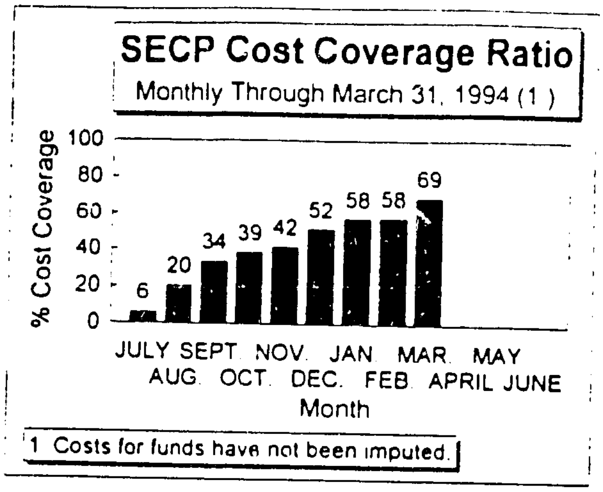


Another method of assessing the break even situation is to measure the ratio of income to expenses on a monthly basis. Chart 2 illustrates the trend in this measure of progress toward break even. During the first month of lending, income covered 6% of operating expenses. The coverage steadily improved through March of 1994 when income covered 69% of expenses. Based on the trend evident in the chart, income should reach 100% of expenses in June or July of 1994. This confirms the estimation of the

97

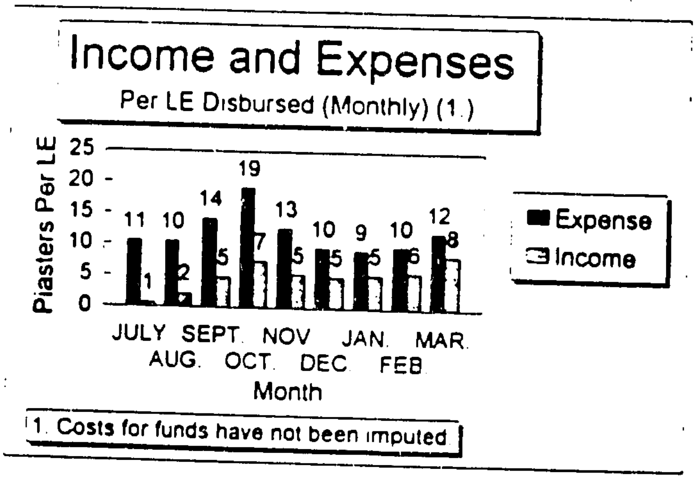
time of break even established from analyzing Chart 1. Charts 1 and 2 are actually different ways of viewing the same thing.

Chart 2:



A third way of viewing break even is to examine income and expense per LE disbursed in loans. As seen in Chart 3, the operating expense per LE disbursed has varied somewhat over the nine months of operations, but has been relatively stable. Beginning with 11 Piasters per LE in the first month of lending to 12 Piasters per LE in March of 1993, the ninth month of lending. Income per LE disbursed has steadily increased from 1 Piaster per LE in the first month through 8 Piasters per LE in March, 1994. The gap between income and expense per LE disbursed has steadily narrowed. Based upon the trend, it is reasonable to predict break even in three to four months.

Chart 3:



All three methods used to forecast break even indicate that SECP should reach break even on a monthly basis in June or July 1994. According to SELFA, this must occur for three consecutive months to meet the contractual definition of break even. Whatever measure is used, SECP has shown remarkable progress to potentially be able to break even after one year of lending.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO EGYPT

RECORD OF CATEGORICAL EXCLUSION FROM USAID ENVIRONMENTAL PROCEDURES

Project Location: Egypt

Project Title/ID: Small Enterprise Credit (263-0228)

Funding (Fiscal Year and Amount): FY 1991 - FY 1997, $25 million

Prepared By: **Date:**

Seifalla Hassanein 6.20.94

Seifalla Hassanein, PDS/ENV
Program Specialist

Mission's Environmental's Officer's Concurrence: **Date:**

Anne Patterson June 20, 1994

Anne E. Patterson, PDS/ENV
Mission Environmental Officer

Environmental Action Recommended: Categorical Exclusion as per 22 CFR 216.2 (c) (2) (x)

Associate Mission Director's Concurrence: **Date:**

Priscilla Del Bosque June 20, 1994

Priscilla Del Bosque
Associate Director, TI

Decision of Environmental Coordinator, Bureau for the Near East:

JE 7-7-94 Approved: Gilbert S. Jackson

Date: 7/7/94

Clearances:
MKhalil, TI/FI Date: 6/21/94
VMoore, LEG Date: 6/24/94
ERauch, PDS/PS Date: 6/23/94

99

RECORD OF CATEGORICAL EXCLUSION FROM USAID ENVIRONMENTAL PROCEDURES

1. Project Location: Egypt

2. Project Title/ID: Small Enterprise Credit (No. 263-0228)

3. Funding (Fiscal Year and Amount): FY 1991 - FY 1997
LOP: $25 million

4. Categorical Exclusion Prepared By:

Date:

Seifalla Hassanein
Program Specialist

6.20.94

5. Action Recommended: Categorical Exclusion as per 22 CFR 216.2 (c) (2) (x)

6. Discussion of Major Environmental Relationships of Project:

Background

The SEC Project provides funds through a cooperating Egyptian Bank, The National Bank for Development (NBD) for loan capital, office equipment and computers. The project also provides initial operating capital for bank 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. Those enterprises are currently defined as having fixed assets of less than LE 25,000 (US$7,350), excluding land and buildings, and less than fifteen employees. the loan range provided is LE 250-10,000 (US$75-2,940). The loans are made at market interest rates that cover the costs of lending and are able to expand the funds available for loans. USAID does not directly participate in the operation of the loan program, and does not reserve the right to review and/or approve individual loans made by the NBD.

To date, up to 17,379 small entrepreneurs have received loans and up to 8,500 jobs have been strengthened or created under this grant. So far, the project was only providing loans in the Greater Cairo Region. The SEC Project Amendment will add an additional 12 USAID contribution to the branches in Upper Egypt and increase the project budget from US$9 million to US$25 million. USAID involvement and loan terms and conditions in this amendment will remain the same as in the original grant agreement. Therefore, in this amendment USAID does not directly participate in the operation of the loan program, and does not reserve the right to review and/or approve individual loans made by the NBD.

The original grant agreement received a categorical exclusion from USAID environmental procedures based on 22 CFR 216.2 (c) (2) (x).

Environmental Impacts

In this grant amendment A.I.D. assists in the capitalization of the newly established NBD branches and provides funding for initial operating expenses. Under this grant A.I.D. does not have knowledge of or control over small enterprise loans that may have an effect on the physical and natural environment. Furthermore, the objective of A.I.D. in providing this grant does not require, either prior to approval of financing or prior to disbursement of loans, knowledge of or control over individual loans.

Discussion

As in the original grant agreement, the proposed action is entirely within one of the categories listed in paragraph (c) (1), "Categorical Exclusions" of Section 216.2, "Applicability of 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) (x), the proposed project amendment is categorically excluded from further environmental review. Neither an initial environmental examination or an environmental assessment is required for this action.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO EGYPT

Waiver of Source & Origin
Waiver # 94-10

Memorandum

To: Lawrence Brown, A/AD/TI

From: Magdy Khalil, TI/FI

Subject: Small Enterprise Credit (SEC) Project (263-0228) - Waiver of U.S. Source and Origin Requirement to procure Computers and Office Equipment Locally.

Action Requested:

Approval of a waiver of U.S. source and origin requirement to allow for the local procurement of computers and office equipment valued up to the local currency equivalent of $300,000, to furnish up to 12 SEC project branches, operating from 9 existing National Bank for Development (NBD) facilities in Upper Egypt to implement the expansion of the Small Enterprise Credit (SEC) project. The required computers and electronic and electric equipment will be of U.S. origin (geographic code 000) and Egyptian source (geographic code 263). Furniture and other office equipment will be of Egyptian source and origin (code 263).

Background:

The Small Enterprise Credit Project (263-0228) agreement was signed on September 26, 1991, with a PACD of September 30, 1995, obligating the entire $9 million that was authorized, and an additional $7 million equivalent provided in local currency. The project provides credit through a private sector bank, the National Bank for Development (NBD) to entrepreneurs operating within the metropolitan areas of Cairo, Giza, and Kalubeya Governorates (Greater Cairo). The Project currently operates out of a head office in Garden City, and thirteen branch offices of NBD as a home base for up to nine loan officers and support personnel for each branch.

Loan officers from each branch visit specific neighborhoods on a rotating basis within their respective assignments seeking potential borrowers, assisting them in calculating their loan requirements, and establishing their eligibility to participate in the program. Loans are primarily used for short term working capital to purchase raw materials and to support the increased output and employment by those firms. Loans are generally extended in the range of LE 250 to LE 5,000 for 4-12 months.

NBD began end-use lending on July 1, 1993. The performance of the SEC project has been excellent. NBD disbursed 24,000 loans to SMEs valued at LE48 million with a 1 percent default rate in only 12 months and is ahead of schedule on operational break-even projections.

Discussion:

Because of the success of the present project, and the need to expand SEC lending activities to SMEs in Upper Egypt, an SEC Project Paper Amendment was designed to replicate project activities in Upper Egypt. Procurement of the local currency equivalent of approximately $300,000 in computer and other office equipment is anticipated for replicating SEC lending activities in seven different Governorates in Upper Egypt. The commodities procured under the project amendment will furnish up to 12 SEC project branches, operating from 9 existing NBD offices in Upper Egypt. The procurement will be carried out by NBD, with advisory assistance from Agricultural Cooperative Development International (ACDI). The same items needed to outfit the Cairo operations will also be needed to furnish the Upper Egypt offices, i.e., office machines, furniture, and computers. (An illustrative list is attached showing the required equipment per branch.)

To meet the amount of funds earmarked by the Agency for this project, end-use lending is scheduled to start during January 1995. To be able to start implementation, an amendment to the Project Grant Agreement with the Government of Egypt is scheduled to be signed in September 1994. Following the signing of the PROAG, an amendment to the Small Enterprise Loan Fund Agreement (SELFA) with NBD is scheduled to be signed in October 1994. Accordingly, mobilization of Project resources is not expected to start before October 1994, thus leaving the Project with a limited time span of less than three months to start end-use lending, scheduled in January 1995. A Condition Precedent of the Small Enterprise Loan Fund Agreement (SELFA) is that prior to any disbursement of loan capital to NBD, which must be done before January 1995 for the Upper Egypt portfolio, NBD should establish a functional MIS unit, including hiring and training of the staff.

Moreover, based upon information obtained from the Procurement Office of the Mission, procurement of the required equipment through GSA will not take less than six months from the date an order is filed till the required commodities reach Egypt. Further, Mission's experience demonstrates the difficulty of obtaining customs clearances for other than GOE implementing agencies, as witnessed in the Small and Micro Enterprise Development (SMED), and the Credit Guarantee Corporation (CGC) projects. To date the GOE has refused to provide the requisite guarantee letters for duty free importation of USAID-financed equipment under the SMED, CGC, and SEC projects as well as other TI/FI projects.

Local procurement of office equipment and computers is also preferable because of the advantages and benefits associated with the local warranty and repair contracts; making the system for maintenance more efficient and less costly. All of the necessary equipment is available in Egypt at reasonable prices. The computer equipment will be of U.S origin but will be procured on the Egyptian market, and therefore, of Egyptian code 263. The required furniture will be of Egyptian source and origin.

Justification:

The justification for local procurement of up to the local currency equivalent of $300,000 of computers and office equipment is based on the criterion set forth in AID Handbook 1B, Section 5B.4.a(8), "such other circumstances as are determined to be critical to the success of project activities." This criterion is met due to the time constraint required to procure, install and test equipment, and begin operating up to twelve SECP branch offices in Upper Egypt to initiate end-use lending by January 1995.

On this basis it is recommended that the procurement of up to the local currency equivalent of $300,000 in office equipment, furnishings, computers, and peripherals be performed locally.

Authority:

Under Handbook 1B, Chapter 5, Section 5B4c (2), and Delegation of Authority No. 653 Paragraph 7(a), the Mission Director is authorized to waive U.S. source and origin requirements to allow the local procurement of project commodities from the host country. Mission Order 5-4 delegates the relevant Associate Director the authority to approve source and origin waivers for procurement not exceeding $500,000.

Recommendation:

For the above reason, we conclude that procurement of the above equipment from the host country (Egypt) is determined to be critical to the success of project activities. It is recommended that you waive the U.S. source and origin requirement for the procurement of (1) computers and other electronic equipment of U.S. origin and Egyptian source; and (2) other office equipment and furniture of Egyptian origin and source for a total amount not to exceed the local currency equivalent of $300,000 to equip 12 SECP branch offices in Upper Egypt.

Approved: [signature]

Disapproved: ___________

Date: 7/26/94

attachments: a\s

Clearance:

MKhalil, TI/FI In Draft
RKirk, TI/FI RK
LBrown, OD/TI/FI In Draft
JVan Meter, TI/CMT
NAssaad, MGT/DMS
VMoore, AD/LEG w/chgs
ERauch, PDS/PS

Drafted,RK,TI/FI

103

Table 3B

OFFICE FURNITURE, EQUIPMENT PER BRANCH IN UPPER EGYPT

Quantity	Items	Cost ($)
1	Computer and Peripherals (U.S. origin)	6,500
1	Photocopier (U.S. origin)	6,500
1	Fax (U.S origin)	1,500
1	Typewriter (U.S. origin)	1,200
Sub-Total		$15,700 per branch
	Furniture:	$7,584 per branch
1	Desk, Mgr.	
1	Desk, Deputy Mgr.	
2	Desk, Controller	
2	Tables, Credit Officers	
6	Metal File Cabinets	
1	Wooden Bookcase	
2	Fireproof Document Cabinet	
2	Swivel Chairs, Mgr.	
16	Side Chairs	
1	Computer Table	
1	Steel Safe	
	Other Items (side trays, side tables,..etc.)	
Total per Branch		$23,284
Total for 12 Branches		$279,408
Rounded Up		$300,000

ANNEX K

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

FIRST AMENDMENT TO PROJECT AUTHORIZATION

Name of Country: Arab Republic

Name of Project: Small Enterprise Credit Project

Number of Project: 263-0228

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, the Small Enterprise Credit Project was originally authorized on May 30, 1991. The authorization is hereby amended as follows:

Paragraph 1 is amended as follows: (i) by deleting "Nine Million United States Dollars ($9,000,000) in grant funds over a four year period from the date of authorization" and substituting "Twenty Five Million United States Dollars ($25,000,000) in grant funds over a five year period from the date of authorization" therefor; and (ii) by deleting "The estimated life of the Project is four years from date of initial obligation" and substituting "The estimated life of the Project is six years from date of initial obligation" therefor.

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

Christopher D. Crowley

Christopher D. Crowley
Acting Director, USAID/Egypt

7/31/94

Date

Clearances:

OD/TI/FI, LBrown
AD/TI, PDelBosque
AD/PDS, RJordan
AD/FM, DFranklin
PDS/PS, ERauch 7/19/94
A/D/DIR, DMiller

DRAFTED:AD/LEG:VMoore:(7/11/94):1PATH228

SMALL ENTERPRISE CREDIT PROJECT NO. 263-0228 STATUTORY CHECKLIST FOR PROJECT PAPER AMENDMENT NO. 1

The Country Checklist for FY 1994 is contained in the Project Paper for the Power Sector Support II Project No. 263-0224.

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Yes. The Project will directly encourage private initiative and competition by providing loans to private sector micro entrepreneurs.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private enterprises will be the source of procurement of goods and services required for this Project.

3. **Congressional Notification**

a. **General requirement (FY 1994 Appropriations Act Sec. 515; FAA Sec. 634A):** If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

Standard Congressional Notification procedures have been satisfied prior to obligation of funds.

b. **Special notification requirement** (FY 1994 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification?

Yes.

c. **Notice of account transfer** (FY 1994 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A.

d. **Cash transfers and nonproject sector assistance** (FY 1994 Appropriations Act Sec. 537(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A.

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes.

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

The People's Assembly should ratify the Grant Agreement Amendment in a timely manner. In the past, the Assembly has ratified all grant agreements in time to permit orderly accomplishment of projects.

6. **Water Resources** (FAA Sec. 611(b)): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A.

7. **Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1994 Appropriations Act Sec. 537). If assistance is in the form of a cash transfer or nonproject sector assistance:

N/A.

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

b. **Local currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for

deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A.

9. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Yes. The host country has contributed the local currency equivalent of $7 million. U.S.-owned Egyptian currency is not available specifically for this project.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

10. **Trade Restrictions**

a. **Surplus Commodities** (FY 1994 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

No. Loans will be made to micro entrepreneurs who do not manufacture goods for export.

b. Textiles (Lautenberg Amendment) (FY 1994 Appropriations Act Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No.

11. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No.

12. **PVO Assistance**

a. **Auditing and registration** (FY 1994 Appropriations Act Sec. 568): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

Yes.

b. **Funding sources** (FY 1994 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A. The requirement does not apply to PVOs receiving ESF funded grants. All A.I.D. funding provided under this Project is from ESF funds.

13. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Case-Zablocki Act reporting procedures will be followed with respect to this Project.

14. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

The metric system of measurement has been utilized, and will continue to be utilized, to the extent practical from the earliest programmatic stages of the Project through the implementation stage.

15. **Abortions** (FAA Sec. 104(f); FY 1994 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? — No.

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? — No.

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? — No.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.) — N/A.

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.) — N/A.

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — No.

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? — No.

16. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?	No.
17. **Procurement**	
a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
b. **U.S. procurement** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?	Yes
c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Egypt does not so discriminate.
d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A.
e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	N/A.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? — No.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — **Yes.**

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes.

i. **Consulting services** (FY 1994 Appropriations Act Sec. 567): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes.

j. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes.

k. **Chemical Weapons** (FY 1994 Appropriations Act Sec. 569): Will the assistance be used to finance the procurement of chemicals that may be used for chemical weapons production? — No.

116

18. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A.

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A.

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — N/A.

19. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A.

20. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes.

21. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a — Yes.

117

foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

22. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — Yes.

23. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

24. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? — Yes.

25. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes.

26. **Export of Nuclear Resources** (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance--except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology? — Yes.

27. **Publicity or Propaganda** (FY 1994 Appropriations Act Sec. 557): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? — No.

28. **Marine Insurance** (FY 1994 Appropriations Act Sec. 531): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that — Yes.

1110

U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

29. **Exchange for Prohibited Act** (FY 1994 Appropriations Act Sec. 533): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No.

30. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? No.

31. **Impact on U.S. Jobs** (FY 1994 Appropriations Act, Sec. 547):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? No.

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? No.

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture? No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY — N/A.

N.B. PART B OF THE ASSISTANCE CHECKLIST, WHICH IS APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY, HAS BEEN OMITTED BECAUSE IT IS INAPPLICABLE TO THIS ESF-FUNDED PROJECT.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	Yes.
2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?	No.
3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)	N/A.
4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)	N/A.
5. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to	N/A.

maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act. Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94.)

DRAFTER:AD/LEG:VMoore:7/28/94:SECCK228

PD-ABL-562

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

Amendment Number: 1 — 95883

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Egypt

3. PROJECT NUMBER: 263-0228

4. BUREAU/OFFICE: Asia/Near East

5. PROJECT TITLE (maximum 40 characters): Small Enterprise Credit

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 10 DD 31 YY 97

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

A. Initial FY 91 B. Quarter 4 C. Final FY 95

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

A. FUNDING SOURCE	FIRST FY 91 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	9,000		9.000	25.000		25.00
(Grant)	(9.000)	( )	(9.000)	(25.000)	( )	(25.00
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country Special Acc.		7.000	7.000		7.000	7.00
Other Donor(s) NBD					6.000	6.00
TOTALS	9,000	7.000	16.000	25.000	13.000	38.00

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ESF	270	110		9.000		16.000		25.000	
(2)									
(3)									
(4)									
TOTALS				9.000		16.000		25.000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

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 increase small entrepreneurs' access to credit and other banking services

14. SCHEDULED EVALUATIONS

Interim MM 02 YY 95 | MM 06 YY 96 Final MM 08 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [X] Local [ ] Other (Specify) Egypt

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

This Amendment will expand the geographic scope of the project to include Upper Egypt, increase LOP funding and extend the LOP. Proposed methods of implementation and financing remain the same as in the original agreement.

Douglas Franklin, Controller

17. APPROVED BY

Signature

Title: Christopher D Crowley, Acting Mission Director

Date Signed: MM 07 DD 31 YY 94

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

122