

RESULTS PACKAGE

SMALL AND EMERGING BUSINESS

No. 263-0258

LIST OF ACRONYMS
Small and Emerging Business Results Package

ABA	Alexandria Business Association
CDA	Community Development Association
CGC	Credit Guarantee Corporation
ESED	Egyptian Small Enterprise Development Foundation
EQI	Environmental Quality International
GOE	Government of Egypt
IR	Intermediate Result
IRM	Information Resource Management
ITS	Impact Tracking System
LE	Livre Egyptienne, Egyptian pound
LTS	Loan Tracking System
MEDD	Microenterprise Development Division
MIS	Management Information System
NBD	National Bank for Development
NCBA	National Cooperative Business Association
NGO	Non-Governmental Organization
PACD	Project Assistance Completion Date
PROC	Office of Procurement
PVO	Private Voluntary Organization
RIG/A	Regional Inspector General/Audit
RP	Results Package
SEB	Small and Emerging Business
SEC	Small Enterprise Credit (Project)
SME	Small and Micro Enterprise
SMED	Small and Microenterprise Development Project
SO	Strategic Objective
TA	Technical Assistance
TI/FI	USAID's Office of Trade and Investment/Finance and Investment
USAID	United States Agency for International Development

TABLE OF CONTENTS
Small and Emerging Business Results Package

Summary	1
I. Background and Issues to be Addressed	2
A. Background of USAID Involvement in the Egyptian SME Sector	2
B. Problem to be Addressed	3
II. Proposed Solution	4
A. Major Components	4
1. Planned Results	4
2. Direct Operational Interventions	6
B. Customer Role	7
1. Ultimate Customers	7
2. Intermediate Customers	7
C. Relationship/Link to SO 1 and IRs 1.2.3 and 1.2.4	8
III. Implementation Plan	8
A. Organizational Structure and Roles under the New CGC Umbrella	8
1. Organizational Role of CGC	8
2. Support to Small and Emerging Business (SEB) Development Organizations	9
3. Organizational Support to CGC	10
C. Procurement Plan	11
1. Technical Assistance and RP Management	11
2. Commodities	11
D. Expected Time Frame for Results	12
IV. Performance Monitoring and Evaluation	12
A. Monitoring Systems	12
B. Audits and Independent Evaluations	13
V. Conditions and Covenants	13
A. Government of Egypt	13
B. Implementing Agencies Conditions Precedent and Covenants	14

TABLE OF CONTENTS (continued)

VI. Annexes

- A. Administrative Analysis and Expected CGC Structure
- B. Technical Analysis
- C. Economic Analysis
- E. Social Soundness Analysis/Gender and Development Analysis

Summary

The Small and Emerging Business (SEB) Results Package (RP) has been designed in support of the Mission's Strategic Objective (SO 1) of "Accelerated Private Sector-led, Export-Oriented Growth" and the related Intermediate Results (IRs): "Improved Capacity to Promote Small and Emerging Business Growth" and "Expanded and Deepened Financial Services."

This RP capitalizes on the successful experience of USAID/Egypt's current, ongoing SME activities and adds a new mechanism for supporting the growth of small and emerging business in Egypt from 1997 to 2001. The RP is based on the strategy put forth in the Small Enterprise Credit (SEC) Project Paper Amendment approved in September 1996. That Amendment envisioned the Credit Guarantee Corporation's (CGC's) expanded role in support of Egyptian small and micro entrepreneurs. This activity will operationalize the vision. The CGC will act as a wholesaler of funds to organizations (including NGOs and possibly commercial banks). USAID support to small and emerging businesses will thus become institutionalized within the Egyptian organizational structure.

In a concerted effort to expand the provision of credit and other services to Egyptian small and micro entrepreneurs, USAID will strengthen and broaden its past and current efforts in this area through a program to be implemented by CGC. Microenterprises are defined within this activity as those having five or fewer employees and small enterprises are those having six to fifteen employees.

This activity will capitalize on and combine the successes of USAID's existing micro credit programs, including the foundation-based Small and Microenterprise Development Project (SMED, 0212) and the bank-based Small Enterprise Credit Project (SEC 0228). USAID will gradually shift the primary responsibility for directly managing the implementation of the individual SME development organizations to CGC.

With USAID's assistance, CGC was founded in 1990 by nine Egyptian banks and one insurance company as a private, for-profit corporation under Law 159. The purpose of the initial program with CGC was to assist Egyptian small scale enterprises lacking the collateral to obtain loans from banks by providing guarantees in place of collateral, generally 50%. USAID financed extensive U.S.-based technical assistance to CGC, which developed the institutional capacity to provide viable small scale bank guarantees, and established appropriate internal control procedures, financial and accounting systems, procurement procedures, and an automated management information system (MIS).

USAID will work collaboratively with CGC to develop a new, comprehensive management structure that will allow CGC to channel financial, technical assistance, training, and other services to small and micro entrepreneurs through new and existing intermediary organizations nationwide. These intermediary organizations will include non-governmental organizations (NGOs), banks and community development associations (CDAs). This RP will support CGC in establishing a semi-autonomous unit that, while being a part of CGC, will be wholly focused on supporting the credit needs of small and micro enterprises. Section III.A.2-3 outlines the proposed structure of the funding flow under this activity.

I. Background and Issues to be Addressed

A. Background of USAID Involvement in the Egyptian SME Sector

USAID has allocated approximately \$79 million for small and microenterprise development in Egypt since 1988. The Small and Microenterprise Development (SMED) Project was first authorized in 1988 for \$44 million and the Small Enterprise Credit (SEC) Project in 1991 for \$35 million. Both projects are still active. They have directly assisted Egyptian SMEs and enhanced the long-term sustainability of their supporting institutions. It is for this reason that the SEB Design Team now plans to combine their activities and methodologies into one new, comprehensive Results Package. The current activities have grown to a point that USAID can no longer be responsible for developing and administering individual grants. Instead, USAID is planning to work in partnership with CGC, which will act as a wholesaler of funds ultimately destined for use by small and micro enterprises.

Over the period 1989-97, the SMED Project has created a well-tested and viable credit delivery system for SMEs using non-profit foundations as financial intermediaries. The long term objective of the Project was to expand the economic output of the SME sector and to increase employment and earnings among low-income residents. This has been a successful example of USAID's foundation based approach to SME support. It stands out among comparable programs around the world in establishing sustainable credit delivery institutions. The initial implementors of the SMED Project, the Cairo-based Egyptian Small Enterprise Development Foundation (ESED) and the Alexandria Business Association (ABA), both non-profit foundations, achieved operational break-even within 30 months of starting end-use lending and are well on their way to becoming self-sustaining. Three foundations located in the Delta and Upper Egypt have also received USAID assistance and are now providing microenterprise financial services following the proven methodologies of the original implementors. By the end of January 1997, 115,500 loans valued at more than LE 333 million had been disbursed to more than 52,600 SME borrowers, approximately 15% of whom are women, with less than 3% late payments and less than .2% defaults. The SME Project exceeded original expectations and projections in terms of numbers of borrowers reached and success in loan recovery.

Since 1991, the SEC Project has been implemented through the National Bank for Development (NBD) for the purpose of increasing small entrepreneurs' access to credit and other banking services. This approach utilized a commercial bank rather than an NGO as the delivery mechanism. The ultimate goal of the Project was to expand the economic output of small Egyptian entrepreneurs. Thirteen branch offices and a central office within existing NBD facilities were furnished and equipped to accommodate 250 full-time SEC Project staff members. The NBD-implemented program is self-sustaining (it reached operational break-even ahead of schedule) and expands its activities on the basis of re-flows of principal and interest into the fund. As of February 1997, 92,000 loans valued at over LE 250 million were extended to 38,000 Egyptian entrepreneurs in greater Cairo.

Both approaches are based on similar methodologies in terms of reaching small and micro entrepreneurs and compare favorably to other successful SME programs worldwide. This Results Package will provide support to both existing and emerging NGOs and commercial banks committed to serving the microenterprise sector.

The characteristics of both foundation and bank lending programs to date are:

- ▶ Small loan size, with a current average of approximately LE 3,000
- ▶ Loans used primarily for working capital
- ▶ Existing businesses are the majority of the clients
- ▶ Client groups are mostly informal enterprises, many of which lack formal recognition or registration with the Egyptian government
- ▶ Loan terms average 6-7 months
- ▶ Few, if any, collateral requirements
- ▶ Direct service by the loan officers to clients
- ▶ Flexibility in individual loan structure

USAID believes that these efforts are providing a needed service to the local, emerging business community. Both models have functioned well and maintain high growth rates, strong productivity rates, and sound organizational structures to support sustained delivery of credit services. Timely repayment rates for both programs have consistently been above 98%. The Cairo, Alexandria, Port Said, and Assiut programs generated revenues that covered operational costs in less than 30 months. A recently formed foundation in Sharkia will be providing loans to small and micro entrepreneurs and is expected to have similar financial performance. With operational and loan capital support under SEC, the NBD program was recovering operational costs within 19 months. These effective SME activities have been emulated by other donors in Egypt and are serving as models to other micro finance programs in the region, although demand still far outstrips supply.

A chief advantage of the foundation model is its capacity to provide client-level training and technical assistance, whereas an advantage of the bank model is its ability to reach a large number of clients in a relatively short period of time. This is part of the USAID rationale behind the proposed institutionalization which will merge the most effective elements of these two programs. Both programs closely resemble successful models undertaken in other countries, but are operationally suited to meet the precise needs of Egyptian small and micro entrepreneurs. This activity may provide direct funding (under a cooperative agreement) to NGOs in the future, but the primary funding vehicle will be through CGC.

B. Problem to be Addressed

Despite the significant steps taken by both SME programs over the past decade, the overall, nationwide demand for such services still goes largely unmet. One 1990 estimate suggested that there are 1,000,000 small-scale enterprises in secondary and rural cities in Egypt. Another study completed in 1984 indicated that one out of every 15 persons in rural and secondary cities was involved in some form of small scale manufacturing. It is estimated that USAID's programs, however well managed and effective in their particular regions, serve only 1% to 2% of the client market for credit. There is also an unmet demand for credit in major urban areas of Upper Egypt and the Delta. The Canal cities have also received inadequate SME assistance. Other donor programs, although active and dynamic in many parts of the country, do not employ sustainable methodologies or focus on the same SEB target groups as does USAID.

Current SEB programs overall probably serve between 5% and 8% of the country's entire non-agricultural client market. Although donor programs taken as a group cover a great deal of the country geographically, most have not reached a significant number of clients. For example, the Social Fund for Development (SFD), primarily sponsored by the World Bank and other donors, and the Productive Families Program, implemented by the Ministry of Social Affairs, have not yet become financially viable despite their laudable targets. While these programs have shown great outreach in terms of the numbers of clients reached, interest rate mark-ups and collection rates have been too low for the programs to continue without subsidies. The same is true of the Principal Bank for Development and Agricultural Credit (PBDAC) program. Detailed information on PBDAC's activities is contained in the final evaluation of the Agricultural Production and Credit Program (APCP), July 1996.

There are other donor-supported programs underway in Egypt currently, many of which have credit as a component, if not a major thrust. Some of them have more recently concentrated on the importance of program self-sustainability, but taken as a whole, have been able to serve only a very limited number of clients. Summary information of other donor assisted programs is included in "Small and Micro Enterprise Development in Egypt: Opportunities for Outreach and Sustainability", (May 1995). The current demand for credit (and non-financial assistance) indicates a tremendous, growing need for additional SEB services in Egypt for many years to come.

The current needs of Egypt's Small and Emerging Businesses are broad and require varied responses. Accordingly, this RP will finance pilot activities for supporting start-up businesses, linking SEBs to medium and large firms as feeder industries, transferring new technology and improved management techniques, encouraging savings mobilization, and training and technical assistance to SEBs.

II. Proposed Solution

A. Major Components

1. Planned Results

The Result sought by this RP is improved capacity to promote the growth of Egypt's small and emerging businesses. This will be accomplished by strengthening CGC's institutional capacity to provide financial, technical assistance, training, and other services to Egypt's SMEs through corresponding intermediary organizations. These intermediary institutions may be non-profit foundations, banks, or community development associations (CDAs) as long as they are willing to comply with the necessary, pre-established criteria.

As a consequence of this activity, SEB development organizations located in rural and disadvantaged areas will be able to access USAID assistance through CGC in order to promote SEBs in their regions. At the SO level, it is expected that 1,000,000 more jobs will be created over the next five years than would have been at current rates of growth. This RP activity is expected to generate at least 10% of that total. For the purposes of tracking the employment-related impact of USAID funds allocated to this program, the Impact Tracking System (ITS) being utilized by the current programs will be configured to capture an estimate of the ratio of jobs generated to program dollars spent.

The expanded network of SME-supporting institutions directly addresses the Mission-identified needs to: 1) Expand and Deepen Financial Services (IR 1.2.3) and 2) Improve Capacity to Promote SEB Growth (IR 1.2.4). These desired results will be measured directly by the indicators shown below. In addition, other indicators of achievement such as number of borrowers, geographical location and gender of borrowers, loan length and repayment performance, the number of new and repeat borrowers, and general business categorization may be tracked as well.

Indicators:

1) Total volume of annual credit extended by the participating NGO Service Units to SEB clients. This indicator captures the success of participating NGO service units in providing SEB clients with needed credit. Each participating organization will include at least one service unit that will provide an estimated average total of LE 5 million to approximately 1500 SEB clients per year.

2) Number of NGO SEB service units reaching operational break-even. This indicator will measure the number of SEB service units reaching operational break-even in an average of two years from starting end-use service delivery. An SEB service unit, usually a branch office of an NGO, is managed as an independent cost center. Management and accounting systems will be established at the service unit level to monitor progress in reaching operational break-even. Each participating organization will include at least one service unit and will provide services to approximately 1500 SEBs per year. The Mission has been effectively monitoring this indicator for approximately four years through the Loan Tracking System (LTS). The data will be collected and analyzed by the participating organizations, the program funded consultants, and USAID.

The following **Table No.1** provides the anticipated results to be achieved by this RP.

Indicator	SEB RP Targets				
	1997 Planned	1998 Planned	1999 Planned	2000 Planned	2001 Goal
SEB credit extended annually	-0-	LE36 M	LE120 M	LE180 M	LE220 M
NGOs reaching break-even cumulatively	-0-	-0-	15	35	60 units

The following **Table No. 2** shows the results anticipated to be achieved by the year 2001, by all the Mission's SME development activities authorized since 1989, including the results to be achieved by this RP. This Table No. 2 is consistent with the approved R4 performance targets submitted to USAID/Washington.

Indicator	R4 PERFORMANCE TARGETS							
	1990 Baseline	1995 Actual	1996 Actual	1997 Planned	1998 Planned	1999 Planned	2000 Planned	2001 Goal
SEB credit extended annually	LE4 M	LE173 M	LE212 M	LE230 M	LE250 M	LE300 M	LE400 M	LE500 M
NGOs reaching break-even cumulatively	-0-	27 units	34 units	40 units	45 units	65 units	80 units	100 units

2. Direct Operational Interventions

Under this Results Package, CGC will establish and develop linkages with a variety of NGOs and banks (SEB service units) throughout Egypt through which financial and technical assistance will be channeled. These institutions may include, but will not be limited to, grass-roots community development organizations, new or existing foundations, NGOs, banks and credit unions. The CGC will use funds held in trust to guarantee financing for qualifying institutions, will provide technical assistance to those institutions, and will transfer ownership of capitalization funds to those institutions once they have reached the operational break-even point and have reached agreed-upon targets and objectives.

The NBD will implement and manage the SEC greater Cairo program. Upon initiation of this Results Package, NBD may access funding through CGC for financing small and emerging business activities anywhere in Egypt.

Under the SEC Project, amended in September 1996, USAID will directly provide the Mansoura and Hurghada Business Associations with funds for retail lending operations. Both organizations were identified as viable SEB development institutions and are in a position to begin SEB support activities in 1997.

The SMED Project, originally authorized in 1988, will conclude as a project in 1998. The models that were established initially in Cairo, Alexandria, Port Said, Assiut and Sharkia are working well at present and are expected to continue on their own in the future. However, this RP may provide, directly from USAID or through CGC, financial and technical resources to these foundations to meet their future expansion needs.

The primary focus of this new Results Package, however, will be to develop CGC's capability to serve as a wholesaler (in place of USAID) to retail institutions such as the NGOs and bank assisted in prior USAID projects. While it will still be possible under this RP for USAID to provide direct funding to a retail organization, the emphasis will be on CGC's role as a the primary wholesaler of funds.

B. Customer Role

1. Ultimate Customers

The ultimate customer SEBs are defined as follows:

B.1.a Micro SEBs: Those enterprises with fixed assets of less than LE 25,000, excluding land and buildings, and fewer than six employees are micro businesses. The emphasis of this RP is on micro businesses--it is expected that at least 70% of new clients will be from the micro sector. These ultimate customers constitute a large segment of Egyptian society. They are lower-income citizens, often below the poverty line, who earn their living through small scale self employment and entrepreneurial activities. They typically fall into one of two groups. The first group includes those who are extremely poor, have few assets, and engage in simple, income earning or supplementing activities. The second group includes those who have managed to build minimal equity and run small workshops with a few employees. This second group may include street vendors selling food items and other consumer goods, small service providers, workshop owners, or metal and wood-workers. These emerging businesses tend to be concentrated in urban areas where many from the rural communities have come in search of better incomes. However, there are also significant numbers in rural areas where people are attempting to supplement their income.

B.1.b Small SEBs: Those enterprises with six to fifteen employees and fixed assets in excess of LE 25,000 are also included as a part of this RP. Small businesses, which are expected to make up no more than 30% of the total clients, generally have larger loan size requirements and may require minor amounts of funds for capital goods. One reason for including this section of the small business economy is that successful micro enterprises, with sound financial and technical assistance, often graduate to the small category. In addition, the Mission's objective of export-led growth is directly advanced by those businesses that are growing and have been transformed from micro to small (and perhaps even larger) in size.

2. Intermediate Customers

Intermediate customers will be made up of the NGOs, banks, and CDAs providing financial, technical, and training services to SEBs. The intermediate customer base could therefore encompass any formal financial institution, business association, foundation, CDA or other recognized non-profit or for-profit private organization dedicated to assisting the SEB sector. The new CGC umbrella structure will consider both larger, more established NGOs as well as smaller, start-up organizations nationwide. The key qualification is the institution's commitment to support SEBs and a demonstrated ability to deliver services on a broad scale a particular region on a cost recovery basis. A number of small, yet highly effective, rural organizations can be expected to have an important impact on the targeted areas: Upper Egypt and other disadvantaged areas outside Cairo and Alexandria.

It is also expected that Egyptian government officials and the commercial banking sector will become intermediate customers of this activity. As the expected results of the new SEB-support structure are gradually achieved, it will become increasingly important to address some of the specific policy and regulatory constraints hindering further progress of SEBs. Results are also expected to draw the attention of the commercial banking community and encourage new and proactive dialogue about the potential profitability of smaller-scale lending.

C. Relationship/Link to SO 1 and IRs 1.2.3 and 1.2.4

The new, CGC-based program is a comprehensive effort to improve the capacity of Egypt to promote SEB growth. This effort contributes directly towards the Mission's SO 1: "Accelerated Private Sector-led, Export-Oriented Growth" and Intermediate Result 1.2.4: "Improved Capacity to Promote SEB Growth. The same planned activities under the new program will also contribute to IR 1.2.3: "Expanded and Deepened Financial Services". The RP addresses Mission-wide, cross-cutting issues such as employment and equity, PVO/NGO strengthening, and public/private sector roles.

The Agency-wide goal for FY 1996-2001: "Broad-based sustainable development with increased employment and improved quality of life" and the sub-goal: "Accelerated economic growth", will also be supported by the new SEB RP. The new SEB program will involve the five agency-wide program approaches designed to "Expand access and opportunity for the poor":

1. Expanding access to formal financial services for micro entrepreneurs;
2. Expanding access to technology, information and outreach services;
3. Expanding economic opportunities for women;
4. Expanding economic opportunities in disadvantaged geographic areas and/or among disadvantaged groups, and
5. Making regulatory, legal, and institutional environments more equitable.

III. Implementation Plan

A. Organizational Structure and Roles under the New CGC Umbrella

1. Organizational Role of CGC

The CGC will have the primary responsibility for implementing the direct operational interventions of the newly conceived program. The CGC will:

- ▶ Identify, recruit and train qualified candidates, along with supervisory staff, to manage the CGC Small Enterprise Development Unit;
- ▶ Maintain adequate internal control structures and policies for the use of RP funds and RP-financed commodities, including the development of an appropriate MIS, and standard operating procedures and manuals;
- ▶ Promote USAID/SEB activities throughout Egypt and provide orientation to potential client organizations on USAID's private sector-led approach to SME development;
- ▶ Assess and select proposals from organizations engaged in SEB development activities;
- ▶ Use funds to guarantee financing of SMEs by institutions selected as SEB service units;

- ▶ Provide TA to those service units;
- ▶ Provide operational support funds and loan fund capitalization to SEB units;
- ▶ Provide continued financial and operational support to programs demonstrating positive results in the areas of:
 - Progress towards break-even operations based on realizing sufficient income to meet expenses;
 - Portfolio quality; and
 - Appropriate average loan amounts to suit retail customers.
- ▶ Monitor results of selected programs, and coordinate training and TA requirements of participating organizations.

2. Support to Small and Emerging Business (SEB) Development Organizations

All SEB development organizations operating in Egypt (commercial bank, NGO, CDA, foundation, or other legally registered entity) may participate under this RP. The SEB development organizations desiring to participate will submit to CGC, or directly to USAID if appropriate, a comprehensive financial and administrative proposal for assistance. The proposal must demonstrate the organization's ability to reach operational break-even and self-sustainability within the time frame specified in this document, delineate its primary target group, accept the basic premises of market interest rates, and state its methodologies for providing financial and non-financial assistance to the targeted small and emerging businesses. Funds will be provided to qualifying organizations from USAID through CGC, or directly by USAID if appropriate, for both operations and loan capitalization. Current estimates indicate that a lending unit of ten loan officers and appropriate support staff would require an average of LE 600,000 in operational support for two years and will have the capability to manage an active SEB loan portfolio of at least LE 3 million.

Criteria for Participating SEB Service Unit Qualification:

- ▶ Demonstrated (in the case of existing organizations) or stated (in the case of new organizations) commitment to development of the small and micro enterprise sector;
- ▶ Acceptance of the principle of market interest rates (with appropriate mark-ups), a policy of zero-tolerance of non-payment, and a clear objective of operational break-even;
- ▶ Working relationship with local bank(s), (unless the organization is a bank);
- ▶ Registration under the laws of Egypt; and
- ▶ Ability to quantify, to USAID and/or CGC's satisfaction, the number of potential clients assisted with regular data providing loan repayment performance, loan size and/or savings growth, client gender, and repeat loan performance.

The Microenterprise Development Division (MEDD) of CGC, along with the technical assistance team, can provide guidance and assistance in developing proposals, and will be responsible for monitoring an institution's progress towards the stated goals. The MEDD will include a Steering Committee consisting of Egyptian managers who are currently operating successful SEB credit operations.

2.a. CGC Loan Guarantee Fund

Initially, CGC will issue guarantees of lines of credit to SEB service units, which the SEB service unit will use to make loans to SMEs. The CGC will use as collateral for these guarantees a disbursement to it of RP funds, which it will hold in trust for the purpose of development of Egypt's small and emerging businesses. Since USAID's purpose of capitalizing this guarantee fund will be accomplished upon disbursement to CGC, CGC will invest the funds in various interest-bearing accounts and may retain interest earned on the funds. Similarly, USAID can recover the funds during the RP period only in case of certain specified Events of Default. This is appropriate since CGC needs the security of the collateral to enable it to issue the guarantees, and needs experience in managing the guarantee fund, including experience in earning and programming the interest, since it is planned that the guarantee fund will remain as such after completion of the Results Package.

2.b. CGC SEB Service Unit Loan Collateral Funds

Upon each SEB service unit reaching operational break-even (generally, two years) and reaching the clientele envisioned within this RP, USAID will transfer RP funds through CGC to capitalize an SEB loan fund in those SEB service units. USAID's purpose will be accomplished upon the disbursement of the funds by CGC to the SEB service units. A typical SEB service unit's financial analyses and organizational structure are shown in Annex D.

2.c. SEB Unit Start-Up Funds

Experience has shown that NGOs initiating SEB service units incur start-up costs that cannot be recovered in the short term. This RP will cover a portion of these costs, such as staff training, purchase/lease of office space, office equipment (including computer hardware and software) and staff salaries, until break-even is reached (generally, two years). These terms will be cited in specific agreements between CGC and the corresponding retail lending organizations. The CGC will support such start-up activities under this RP and then be reimbursed by USAID. A typical SEB service unit's financial analyses and organizational structure are shown in Annex D.

3. Organizational Support to CGC

As described in Section 2.a., above, USAID will provide CGC a disbursement to be held in trust for the purpose of the development of Egypt's small and emerging businesses. The fund will be invested in various interest-bearing accounts that will yield program income to be used for further program-related needs such as covering the cost of an expanded staff, CGC consultancies and services, new staff training and other related operational expenses. There will also be a provision for retaining the services of a steering committee to help guide CGC in implementing this program. The remaining income will be used to increase CGC's guarantee capacity to support loans to small and micro enterprises provided by the participating SEB service units through local banks.

C. Procurement Plan

Two fundamental procurement requirements are envisioned for the effective implementation of this Results Package.

1. Technical Assistance and RP Management

C.1.a. Technical Assistance: This activity will require the services of long-term expatriates, short-term expatriate expertise, long-term Egyptian specialists and short-term Egyptian expertise. A nationality waiver for the Egyptian expertise may be required, if justified.

C.1.b. Personal Services Contractor: A U.S. Personal Services Contractor (PSC) is required to serve as an SME Technical Advisor to assist USAID in the area of credit and related services. The primary responsibility of the SME Technical Advisor is to advise the SO 1 Division of Privatization and Finance in the area of small business credit delivery.

2. Commodities (computer systems, office equipment, office furniture, telephone lines/switchboard)

The SEB Design Team has determined that commodity procurement is best handled by one of the following three entities:

- 1) CGC, upon its approval by USAID as a viable procurement entity with full knowledge and comprehension of USAID procurement requirements (The SEB Design Team recommends this option for CGC to carry out the procurement under an assistance instrument, since development within CGC of the capacity to conduct procurement for the participating SEB development organizations is an important objective of the RP.);
- 2) The Technical Assistance Contractor (firm or firms selected during the RFP process), whether the Contractor chooses to conduct the procurement itself or to subcontract the responsibilities for procurement to another qualified entity; or
- 3) A stand-alone procurement contractor identified by USAID.

This RP will require the purchase of computer systems to be used by the SEB lending units over the life of the RP. The computer systems will be used to maintain borrower records and repayment schedules and to generate critical information required to responsibly administer lending activity (the Loan Tracking System). The primary software used will be FoxPro and Clipper compiler. The systems will be purchased in full compliance with USAID rules and regulations applicable to hardware and software procurement and installation.

In terms of office equipment, the only item costly enough to warrant special approval will be photocopiers. In this instance, USAID has a standing blanket waiver for Xerox-brand copiers as they are manufactured and available in Egypt.

The procurement of furniture will need to be investigated further and requires resolution by the Office of Procurement (PROC). Reg 228, 51 (a) (4) (i), permits a source/origin waiver for local procurement of commodities if procurement of a commodity from the U.S. is at least 50% more costly than a commodity purchased locally.

The following Table No. 5 provides a summary of the methods of implementation and financing.

TABLE No. 5 Methods of Implementation and Financing

Results Package Inputs	Proposed Method	
	Implementation	Financing
Technical Assistance	USAID Direct Contract	Direct Pay
Start-up Funds Local Commodities Local support	USAID Grant Agreement	Direct Reimbur. Direct Reimbur.
Guarantee/Collateral Fund	USAID Finance Agreement	Direct Disburs.
Audit/Assessment/Evaluations	USAID Direct Contract	Direct Pay

D. Expected Time Frame for Results

At the SO level, economic growth is expected to increase from the current 3.2% annually to 6% by the year 2000/01. The private sector share of GDP is targeted to increase from 61.7% to 70% in the same time period. It is expected that this accelerated growth should generate 1,000,000 more jobs over the next five years than would have been created at current rates of growth. This RP is expected to generate approximately 10% of that total (approximately 100,000 jobs).

IV. Performance Monitoring and Evaluation

A. Monitoring Systems

Each of the SEB service units will be required to report on loan performance to CGC at least quarterly. This data will be provided to USAID in a summary form that will clearly indicate the number of borrowers receiving assistance financed under the activity, their repayment performance, gender and business category. Financial performance of the SEB service units towards reaching operational break-even will also be reported at least quarterly. The loan tracking system (LTS) developed under the SMED Project will be utilized under the new RP to track the Result and indicators sought by the entire USAID SEB portfolio.

The LTS has proven invaluable to the operational requirements of intermediary organizations. Daily reports are printed for customers and foundations at various managerial levels. For senior managers, the system provides current information on loan disbursement, repayment rates, and delinquency by extension officer. The system also provides a monthly list of all borrowers organized by date of payments due for loan extension officers. This list is checked daily as payments are received so extension officers are immediately aware of arrears.

The LTS is also designed to help facilitate the fulfillment of the long term program objectives of sustainability and outreach. Therefore, the type of data gathered and presented not only gauges the program's progress towards fulfilling stated objectives, but can also present a convincing case to members of the commercial banking community about the financial viability of SEB lending.

The Impact Tracking System (ITS) is a data gathering tool developed with USAID assistance that gauges the household-level impact of the lending program. This system is still being tested for performance and accuracy. The new SEB RP will continue to experiment with this monitoring tool for the first phase of the activity, after which its role in reporting and monitoring results will be decided. The SEB RP team has agreed that quantifying the RP's impact on employment is the top priority in terms of impact monitoring.

B. Audits and Independent Evaluations

Funds have been allocated for audits as well as any special research and independent evaluations deemed necessary during the active life of the activity. Audits will be carried out in accordance with a schedule agreed upon by RIG/A, FM, and the SEB RP team. Funds have also been reserved for mid-term and end-of-RP evaluations.

V. Conditions and Covenants

A. Government of Egypt

The following conditions precedent to disbursement and covenants are expected to be negotiated with MEIC and included in the Project Agreement:

Section V.a.1. Authorization of Implementing Entities to Receive and Retain Funding. The Grantee agrees that the Credit Guarantee Organization (CGC) and each participating small and emerging business service unit, (each an implementing entity), is authorized to receive and retain for Results Package related purposes all funds provided to it under its agreement with USAID or CGC, including Grant and Special Account funds, barring a default by the implementing entity. The Grantee also agrees that each implementing entity shall be allowed to retain and utilize, for Results Package related purposes, all Results Package financed equipment, throughout the useful life of such equipment.

Section V.a.2. Reprogramming of Grant Funds in the Event of Default by an Implementing Entity. The Grantee agrees that, in the event an implementing entity defaults pursuant to the terms of its agreement with USAID or CGC, the principal provided to capitalize the applicable loan/guarantee fund under the Grant, which will be returned to the Grantee in accordance with the terms of the agreement between USAID or CGC, and the defaulting entity, shall be reprogrammed by the Grantee

and USAID to provide loans to micro entrepreneurs using a different lending mechanism, other than the defaulting entity.

B. Implementing Agencies Conditions Precedent and Covenants

The following conditions precedent to disbursement and covenants are expected to be negotiated with CGC and included in the Agreement between USAID and CGC, if agreement is reached in the form and substance agreed to by the parties.

Conditions Precedent to Disbursement of Guarantee Fund to CGC:

In order to upgrade the current institutional and MIS capacity of CGC to manage the new small and emerging businesses development activities, the following conditions precedent to disbursing funds under the agreements to be negotiated between USAID and CGC, and will be included in the CGC agreements.

Prior to any disbursement of guarantee funds to CGC, or the issuance by AID of any documentation pursuant to which such disbursement will be made, CGC shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

- (i) operations and training manual (in English and Arabic) detailing program policies, internal procedures, lending criteria, management information processing and analysis, and all of the administrative forms required for the smooth and efficient day-to-day management of the project;
- (ii) evidence that a full time project manager has been appointed; and
- (iii) time-phased plan for guarantee extension, including the number of personnel, and their job titles, that will implement the project.

The above CPs will apply to the SEB development organizations which may have a direct agreement with USAID under this RP.

Annex A

CGC Administrative Analysis and Expected Structure

This RP proposes the development of the CGC as the entity to assume most of the formerly USAID day-to-day administrative functions with regard to SME program support. The CGC will thus essentially act as the wholesaler of financial and other services to the SEB organizations, which, in turn will serve as retailers of credit to entrepreneurs.

TI/FI has identified the CGC as the private sector institution with the appropriate internal structure and capability to implement the new expanded program. The history of USAID and the concept of credit guarantees dates back to 1987 when the GOE and USAID commissioned a study on the feasibility of establishing a credit guarantee scheme in Egypt. The Credit Guarantee Company was then established in 1989 as a joint stock private sector company designed specifically for small-scale lending. Its shareholders include nine Egyptian commercial banks and one insurance company.

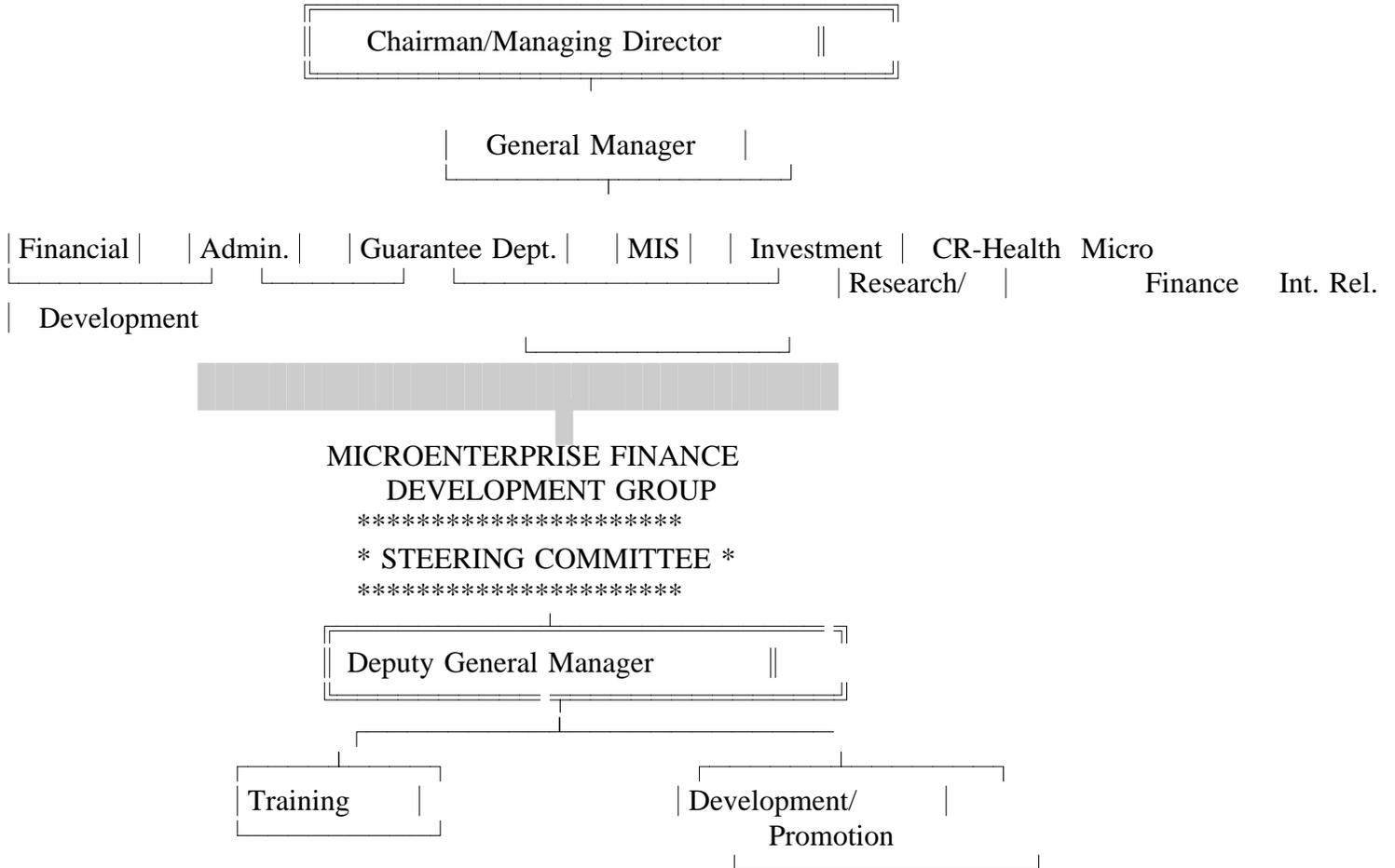
CGC's original purpose was to guarantee a percentage of loans and credit facilities granted from banking institutions to small and microenterprises. The CGC has working relationships with approximately 30 Egyptian banks and nearly 2,200 participating bank employees have been trained in the utilization of CGC services. SME clients, who require working capital or fixed assets, approach any participating bank to guarantee up to 50% of the bank's credit exposure. This credit guarantee scheme provides commercial banks with the needed "comfort level" to lend to SMEs and thus allows more SME clients to obtain the desired credit.

CGC guarantees range from a minimum of six months to a maximum of five years, depending on the designated use of the loan. The 50% credit guarantee has proven successful for the CGC--it is just high enough to placate banks, yet not so high that banks come to rely on the guarantee and not the repayment. The CGC's net defaulted guarantees as of June, 1996 were LE 1,325,000, less than 5% of the total value of Letters of Guarantee issued. A World Bank study has suggested that this rate compares favorably to other worldwide SME guarantee facilities. Also as of that date, 4,962 loan guarantees had been issued valued at nearly LE 262 million for a total credit of LE 600 million released by participating banks to SMEs.

CGC management recognized early on that the ultimate goal of the organization was to be a self-sustaining credit guarantee company capable of serving small and micro entrepreneurs. More importantly, the CGC has taken responsibility for encouraging the formal banking sector to better serve small business, while also assisting borrowers in accessing credit. As a result of CGC's role and influence in the banking sector, two Egyptian banks have established small business lending units.

USAID prior experience is described in more detail in Annex B to Project Paper Amendment No.2 for the Small Enterprise Credit Project (263-0228). Based on that experience, as well as CGC's experience with other non-USAID funded projects, USAID is confident of CGC's technical and managerial capacity to handle the funds proposed in this RP.

PROPOSED CGC STRUCTURE



!!! Indicates that Department will be expanded by Project

Technical Analysis

Because of the fundamental shift of wholesaling responsibilities from USAID to the CGC, the disbursement mechanism has been designed to facilitate both disbursement itself and accurate tracking and monitoring of results.

I. Fund Disbursement to SEB Units

A. SEB Unit Start-up Funds

As proposals from SEB units come in and are deemed acceptable by the CGC, the CGC will then provide qualified foundations with funds for start-up expenses such as staff training, purchase/lease of office space, office equipment including computer hardware and software, and staff salaries for an initial period until revenues equal expenses. Specific amounts are to be decided by agreements between the CGC and the corresponding retail lending institution. The CGC will also channel any needed technical assistance to the new SEB units as appropriate. This may involve MIS installation and training, financial management assistance, or assistance in trouble-shooting delinquencies. USAID funds will be channeled through a grant agreement to CGC to support such activities on a cost-reimbursement basis. An SEB service unit financial analyses and organizational structure are shown in Annex D.

B. SEB Loan Collateral Funds

As loan demand is generated from entrepreneurs and SEBs, the supporting foundations will draw on a collateral account (with the right of offset) established for them by the CGC. This collateral account will be established by depositing funds under the name of the foundation into an account at one or more participatory banks. Additional collateral funds for this support will be disbursed from USAID to CGC on a periodic and as needed basis. The SEB organizations that achieve break-even in a reasonable period of time (generally 2 years) and reach the clientele envisioned within this RP will ultimately have funds disbursed to those SEB organizations by USAID through the CGC to capitalize their loan/collateral funds. An SEB service unit financial analyses and organizational structure are shown in Annex D.

II. Fund Disbursement to CGC

USAID will provide an amount to the Credit Guarantee Corporation (CGC) in a form of a disbursement to be held in trust for the purpose of the development of Egypt's Small and Emerging Businesses. The fund will be invested in various interest-bearing accounts which will yield program income to be used for further program-related needs such as covering the cost of an expanded staff and CGC Consultancies and services, new staff training, as necessary, and other related operational expenses. There will also be a provision for retaining the services of a Steering Committee to help guide the transformed organization during its early years of operation. The remaining income will be used to increase CGC guarantee capacity to support loans to small and microenterprises provided by the participating SEB service units through local banks.

Economic Analysis

Early USAID and World Bank research into the level of SME activity in Egypt showed the significant role SEBs play in the economy. Such studies suggest that up to 40 percent of total industrial employment in Egypt is based in SMEs, and that 250,000 manufacturing enterprises employ between one and nine employees. Continuing USAID assistance to “expand and deepen financial services” (IR 1.2.3) and “improve the capacity to promote SEB growth” (IR 1.2.4) in this sector will therefore benefit a significant number of contributors to the Egyptian economy.

The new SEB support program proposed by USAID with the implementation role of the CGC effectively addresses the two critical issues which will ultimately determine the program's long-term impact on the Egyptian economy: 1) Outreach, and 2) Sustainability. While effective in their particular regions, the chief concern with the existing USAID-supported programs has been their inability to reach a larger number of borrowers, particularly in Upper Egypt. Thus, their current, country-wide client-coverage has remained fairly minimal, capturing only an estimated 1-2 percent of the overall market for credit. However, the high borrower growth rates in the current program regions (ranging as high as 120%) are a strong indication of the high level of demand and client satisfaction with the services provided.

Expected Economic Benefits of the SEB Results Package:

- > The proposed role and activities of the CGC will serve to strengthen the Egyptian NGO sector providing financial and other needed assistance to SEBs throughout the country. This will provide for a more viable SME community by better meeting the needs (financial and other) of entrepreneurs, particularly in Upper Egypt.
- > Increasing foundation-level support to the SME community is expected to further encourage banks to increase their portfolio share of SEB lending at similar interest rates which have allowed existing foundations to break even. Indeed, two Egyptian banks have already established small business lending units as a result of CGC's successful experience and lead role in small-scale lending.
- > Current USAID-funded efforts in the SME development area have proven self-sustaining--all programs broke even either on or ahead of schedule. The expanded CGC program and the growing number of participating SEB-supporting foundations are also expected to cover operational costs within approximately two years of the program. This will send an unequivocal message to the GOE, the commercial banking sector, and to borrowers themselves: micro and small-scale lending can be a financially viable business.
- > At the borrower level, specifically, for SEBs with fixed assets of less than LE25,000 and less than 6 employees for micro business and SEBs with fixed assets of more than LE25,000 and than 6 employees for small, one may expect more readily accessible credit throughout Egypt. Potential foundations in Aswan have already expressed interest in the program and the existing foundation in

Assiut is rapidly accumulating clients. Other expected benefits at the borrower level are: increased income and assets; increased productivity and employment (an estimated 100,000 jobs are expected to result from this RP); and more effective participation in society (see Social Soundness Analysis, Annex E).

> As also stated in the Social Soundness Analysis, an indirect benefit of the expanded program will be the broader economic participation of the SEB community in production and income-generation. As a first-time borrowing experience for many clients, the expanded outreach of the program will allow increasing numbers of Egyptian entrepreneurs to actively contribute to the economic growth of the small-scale economic sector.

Social Soundness Analysis/Gender and Development Analysis

The USAID Global Bureau describes the primary goals of its Microenterprise Initiative as to: 1) help the poor increase their income and assets, 2) raise their skill and productivity level, and 3) form organizations that facilitate their more effective participation in society. To date, USAID/Egypt has taken significant steps toward achieving these goals through its current SME-support programs.

Examples of this progress include:

Increased income and assets

In a sample survey of approximately 500 borrowers, The Alexandria Business Association's Impact Tracking System has shown that client revenues increased by an average of 25% during a sample 18 month period. (Increases were highest among the service and manufacturing sectors at 33%, while trade showed an increase of around 16%). When queried about the reason behind these increases, borrowers cited an increase in production and/or quality. Increased revenues were often used to expand business operations: 53% went toward additional raw materials; 14% toward new equipment; 12% toward savings; and 17% toward increased household expenses.

Increased productivity and employment

In terms of employment generation, the tracking system discovered that 239 permanent jobs have been created in ABA-supported enterprises. 58 new jobs were created for female entrepreneurs. The new Results Package is expected to generate an additional 100,000 jobs over the next five years.

More effective participation in society

For many borrowers, their affiliation with the foundations' loan programs has been their first "formal" credit experience, having previously relied entirely on family and friends for loan capital. Indeed, establishing themselves as reliable clients with the regional foundations has not only familiarized them with the methodology and process of borrowing, but has also effectively brought them into the larger SEB community. This continuing process of familiarization and increasing affiliation with the program is expected to develop a growing consensus among SEB entrepreneurs about the SME sector's future contribution to macroeconomic growth in Egypt (i.e. what particular lines of production are most profitable, what regional linkages best reduce costs and facilitate distribution, etc.)

Socio-economic and gender outreach

According to a January, 1997 study carried out by NCBA and EQI, the four USAID-funded foundations, ABA, ESED in Cairo, Assiut, and Port Said, are currently serving approximately 25,000 clients with loans averaging between LE 2,000 and LE 3,000 (\$590-\$885). On average, 12% of these clients are women borrowers. However, due to that fact that many of the "women-owned" businesses are such in name only--their husbands operate the business but may take out a loan in their wife's name-- the percentage is actually lower. New research suggests that only roughly 1,000 current loans actively support a woman-owned and operated business.

However, it should also be noted that there are several success stories of women loan recipients under

the SMED Program who have taken up non-traditional lines of production such as tile manufacturing and electronic repairs. These examples suggest a strong potential for successful female entrepreneurship beyond the traditional areas of garment-making, food products, and other female-dominated lines of business.

NCBA and EQI have conducted substantive research to explore the extent to which current USAID-funded SME programs reach female entrepreneurs and how this outreach methodology might be enhanced to reach greater numbers. (Some of the major factors limiting women's participation are related to institutional requirements, others to cultural and social norms, and still others to the type of productive activities in which women predominate¹.) Worldwide, women have proven to be return borrowers with consistently high repayment rates. Women entrepreneurs have also been shown to invest business-generated income in family education, health care, and nutrition which are all cross-cutting developmental needs currently being addressed by USAID in Egypt.

Several recommendations for improving outreach to women entrepreneurs have been made by NCBA and EQI including: training and strategic planning at the foundation level; more standardized lending policies; a new approach to diversified client marketing; a revised incentive system, and the inclusion of more female Extension Officers at the foundations. Gender-sensitization training for foundation staff and loan officers to become more aware of specific female-borrower needs was also suggested. These and other possible program modifications will be considered under the new CGC umbrella in an effort to increase the percentage of women clients in the SEB program.

Evidence suggests that women are reluctant to deal with credit institutions if they have to travel far to do so. This has been a recurring problem in Cairo particularly. With the expansion of the CGC-led program into Upper Egypt, where the smaller size of the communities will necessitate a centrally-located foundation, it is hoped that women will have fewer difficulties in obtaining credit and making their installments in person (in Cairo they have been known to send sons or other relatives to make payments). Recent borrower-tracking data from the Assiut foundation seems to support this assumption: the percentage of women borrowers was reported to have reached 18%. The closer proximity of the foundations to borrowers should also increase client-borrower contact and facilitate any payment problem resolution that may be necessary.

1

Maria Otero and Jeanne Downing, Meeting Women's Financial Needs: Lessons for Formal Financial Institutions. Seminar, Oct. 1989, as cited in USAID Small and Microenterprise Development Project Paper Amendment, 1992.