U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROJECT PAPER

EGYPT: Small and Micro Enterprise Development (263-0212)

September 26, 1988

U N C L A S S I F

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) | Amendment Number: | DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Egypt

3. PROJECT NUMBER: 263-0212

4. BUREAU/OFFICE: Asia/Near East Bureau

5. PROJECT TITLE (maximum 40 characters): Small and Micro Enterprise Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 95

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)
A. Initial FY 88 B. Quarter 4 C. Final FY 89

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

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(10,000)	( )	(10,000)	(20,000)	( )	(20,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	10,000	0	10,000	20,000	0	20,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	270	110		0	0	10,000	0	20,000	0
(2)									
(3)									
(4)									
TOTALS				0	0	10,000	0	20,000	0

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

11. SECONDARY PURPOSE CODE

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

A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

This project will establish two private, self-sustaining institutions capable of providing credit, technical assistance and training to small/micro entrepreneurs in Cairo and Alexandria, Egypt.

14. SCHEDULED EVALUATIONS
Interim MM 10 YY 91 | MM | YY | Final MM 12 YY 96

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [ ] Local [ ] Other (Specify) Egypt

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

USAID/Egypt Controller concurs with the proposed methods of implementation and financing.

8/15/88

William A. Miller, Controller

17. APPROVED BY
Signature
Title: Marshall D. Brown, Director, USAID/Egypt
Date Signed: MM 9 DD 25 YY 88

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

AID 1330-4 (8-79)

U.S. ECONOMIC ASSISTANCE PROGRAM IN EGYPT

U N C L A S S I F I E D

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

SMALL AND MICRO ENTERPRISE DEVELOPMENT

PROJECT NO. 263-0212

SEPTEMBER 1988

USAID/CAIRO

U N C L A S S I F I E D

SMALL AND MICRO ENTERPRISE DEVELOPMENT
PROJECT NO. 263-0212

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GLOSSARY

A.I.D	Agency for International Development
CDSS	Country Development Strategy Statement
CEOSS	Coptic Evangelical Organization for Social Services
CODE 000	U.S. Only
CODE 899	Free World
CRS	Catholic Relief Services
ICI	Intermediate Credit Institution
IDDC	Industrial Design and Development Center
IDIS	Institute for the Development of the Informal Sector
IS/IR	Office of Industrial Resources
L.E.	Livre Egyptienne (Egyptian Pound)
MIC	Ministry of International Cooperation
MIS	Management Information System
PACD	Project Activity Completion Date
OXFAM	Private International Development Organization
PROAG	Project Agreement
PVO	Private Voluntary Organization
PVPIG	Payment Verification Policy Implementation Guidance
SME	Small and Micro Enterprise
SSE	Small Scale Enterprise
TA	Technical Assistance
ZSIP	Zabbaleen Small Industries Credit Program

SMALL AND MICRO ENTERPRISE DEVELOPMENT
PROJECT NO. 263-0212

SUMMARY AND RECOMMENDATION

I. SUMMARY

A. Introduction:

The Small and Micro Enterprise (SME) Development Project is designed to respond to two of Egypt's most serious economic problems; high levels of unemployment (currently estimated at 20%), and growing poverty. Recent estimates suggest that small and micro enterprises (SMEs) account for 40 percent of total industrial employment in Egypt. There are an estimated 250,000 manufacturing enterprises which employ between one and nine employees and approximately 13,000 private firms with between ten and fifteen employees. Seventy-five percent of these businesses are concentrated in Cairo and Alexandria producing a wide range of consumer goods. Experience has shown that the SME sector has enormous potential for growth and expansion which will create new employment and increase incomes.

The lack of access to formal credit is a significant impediment to the expansion of small and micro businesses. Public sector efforts to deliver credit to SMEs have not been effective. Formal credit institutions in the private sector are neither capable nor financially motivated to serve SMEs. In addition to the difficulty of obtaining credit, SMEs are also hampered by limited knowledge of basic business skills. Despite these constraints, small and micro enterprises typically demonstrate a higher incremental improvement in productivity and new employment generation for each dollar invested than do larger enterprises. A survey of the SME sector conducted in 1988 revealed that most entrepreneurs are interested in expanding their businesses, but lack the credit resources to do so. This project is aimed at providing them the opportunity for expansion and growth by addressing the principal constraint of credit.

B. Project Goal and Purpose:

The goal of this project is to expand the economic output of the small and micro enterprise subsector of the economy and to increase employment and income among low income residents of Cairo and Alexandria. The purpose is to create a system that will deliver credit and technical assistance to entrepreneurs participating in the project.

C. Project Activities:

The two principal activities designed to accomplish the project purpose include providing technical assistance and operational support to two Foundations in Cairo and Alexandria and establish a collateral fund against which banks will lend their own funds. In addition, one million dollars is budgeted to finance innovative activities which address constraints to small and micro businesses through small activities that have not yet been identified. The following is a summary of activities under the project:

1. Establishment of an Institutional Mechanism:

Considering the significant unmet demand for credit of SMEs and the inability of domestic financial institutions to serve them, one key objective of this project is to establish an institutional mechanism which fills this need of small borrowers in the private sector with little or no risk to the lending institutions. Two nonprofit Foundations, the Egyptian Small Enterprise Development Foundation in Cairo and the Alexandria Businessmen's Association in Alexandria, will act as intermediate financial institutions, linking the large commercial banks to SMEs. Over time, lending institutions will be encouraged to open access to credit to the SME sector.

The legal formation of each Foundation has already been completed. USAID will provide $8 million to capitalize a collateral account for each of the two Foundations (a total of $16 million) with selected financial institutions. A collateral account mechanism is being utilized to gain advantage from leveraging. The banks are expected to loan their own funds, initially on a 1:1 ratio with the collateral fund. As the credit worthiness of SME borrowers is demonstrated, the banks will increase this ratio up to a 2:1 ratio by the end of the project, giving USAID more impact per dollar granted. The Foundations will be run on a businesslike basis, not as a charity, striving to serve a large number of SMEs while achieving an operational break-even point in a reasonable period of time. Approximately $1 million will be provided to the two Foundations to cover the cost of their operations until their income can cover their costs.

Each of the two Foundations has its own Board of Directors composed of community leaders who are businessmen, government officials, and bankers. Each Board will formulate the Foundation's policy, provide program direction, and appoint the Executive Director. Each Foundation will have a central office and approximately four branch offices by the end of the project. The central office will be responsible for staff recruitment and training, managing program funds, monitoring and reporting branch performance and providing a sense of mission and policy direction. Branch offices will maintain regular contact with clients and will be largely responsible for the loan review/approval process, and the direct delivery of credit to small and micro enterprise clients. In addition to delivering credit, the Foundations will provide technical assistance and training to participating entrepreneurs in basic business skills, also on a cost recoverable basis.

The Grant will finance the services of U.S. and Egyptian firms to support institutional development of the

Foundations over a two and a half year period. A U.S. firm will provide a long term resident advisor for a 30 month period and up to 12 person months of short term consultants. The Egyptian firm will provide one long-term advisor to each Foundation and a variety of short-term assistance. Initially, TA will focus on developing the organizational structure, orientation and training of personnel, establishment of management and financial systems, lending policies, and procedures. The focus will then shift to review of program approaches and lessons learned and provide guidance on redirection if necessary. Most of the training will be directed at Board members, the executive directors, managers, and extension staff of the Foundations. Except for limited observation visits overseas by the executive directors and selected board members, training will be conducted in-country. Seminars and workshops for SME owners will also be held. The cost of TA and training in support of institutional development of the Foundations is estimated at $1.1 million.

2. Credit Element

a. Lending Mechanism:

A "collateral account" will be created by depositing funds (up to $8 million for each Foundation) under the name of each Foundation in an interest bearing account at one or more selected banks. The interest generated on the collateral account will be automatically reinvested into the same account. Pre-authorized overdraft privileges on the accounts will be negotiated with the banks, up to an amount equal to the initial deposit. Funds will be drawn on these accounts as loan demand is generated by extension agents in the branch offices. The loan portfolio will appear in the balance sheet of the Foundations' SME program because all accounts of the branch offices are registered under the name of the Foundation. End use lending is expected to begin by Month 12 of project implementation, as per the chart following page 16.

The structure minimizes lending costs since the Foundation(s) pay interest to the bank only when loans are disbursed. Simultaneously, the credit funds delivered to the clients are accruing a higher rate of interest due to the charges assessed for lending the money to the SME clients. Repayments are redeposited into the bank; operating statements immediately reflect a decrease in the overdraft (interest) charges on the checking account. Net interest income for the project is calculated each month by subtracting the interest due to the bank (on the overdraft account) from the total interest income generated each month from the installment payments. The information is recorded on each month's bank statement.

Experience has demonstrated that this system is relatively easy for the the banks to administer. All draw downs on the overdraft facility and repayments are carried on the bank's books as though with a single client, the Foundation. Over the life of project, the Foundations' fund will be leveraged up to 2:1 as the

a

project demonstrates the high quality of its loan portfolio. This can allow the Foundation to lower its' borrowers cost of capital, as more lending is occurring for each dollar on deposit. This is because the end-user rate is based on the margin the Foundation needs to recover its costs.

The branch offices of each Foundation will play a key role in the entire process. They will be responsible for maintaining regular direct links to clients and will also review and approve loans to clients. To facilitate the delivery and management of credit, extension officers who are locally recruited, trained, and based from the branch office(s) will assist in organizing the SME groups. The groups, by selecting their own members, approving individual loans, and assuring timely repayment, will lower operational costs for the Foundation. The groups, usually organized by the same line of business, will be unable to receive subsequent credit unless members are current on their repayments, although the standard banking practice of restructuring justifiably delinquent loans will be followed. Through this approach, important peer pressure and responsibility will develop for loan repayment. In order to expand the project, maintain a healthy portfolio, work toward self-sufficiency and retain a quality staff, both Foundations will utilize an incentive system for their employees. This incentive system will encourage both volume and quality of loan portfolio.

The principal features of the loan program are as follows:

1. Eligible Borrowers:

Generally existing, owner operated small (6 to 15 employees) and micro (1 to 5 employees) enterprises in Cairo and Alexandria engaged in some form of manufacturing.

2. Loan Sizes:

LE 1,000 to LE 3,000 for micro enterprises. LE 5,000 to LE 10,000 for small businesses.

3. Terms:

9-12 months.

4. Purpose:

Facilitate access to financing for working capital, machinery and raw materials.

5. Cost:

Charges to borrowers will be based on a formula which takes into consideration the Central Bank of Egypt interest rate guidelines, the Foundations' administrative costs and inflation. Fees will be adjusted as needed to achieve the

Foundations' goal of financial self-sustainability and to prevent decapitalization of the loan fund.

Although the ranges are based on needs expressed by SME owners during the project design phase, loan amounts and precise criteria for borrower selection will be adjusted over time to reflect changing conditions. After borrowers have demonstrated their ability to repay short-term working capital loans, they will be permitted to borrow for fixed assets as well. The features which will make the Foundations' credit program attractive to SMEs include rapid processing and approval of loan applications, peer group participation in the extension of loans, and access to larger amounts of credit for longer periods than they would otherwise be able to obtain.

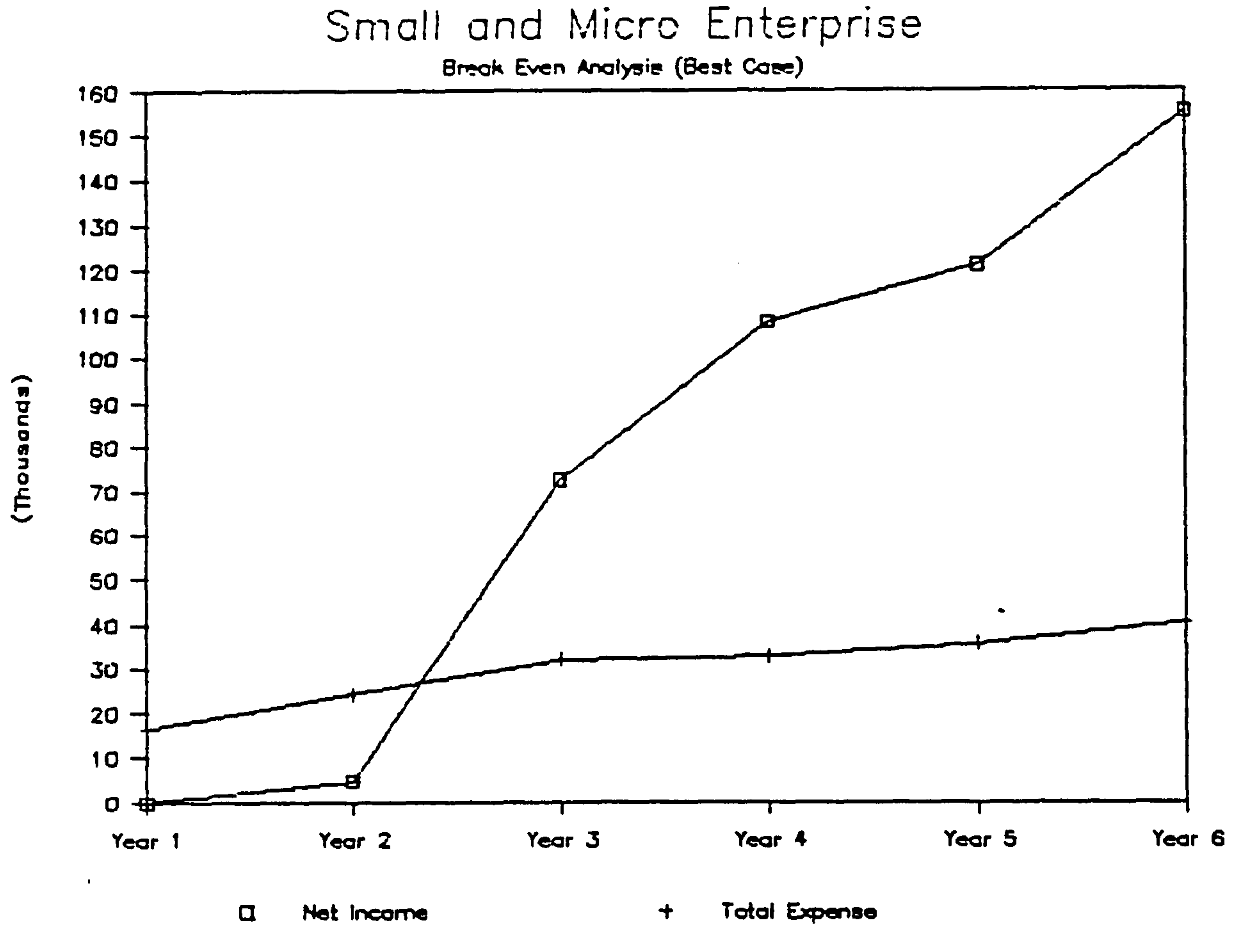
b. Sustainability:

An important feature of the credit component is financial self-sustainability. In order to achieve the project purpose, each Foundation will seek to recover the cost of lending and administration by the end of the project. Interest and other charges will be set at a level which prevents decapitalization of the collateral fund and allows the Foundations to achieve break-even within a reasonable period of time. Table I on page v. and Chart I on page v(a) demonstrate various scenarios of rate of return on the collateral fund, lending rates to the Foundations by the banks, inflation, and end user rates. Assuming a default rate of 1.5% in all cases, the Foundations income would equal their costs between the third and sixth year of lending. Using these assumptions, the Project Committee anticipates the Foundations will be able to serve between 25,000 and 35,000 SMEs during the project life. Funds remaining in the collateral account will continue to be used by the Foundations to facilitate SME access to credit after the PACD.

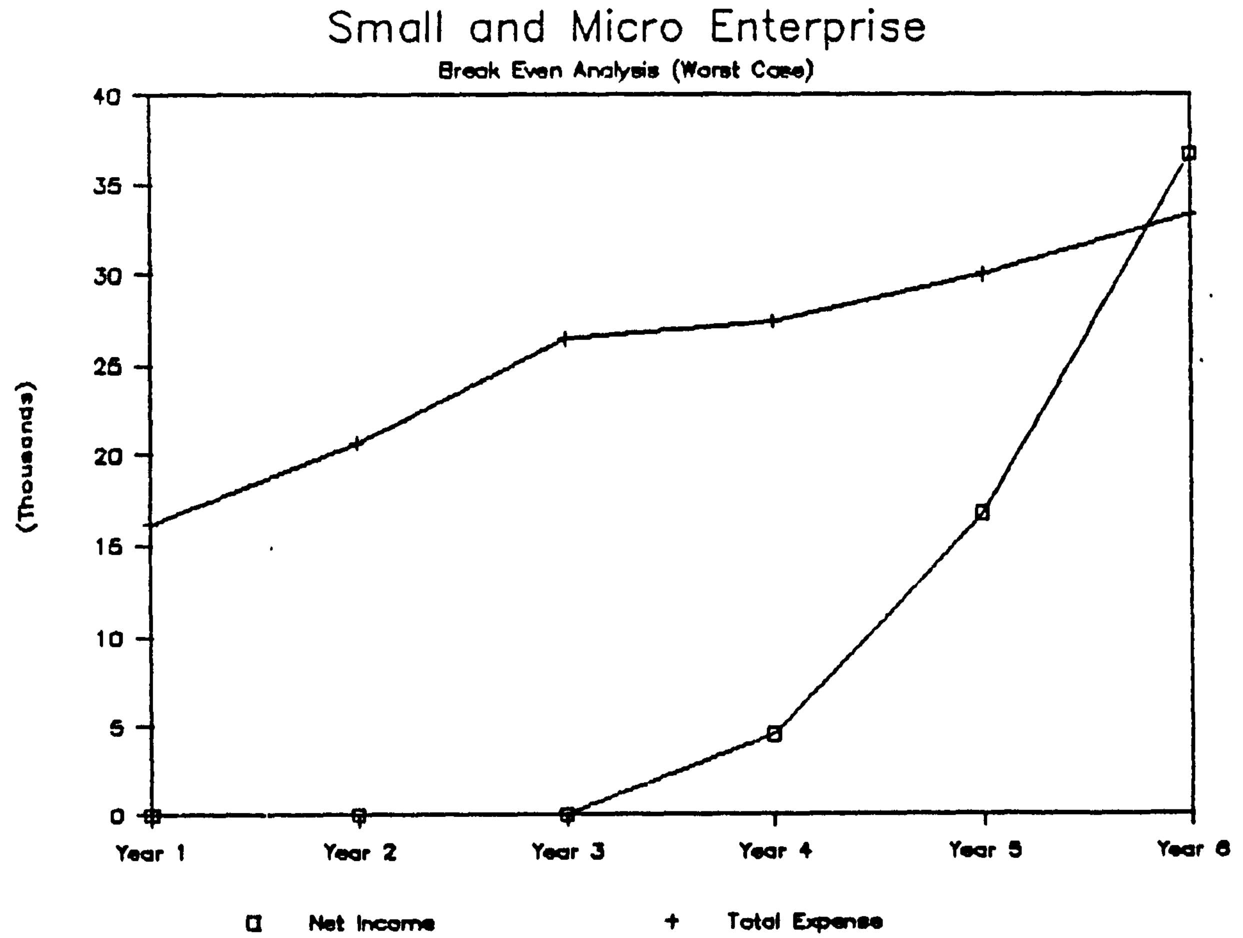
Table I
Break Even Projections

Rate of Return on Collateral Fund	Rate of Funds Being Lent by Bank	Inflation	End-User Effective Cost of Funds	Break Even Point
10%	12%	15%	20%	Year 3 Quarter 3
10%	12%	22%	20%	Year 6 Quarter 4
10%	15%	22%	30%	Year 3 Quarter 3
10%	15%	25%	30%	Year 3 Quarter 3

Note: All figures are expressed in Percent per Annum



Note: Both Graphs are based on one branch office portfolio



c. Special Projects Fund:

Five Hundred Thousand Dollars for each Foundation is included in the Financial Plan to provide them with capability to respond quickly and flexibly to opportunities that may arise which would be of great benefit to the SME sector. These funds, for the most part, will be used to provide loans or grants to nongovernmental organizations to undertake activities which meet one or more of the following criteria:

a. have high potential for increasing incomes;
b. have significant potential for generating new income;
c. improve product quality and/or increase production;
d. expand the market for SME products;
e. transfer technology;
f. accelerate the development of new SME products;
g. improve the policy and/or regulatory environment for small and micro enterprises.

Examples of such activities include sponsorship of market development trips to neighboring countries for representatives of the aluminum products manufacturing subsector; creation of a technical reference library for SME manufacturers and establishment of a bulk purchasing system for raw materials used by large numbers of SMEs.

USAID will monitor the use of these funds and audit the program annually to ensure compliance with the program objectives and proper accounting of the funds.

D. Implementation Plan

1. Project Management:

The USAID/Cairo Office of Industrial Resources (IS/IR) will take primary responsibility for monitoring the project and maintaining contact with the Foundations. IS/IR will approve annual implementation and financial plans of the Foundations, the lending criteria, and loan projections. The financial plan provides funds for the services of two personal services contractors who will assist USAID with project start-up and mobilization of the Foundations. The primary responsibility of each Foundation is to administer credit to SMEs, provide technical assistance and training to participating business owners, and manage a innovative special projects fund.

The principal function of the GOE will be to facilitate the transfer of funds from USAID to the Foundations. A Project Agreement (PROAG) will be signed by USAID and the Ministry of International Cooperation (MIC) which will include a schedule for disbursement of funds. USAID will enter into subagreements with the Foundations, which will incorporate the same disbursement schedule.

Unless USAID or the Foundations deem it necessary, no further approval will be required from the GOE prior to the disbursement or obligation of funds. The GOE will be notified in writing of any deviation from the original schedule.

2. Procurement Plan:

USAID will contract with a U.S. institution that has demonstrated experience in implementing similar projects to provide technical assistance in support of the project. There will be a full time U.S. advisor in Egypt for approximately 30 months who will provide technical direction and supervision of an Egyptian subcontractor. The local firm or firms will provide one full time advisor for each Foundation and an array of short term consultants.

The Mission has determined that the procurement of all technical assistance will be undertaken by USAID directly. The Mission bases this determination on the conclusion that the implementing organizations do not have adequate contracting capability at this time. Their capabilities are expected to improve during the life of the project, but the Foundations are still too new to have the required ability. MIC is also unsuited to serve as contracting agent, given the Ministry's already tremendous workload.

Except for eight motorcycles and off-the-shelf purchases, all goods and services procured under the grant will have both their source and origin in the United States or Egypt. No waiver is needed for the motorcycles; a blanket waiver for 125 cc or less displacement motorcycles is in effect through March 6, 1989. Procurement under subloans to small and micro enterprises will be made in accordance with standard AID procedures applicable to Intermediate Credit Institution (ICI) projects.

Small and minority-owned firms will be encouraged to participate in this project in accordance with AID regulations. Every effort is being and will be made to identify appropriate opportunities for such firms in project implementation. The project's evaluation services are suitable for performance, at least in part, by a minority firm. The intent is to set aside evaluation work for a minority contractor.

3. Project Monitoring:

The monitoring of project performance is particularly important since both Foundations intend to become self-sustaining before the end of the fifth year of lending. Monitoring the quality of the loan portfolio and the rate of expansion will be critical to ensure that the targets are met. To measure progress, a simple baseline survey of entrepreneurs in the target areas will provide information on the number, gender, and needs of small entrepreneurs. This survey will be completed during the first year of project implementation, after the staff has been hired and trained. Carrying out the baseline survey will also allow Foundation personnel to introduce the project to the community. The management information system (MIS) will compile information from loan applications which can be used to monitor the indicators of goal and purpose achievement such as assets and number of employees. A midterm evaluation is scheduled in year three to review the Foundations' performance and assess progress and policy constraints. The results of the midterm evaluation will be used to recommend changes in project design and operations and recommend means to address policy issues. A final evaluation is scheduled in FY 96 to identify successful aspects and assess replicability.

E. Summary of Analyses:

The administrative analysis concentrated on the structure of the Foundations, organized around a Board of Directors and three departments. The Department of Operations has the principal responsibility for maintaining contact with branch officers and managers. It is the extension officer, defined in terms of an individual business unit, that serves as the administrative link with client groups. The essential administrative aspect of the Foundation is flexibility, responsiveness to client needs, and the administrative capability to generate and maintain clientele. Staff incentives are a critical part of the credit structure.

The technical analysis concluded that the Foundations will operate as intermediate financial institutions, linking the large domestic banks to small and micro entrepreneurs, a sector which is currently excluded from formal financial institution services. USAID will deposit up to $8 million into selected banks in the name of the Foundation(s) as a collateral account. The collateral account will have the right of offset and overdraft privileges will be negotiated with each bank in which there is an account. The loan funds account is analogous to a checking account on which one can write overdrafts. Funds will be drawn on the account as loan demand is generated. As the project develops a high quality loan portfolio, the Foundation's fund will be leveraged. Projections are that leverage will increase from 1:1 to 2:1 by the end of project; twice the amount of the collateral fund will be available for lending. The quality of the portfolio will be determined by the ability of the Foundations to promote credit services and sustain interest in the project through the establishment of active, community-level entrepreneur groups.

The economic analysis concluded that this project is successful in economic terms with high rates of return. The analysis further notes that the projections for the private foundations show them to be economically viable. In the absence of available data from Egypt, the analysis draws on the experience of Peru, Bangladesh, and India, where similar credit approaches have shown direct positive impact on household incomes with increases of 54 percent to over 70 percent earned by project beneficiaries.

The financial analysis, using a lending model with the effective rate of interest to the borrower at 26-30% per annum, default rates of 1.5%, and inflation projections of 22%, concluded that the project would achieve break even in year 3, indicative of superior organizational performance. With a more modest set of assumptions, including a 20% end-user cost and similar assumptions on defaults and inflation, the break even point would be reached in year 5. The graphs on page v(a) demonstrate the break even scenarios for a single branch office utilizing both sets of assumptions, although the break even point will also be affected by average loan size and rate of expansion.

The social soundness analysis concluded that the project contained the necessary elements for success based on The World Bank's experience with four large urban credit projects. The lessons from The World Bank case are that grass-roots organizations play a critical role in communicating with beneficiaries and translating the needs of the clientele into action. Secondly, technical assistance is less important to clients than credit. Thirdly, mutual loan repayment guarantees by borrower groups is important in maintaining high repayment levels. Fourthly, program flexibility and the ability to respond to changing needs of clientele is important. All four characteristics have been built into the project.

F. Cost Estimates and Financial Plan

SME Project Budget Summary
(US$ 000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Collateral Fund	956	5267	4444	5333				16,000
Operational Support	345	305	330					980
Project Management	131	137	13	14				295
Technical Assistance	525	484	91					1,100
Training	105	160	147					412
Special Projects	500	500						1,000
Audits and Evaluations	50			50			113	213
	2062	6903	5525	5397	0	0	113	20,000

Obligation Plan
(US$ 000)

	Current Obligation (FY88)	Life of Project
Foundation Activities Collateral Fund, Operational Support, Training, Special Projects	8,800	18,687
Technical Assistance Project Mgmt., Long/Short Term TA	1,100	1,100
Services Evaluations, Audits	100	213
TOTAL	10,000	20,000

USAID will finance all costs of this project. No GOE contributions are anticipated. A key objective of this project is to develop a model for effectively reaching small and micro enterprises in Egypt's urban centers. Previous efforts, which relied on public sector institutions, have not been effective. Therefore, USAID wishes to keep GOE involvement to a minimum. Accordingly, no GOE contribution has been included in the budget. Host country contributions will be mainly in the form of charges paid by borrowers, fees for training programs, and contributions in kind by Board members. The total interest income from borrowers is expected to reach approximately LE 96 million by the PACD.

Disbursement of funds to capitalize the loan fund will be made according to the schedule contained in Chart II, Annex G. Tranches will be released on this schedule unless lending during the active quarter significantly varies from the projections, in which case the subsequent quarter's allotment would be modified accordingly.

Each Foundation will receive advances to cover operational support, training, and special projects. Each Foundation will also receive disbursements in tranches in local currency purchased with project funds for capitalization of its Collateral Fund which will be deposited in a bank account in the name of the respective Foundation. These funds will not be comingled with funds for operations, training and special projects. Reimbursement is one of the preferred methods of AID financing, but, because no funds are available to the relatively new Foundations, AID will advance local currency purchased with project funds to finance operating costs for at least the first three years of end use lending.

II. <u>RECOMMENDATION</u>:

The Project Committee recommends that a grant of $20 million be authorized for the Small and Micro Enterprise Development Project. The grant will be for a seven-year period, and obligations will be made in two increments -- $10 million in FY 88 and $10 million in FY 92.

PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Small and Micro Enterprise Development Project

Number of Project: 263-0212

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended ("the Act"), I hereby authorize the Small and Micro Enterprise Development Project for the Arab Republic of Egypt (Cooperating Country) involving a planned obligation of not to exceed $20,000,000 in grant funds over a five year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. Operating Year Budget allotment process, to finance the foreign exchange and local currency costs of the Project.

2. The Project consists of capital and technical assistance to establish and capitalize two independent and ultimately self-sustaining Foundations to manage a collateral fund to provide small, short term loans to select small and micro enterprises in Cairo and Alexandria. The Project includes financing of technical assistance and training for Foundation staff and procurement for equipping one main office and several branch offices for each Foundation. Business related technical assistance and training will also be made available to the enterprises themselves. Finally, the Project will also finance subgrants for activities in support of the small and micro enterprise sector.

3. The project agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority shall be subject to the following essential terms, covenants and major conditions together with such other terms and conditions as A.I.D. may from time to time deem appropriate:

(a) Except as A.I.D. may otherwise agree in writing or as provided in paragraph (2) below, goods and services financed by A.I.D. under the Project shall have their source and origin in the United States or in the Cooperating Country.

(b) Ocean shipping financed by A.I.D. under the Project, except as A.I.D. may otherwise agree in writing, shall be financed only on flag vessels of the United States.

4. The grants to the Foundations which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority shall be subject to the following essential terms, together with such other terms and conditions as A.I.D. may from time to time deem appropriate:

a. Conditions Precedent to Disbursement

(1) Disbursements in year 1 will be in three stages. In stage one, $100,000 will be released (divided equally between the two Foundations) to establish main offices. Stage two for each Foundation will begin when it has hired its Executive Director, the Foundation's main office is equipped and operational, and the Technical Assistance contractor is in place. The remaining funds for operational support for year one will be released at this time, as well as the training/education budget, assuming satisfaction of (6) below. Stage three will begin when the Foundation's staff has been hired and trained, the accounting and management information systems have been approved by A.I.D., at least one branch office has been established, and the first quarter of lending projections have been submitted to A.I.D. At this point, the first quarter collateral fund release will be made to the Foundation, assuming all other pertinent conditions have been met.

(2) Prior to any disbursement of the collateral fund to either one of the Foundations, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the collateral fund, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., evidence from a bank or banks indicating that the Foundation has entered into an overdraft agreement, along with a description of the terms of that agreement.

(3) Prior to any disbursement of funds under this Project to either one of the Foundations, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the Project, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D. in form and substance astisfactory to A.I.D., evidence that it has been legally registered with the Ministry of Social Affairs in Egypt.

VR

(4) Prior to any disbursement of funds under this Project to either one of the Foundations in year 2 of lending, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the Project in year 2 of lending, that Foundation shall, except as otherwise agreed to in writing, demonstrate to A.I.D. that it has installed, equipped and begun operating a main office and at least one branch office. The same condition precedent shall apply with respect to subsequent years until that Foundation demonstrates in a fashion satisfactory to A.I.D. that it has installed, equipped and begun operating a sufficient number of branch offices to efficiently lend funds to the target clientele.

(5) Prior to any disbursement of the collateral account to either one of the Foundations, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the collateral fund, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., the names of the individuals who will serve as its Executive Director, Operations Manager, Branch Manager (if any identified yet), Training and Technical Assistance Manager and Administrator, with a clear statement of each officer's duties and authorities.

(6) Prior to any disbursement of funds under this Project to either one of the Foundations for activities under the Technical Assistance and Training components, or the issuance by A.I.D. of documentation pursuant to which any disbursement will be made for these components, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that it has apppointed counterparts for all long-term technical advisors.

b. <u>Covenants</u>

(1) The Foundations shall, unless otherwise agreed in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., prior to the Foundations next fiscal year during each year of the Project: (a) annual audited financial statements; and (b) annual implementation and financial plans for the Foundation itself and each existing and planned Branch Office.

(2) The Foundations shall ensure that no Government of Egypt employees will be employed by the Foundations or Branch Offices during the life of the Project without the prior written approval of A.I.D.

Marshall D. Brown
Director, USAID/Cairo

SEP 26 1988

I. BACKGROUND AND RATIONALE

A. Introduction:

Egypt faces a number of formidable challenges over the next few years. Foremost among these are high levels of unemployment and widespread poverty. The extent of the poverty problem is illustrated by recent Government of Egypt (GOE) statistics. They show that, in 1986, an estimated 15 to 20 percent of urban and rural households had annual expenditures of LE 230 per capita or less, thus placing them below the minimum level required to maintain an acceptable standard of living. An additional 40% of the population was close to the minimal acceptable level with annual expenditures of LE 231 to LE 400 per capita.

Precise measures of unemployment, which for many years was never even officially acknowledged to exist, are difficult to obtain. However, according to a senior official of the ruling National Democratic Party, the unemployment level is currently around 20% or 2.8 million people. With the labor force increasing at an annual rate of approximately 2.6%, over 354,000 new jobs will have to be created each year just to maintain the current high level of unemployment.

Both the GOE's 5-year development plan (1987-1992) and USAID's FY 1989 CDSS address these concerns.

B. Five Year Development Plan (1987-1992)

The current Plan contains four major goals:

1. To increase production and productivity levels;
2. To strengthen the self-sustaining growth of the economy;
3. To focus on demographic and spatial aspects of development;
4. To develop national management capabilities and strengthen the role of the private sector.

The proposed program is directly related to 3 of the 4 major goals. (The project does not address goal #3 on demographic and spatial aspects of development). The project would provide assistance to small and micro enterprises in the form of short-term credit, technical assistance, and training with the objective of increasing productivity levels for small businesses. The project also seeks to expand employment. The project is designed to strengthen the role of the private sector and improve management capability of small businesses.

The GOE plan emphasizes greater private sector involvement in development while placing its emphasis on self-reliance and export promotion. These objectives are congruent with this project.

C. Relationship to the FY 1989 CDSS

The FY 1989 CDSS indicates that the critical problem for Egypt is low economic productivity, and the primary factor preventing the economy from producing at its full potential is an economic system which stifles market forces. Although the CDSS emphasizes policy dialogue to support economic reforms, the major share of USAID's program during the planning period will be in projects. One of the critical areas addressed in the Strategy is increased productivity in private industry.

Two of the four specific areas of support to private industry mentioned in the CDSS are found in the proposed project. These include improved banking facilities for small scale enterprises and management training to improve business practices of small entrepreneurs.

The CDSS also indicates a strong USAID interest in promoting more widespread PVO involvement in development programs in Egypt. The proposed project will utilize PVOs which have begun working outside the traditional social service areas.

The Project is also consistent with the primary CDSS goal of encouraging greater participation by private enterprises in economic activities as a means of increasing the productivity of the economy. This project consists of two primary activities to provide incentives to small private enterprise. One is better access to credit, and the second is technical assistance designed to improve management practices. The broad economic reforms outlined in the CDSS dealing with productivity and a freer market economy will be supported through the project.

D. Other Donor Activity

In addition to USAID, several other donors have provided support to small scale enterprises in Egypt. These include OXFAM, Plan International (Foster Parents Plan), CEOSS/Catholic Relief Services and the World Bank. Detailed descriptions of these activities are contained in Annex M.

Several conclusions can be drawn from the experience gained through implementation of these activities. These include:

- Public sector efforts to assist SMEs have not been effective;

- Group loan mechanisms are feasible;
- There is significant unmet demand for credit, but formal credit institutions are not currently capable 1/ of or interested in serving SMEs;
- Close project monitoring/frequent contact with loan recipients is a key factor in minimizing defaults;
- Most activities funded by other donors have been designed as social welfare programs rather than self sustaining business. This has severely constrained their ability to serve large numbers of businesses and has undermined their long term viability.

II. PROJECT DESCRIPTION

A. Goal

The goal of this project is to expand the economic output of the micro and small scale (productive) enterprise sector. A secondary goal is to increase employment and income among low income residents of Cairo and Alexandria. For purposes of this project, micro enterprises are defined as owner-operated businesses with one to five employees and small enterprises are private firms that employ six to fifteen people.

B. Purpose

The purpose of the project is to increase access to credit and improve business and technical skills of entrepreneurs participating in the project.

C. End of Project Status

By the Project Activity Completion Date (PACD), two self-sufficient Foundations will be operating in Cairo and Alexandria. Each Foundation will be dedicated to the provision of services to SMEs, and will be formed to stimulate growth and development of small and micro enterprises by increasing productivity, income and employment in participating firms. Each Foundation will have established a branch office system that can serve the needs of about 16,000 borrowers.

1/ Central Bank of Egypt will not allow commercial banks to open new branches.

D. Project Outputs

The project outputs will address the major constraints faced by micro and small-scale businesses. These include:

1. Credit --- to increase the availability of funds for working capital and investments in plant and equipment in participating enterprises;

2. Training in basic business subjects for project beneficiaries--- to develop the skills necessary to improve management, finance and other aspects of the participants' businesses;

3. Technical assistance --- to help participants apply concepts learned in training exercises and overcome specific problems associated with their businesses;

4. Application of improved business and technical skills;

Outputs 1-4 above will be measured at the level of the branch office portfolios. The system can be readily reviewed in terms of loans outstanding and recovery rates, the number of repeat and new borrowers, and the financial viability of the Foundations themselves.

In addition, other outputs include:

1. Identification of other impediments to small and micro business operations and development of informal recommendations through the Boards for action by the GOE, private sector, cooperatives, donor agencies and PVO's;

2. Development and testing of an effective strategy for the delivery of credit and support services to SMEs in Cairo and Alexandria that can be readily duplicated in other Egyptian cities;

3. Lastly, specific project outputs will be related to managing the project itself, including: the establishment and staffing of a project management unit within two new Foundations; development and installation of a computer-assisted project management and information system (MIS), and the development of management operations procedures and standards.

E. Method of Operation

The Project will be managed by two private, nonprofit recently-formed Foundations in Cairo and Alexandria. Each Foundation's Board of Directors, composed of community leaders, businessmen, government officials and bankers, will supervise an Executive Director and staff who, in turn, will implement the project.

Management of this project will differ significantly from previous programs dealing with SMEs in at least one important respect. The operating mentality of the Foundations will be that of the private sector rather than a charitable organization. While it will be implemented by nonprofit foundations, its institutional goals will include reaching large numbers of SMEs while achieving commercial viability (as a self-supporting and growing organization) at the end of planned USAID financial support.

The actual fees and service charges paid by the end-use borrowers will be adjusted over the life of project. In order to become self-sustaining, the charges and fees to the borrower (income) should cover the local bank 's interest rate to the Foundation, administrative costs, reserve for loan default, and allowance for inflation (expense). The Foundations are not expected to be able to immediately recover their costs. Operational support for their initial operations will be provided. It is the responsibility of the Foundations, initially assisted by consultants, to demonstrate how their combination of charges will yield financial viability within a reasonable period of time. Current projections are that the Foundations will break even between the third and the fifth year of lending, depending on the rate of growth in loan portfolio, the total cost of funds, and the leverage ratio of collateral fund to loans extended.

The primary beneficiaries of this project will be approximately 25,000 to 35,000 individual, small and micro entrepreneurs. SME operators tend to be very independent and their business needs are varied. Field research conducted in the course of development of this project pointed to a high credit demand, as well as the need for training and technical services, especially in marketing information and quality control. One of the constraints faced by SMEs in obtaining credit from formal financial institutions is mutual misconceptions. These include the belief that providing credit to SMEs necessarily involves high administrative costs, cumbersome loan application procedures and high risk. These perceptions have been overcome in other countries through careful design and implementation, and through formation of borrower groups for extension.

In order to make it easier and more cost effective for the banks and the Foundations to deal with large numbers of relatively small borrowers, the potential clients will be organized into groups. These groups will help facilitate loan document preparation, identify training needs, and will serve as the contact point for the extension workers from the Foundations to market Project services. Each of these groups will be responsible for ensuring that all of their members make timely and complete repayments of their loans. While the group members will not formally guarantee one another' loan, subsequent loans to the entire group will only be approved upon satisfactory pay-back of the entire group. Moreover, it is stressed that each borrower will be treated as an individual so that he or she can establish a "bankable" credit history.

The primary focus of the project will be to provide short-term working capital to existing productive (manufacturing) enterprises. The approach, which has a proven capacity to reach and provide cost effective services to a large number of SMEs, involves four basic steps.1/

- The first step is to establish an intermediary organization or Foundation. (The legal formation of Foundations is already underway in Cairo and Alexandria). An accounting system will also be established.

- The second step is to choose an appropriate financial entity to which a deposit is made under the name of the Foundation. The Foundation will open a checking account in the selected financial institution and obtain pre-authorized overdraft privileges for on-lending purposes to the SME groups, up to an amount equal to the initial deposit. (The budget includes U.S. $8.0 million for each of the Foundations.) This is known as a "collateral account with the right of offset". The initial deposit or collateral account functions as a guarantee against which the banks will extend their own funds, in the checking accounts of the Foundations up to the amount of the collateral account.

1/ There are many examples around the world of successful lending to small and micro enterprises. In Bangladesh, the Grameen bank, with loans averaging L.E. 100, has a high quality portfolio of 180,000 clients and continues to grow. In Peru, one foundation reaches 35,000 clients nationwide after two years of operation, with a goal of reaching 60,000 in two more years. Indonesia has two separate banking systems that are now lending to small entrepreneurs. The larger of the two systems, the Bank Rakyat Indonesia (BRI), has over 200,000 borrowers borrowing an average of L.E. 125. BRI's past due repayments were less than 2% in mid-1987. Indonesia's Bank Pembangunan Daerah is lending to over 100,000 small entrepreneurs in East Java alone.

- The third step is the formation of groups of entrepreneurs. The groups, formed of 10 to 15 business acquaintances, agree to self-select their members, approve individual loans, and assure timely loan repayments.

- The last step involves loan applications, loan approvals, disbursement and collection. This process will be decentralized and simplified with primary responsibility placed with a community-based extension officer.

At the outset of the project, the extension officer from the Foundation will assist in organizing the SME groups. The groups, by selecting their members, approving individual loans, and assuring timely repayment, will lower operation costs for the Foundation. The groups, usually organized by the same line of business, will be unable to receive subsequent credit if the overall group repayment rate exceeds established parameters. Before a group is declared ineligible standard banking practices relating to restructuring justifiably delinquent loans will be followed. Through this approach, important peer pressure and responsibility develops for loan repayment. Risk to the banks is reduced to a minimum because the collateral account is in the name of the Foundation.

Over the life of project, it is planned that the Foundations will charge the SMEs the real cost of capital, including all the administrative costs of managing the portfolio. With this approach, the revolving loan fund will not be decapitalized and operational break-even is achievable within a reasonable period of time. At the initiation of the project, the primary lender, or bank, has no risk, and in time would be encouraged to allow a two to one ratio (overdraft to collateral account), to the Foundation, based on the performance of its SME portfolio.2/

By the end of the fifth year of lending, each of the Foundations is expected to be serving about 16,000 SME clients. Assumptions utilized in the financial projections (Annex H) are that approximately 70% of the borrowers own micro-scale businesses (less than six employees) and 30% own small-scale businesses, although the true ratio will evolve over time. Loans will range in size from L.E. 1,000 to L.E. 10,000 (US $4,350 equivalent). The Foundations will charge the SMEs an amount sufficient to cover the cost of funds, the cost of operations, and bad debts.

2/ In the course of the project design, informal commitment on this point was reached with banks in Cairo and Alexandria.

In addition to credit, the project will provide management and technical assistance to the SMEs, also on a cost recoverable basis. Classes and informal group discussions covering topics such as accounting, marketing, and management will be offered. Technical advice, for example, on quality control, product design, raw material selection will also be offered. Private consultants, government programs and other private, nonprofit type organizations or NGOs will provide topics for presentation to SMEs.

Thirty person months of technical assistance and training to the Foundations will be required for the Foundations to accomplish the following:

(a) to assist in start-up and organization;
(b) to establish lending policies and procedures;
(c) to develop and install computer programs for financial analysis.

Board members and staff will receive training both in Egypt and abroad. The foreign experience will offer an opportunity for selected board members and staff to visit and acquire some understanding of successful nonprofit Foundations in other countries.

A special projects fund will be established to allow the Foundations to initiate pilot activities or to support innovative proposals by other NGOs serving the SME community.

The USAID/Cairo support to the Foundations in Cairo and Alexandria consists of:

F. Budget Items

Budget Items	Budget in U.S. Dollars
Credit Fund (8 million for each Foundation)	$16,000,000
Operational Support	980,000
Special Projects	1,000,000
Technical Assistance & Training	1,512,000
AID Project Management	295,000
Evaluation & Audit	213,000
TOTAL	$20,000,000

III. COST ESTIMATES AND FINANCIAL PLAN

SME PROJECT BUDGET SUMMARY
(US$000)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
COLL. FUND	956	5267	4444	5333				16,000
OPERATIONAL SUPPORT	345	305	330					980
AID PROJECT MANAGEMENT	131	137	13	14				295
TECHNICAL ASSISTANCE & TRAINING	632	644	236					1,512
SPECIAL PROJECTS		500	500					1,000
AUDITS & EVALUATIONS			100				113	213
GRAND TOTAL	2072	6849	5619	5347	0	0	113	20,000

NOTE: Some figures do not add exactly due to rounding.

Note to Financial Plan:

1. A key objective of this project is to develop a model for effectively reaching micro and small enterprises in Egypt's urban centers. Previous efforts, which relied on public sector institutions, have not been effective. Therefore, USAID wishes to keep GOE involvement to a minimum. Accordingly, no GOE contribution has been included in the budget. Host country contributions will be mainly in the form of charges paid by borrowers, fees for training programs, and contributions in kind by board members. The total interest income from borrowers is expected to reach approximately L.E. 96 million by the PACD. The other contributions cannot be readily quantified at this point.

2. Disbursement of funds to capitalize the collateral fund will be made according to the schedule contained in Chart II, Annex G. Tranches will be released on this schedule unless lending during the active quarter significantly varies from the overall projections, in which case the subsequent quarter's allotment would be adjusted accordingly.

IV. IMPLEMENTATION PLAN

A. Project Management

1. Role of A.I.D.

The Mission's Office of Industrial Resources (IS/IR) will have primary responsibility for monitoring the project. With the assistance of the various support offices, IS/IR will:

- review and forward for processing all Foundation requests for disbursements;
- review Foundation reports and other related correspondence, taking action as needed;
- monitor project activity, ensuring compliance with conditions and covenants of the Project Agreement, and take management action as necessary;
- make regular visits to Foundation offices and participating businesses;
- report on the project to Mission management as appropriate.

2. Role of the Foundations

The elected boards of the two Foundations will have the principal responsibilities for:

(1) Establishing Foundation policy;
(2) Approving the program budget;
(3) Determining program direction;
(4) Participating in fund raising efforts;
(5) Promoting policy dialogue with the GOE; and
(6) Consulting with USAID/Cairo on the appointment of the project's Executive Director.

The Foundations will also manage a special projects fund of $500,000 each. These funds will be used by the Foundations to provide subgrants to nongovernmental organizations to undertake various activities in support of small and micro enterprises.

A schedule of disbursements for the special projects funds will be included in the PROAG and the subgrant agreements between AID and the Foundations. The funds will be disbursed into non-interest bearing accounts in the name of each Foundation.

Eligible activities for funding under this special projects fund will include those which:

(1) have high potential for increasing incomes;
(2) have significant potential for generating new employment;
(3) improve product quality and/or increase production;
(4) expand the market for SME products;
(5) transfer technology;
(6) accelerate new product development;
(7) improve the policy and/or regulatory environment for small and micro enterprises.

Proposals for funding will be reviewed and approved by the Foundations' Boards. USAID will audit the Special Projects Fund annually to ensure that the funds are being used in a manner that is consistent with the Project objectives and that the funds are properly accounted for. Detailed guidance on the use of these funds will be provided to the Foundations in a separate P.I.L.

3. Role of the GOE

The Project Agreement (PROAG) will be signed by USAID and the Ministry of International Cooperation (MIC). MIC will also approve PIO/Ts as necessary.

B. Implementation Schedule

Project implementation has been divided into two categories: Pre-lending activities and lending activities. The charts on the following two pages show the key events and the projected schedule for reaching these milestones.

C. Procurement Plan

The Mission has determined that the procurement of all technical assistance will be undertaken by A.I.D. directly. The Mission bases this determination on the conclusion that the implementing organizations do not have adequate contracting capability at this time. Their capabilities are expected to improve during the life of the project, but the Foundations are still too new to have the required ability. The Ministry of International Cooperation is also unsuited to serve as contracting agent. Use of MIC would introduce serious delays in project implementation due to the Ministry's already tremendous workload.

Except for eight motorcycles and off-the-shelf purchases, all goods and services procured under the grant will have both their source and origin in the United States or Egypt. No waiver is needed for the motorcycles; a blanket waiver for 125 cc or less

Pre-Lending Implementation Activities

ACTIVITY	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11
1.a Technical Assistance (Foreign)	Advertise for Bids (3 wks)	Waiting Period for Response (90 days)	Waiting Period for Response	Final Submission of Bids	Bid Evaluation & Contract Award	Arrival of SSE Advisor (LT)		SSE Trainer (ST)		MIS/Computer Specialist (ST)	
1.b Technical Assistance (Local)	Advertise for Bids (3 wks)	Waiting Period for Response (90 days)	Waiting Period for Response	Final Submission of Bids	Bid Evaluation & Contract Award	Employment of SSE Advisor (LT) One Each Cairo/Alex		SSE Trainer (ST)	SSE Trainer (ST)	Marketing/ Publications Specialist (ST)	Marketing/ Publication Specialist (ST)
2. Office Establishment						Locate and Sign Lease	Furnish Office				
3.a Employee Recruitment		Executive Director					Branch Managers	Loan Officers Office Staff			
3.b Employee Hiring			Ex. Dir. (with AID Approval)					Branch Managers	Loan Officers Office Staff		
4. Financial Agreements			Design of Accounting System	AID Review of Accounting System	AID Approves Accounting System	Between Foundations and Local Bank	AID Review of Arrangements	AID Approval of Banking Arrangements	First Release of Credit Funds		
5. Office & Computer Equipment							Selection	Purchase	Installation		
6. Training				Exec. Dir. (International Travel)		Select Board Members Int'l. Travel		Design & Deliver Training Material	Branch Managers	Loan Officers & Office Staff	Loan Officer & Office St-
7. Reporting & Monitoring System							Write Operations Manual	Design and Test MIS	Review	Approval by AID	
8. PVO Registration		AID/Cairo Preparation of Documentation	AID/W Formal Registration	AID/W Formal Registration							

Notes: (LT)=Long Term
(ST)=Short Term

Implementation Plan II
(Reflects Activities after End-Use Lending Starts)

ACTIVITY	Year II 1st Qtr.	Year II 2nd Qtr.	Year II 3rd Qtr.	Year II 4th Qtr.	Year III 1st Qtr.	Year III 2nd Qtr.	Year III 3rd Qtr.	Year III 4th Qtr.	Year IV 1st Qtr.	Year IV 2nd Qtr.	Year IV 3rd Qtr.	Year IV 4th Qtr.
1. Extension Services	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
2. Develop Materials for Entrepreneur Training	xxxxxxxxx				xxxxxxxxx				xxxxxxxxx			
3. Deliver Entrepreneur Training		xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
4. End Use Lending	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
5. Reporting to AID	x	x	x	x	x	x	x	x	x	x	x	x
6. Evaluation				xxx								xxx
7. National Conferences					xxxx					xxxx		

ACTIVITY	Year V 1st Qtr.	Year V 2nd Qtr.	Year V 3rd Qtr.	Year V 4th Qtr.	Year VI 1st Qtr.	Year VI 2nd Qtr.	Year VI 3rd Qtr.	Year VI 4th Qtr.	Year VII 1st Qtr.	Year VII 2nd Qtr.	Year VII 3rd Qtr.	Year VII 4th Qtr.
1. Extension Services	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
2. Develop Materials for Entrepreneur Training	xxxxxxxxx				xxxxxxxxx				xxxxxxxxx			
3. Deliver Entrepreneur Training	xxxxxxxxx	xxxxxxxxx	xxxxx...	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
4. End Use Lending	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
5. Reporting to AID	x	x	x	x	x	x	x	x	x	x	x	x
6. Evaluation												xxx
7. National Conferences									xxxx			

displacement motorcycles is in effect through March 6, 1989. Procurement under subloans to small/micro industries will be made in accordance with standard A.I.D. procedures applicable to Intermediate Credit Institution (I.C.I.) projects.

Small and minority-owned firms will be encouraged to participate in this project in accordance with A.I.D. regulations. Every effort is being and will be made to identify appropriate opportunities for such firms in project implementation. The Project's evaluation services are suitable for performance, at least in part, by a minority firm and we intend to set aside evaluation work for a minority contractor.

The Payment Verification Policy Implementation Guidance (PVPIG) statements require certain charts, justifications and assessments of implementation and financing methods proposed for the project.

Section 1. Chart, as Required by Payment Verification Policy Implementation Guidance Statement 5.B.2.a.

The following chart, as required by 5.B.2.a., lists the proposed methods of implementation and financing for the entire project:

METHODS OF IMPLEMENTATION AND FINANCING IN SME
LOP AID FUNDS ONLY 1/

ITEM NO.	ACTIVITY	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	APPROXIMATE COST $(000)	HC OR AID CONTRACT
	Foundation Activities				
1.	Cairo Capitalization	AID Direct Grant	Direct Disbursement	8,000	AID
	Cairo Operating Costs	AID Direct Grant	Direct Reimb. w/Adv.	1,105	AID
2.	Alexandria Capitalization	AID Direct Grant	Direct Disbursement	8,000	AID
	Alexandria Operating Costs	AID Direct Grant	Direct Reimb. w/Adv.	1,105	AID
	Technical Assistance				
3.	Long Term Tech Assistance, U.S. Firm	AID Direct Contract	Direct Pay	1,282	AID
4.	Project Management, U.S.&Local	AID Direct Contract	Direct Pay	295	AID
	Services				
5.	Evaluations	AID Direct Contract	Direct Pay	150	AID
6.	Assessments/Audits	AID Direct Contract	Direct Pay	63	AID

1/ Total purchases under this project are less than $250,000 and will not exceed $25,000 per purchase. Items will be purchased in Egypt (shelf items) or in the U.S. Office equipment and motor vehicles (motorcycles and two cars) are the items to be purchased.

Section 2. Justification, as Required Payment Verification Policy Implementation Guidance Statement 5.B.2.b.

Justifications, as required by 5,B.2.b., are keyed to the reference number in the left most column of the chart on the preceding page in Section 1., above.

Item No. 1:
Foundation Activities, Cairo Foundation, AID Direct grant.

Each Foundation will receive advances to cover the operating costs (Operating Support, Training and Special Projects costs). Each Foundation will also receive disbursements in tranches in local currency purchased with project funds for capitalization of its collateral account which should be deposited in a bank account or bank accounts which will act as a guarantee for loans given by the banks. These funds must not be comingled with funds in the Foundation operating expense accounts. AID will directly reimburse the Foundation costs. The method of implementation will be a Grant outlining the budget for operating costs, capitalization projections and general procedures.

Reimbursement is one of the preferred methods of AID financing. Because no funds are available to the newly established Foundation from any other source of funding, AID will advance to the Foundation local currency purchased with project funds and dollars to finance the operating costs. Replenishment of advances will be subject to liquidation of previous advances, and review of actual expenditure vouchers by AID. Advances normally require assessment and Controller's certification of the recipient's ability to use and account for U.S. Government funds. In the case of this indigenous Foundation, such assessment and certification is clearly not possible for the initial advances, as the organizations will not have the staff or experience until the advances are in place and staff capable of handling the advances is hired. U.S. Government interests will be protected, however, since an accounting and internal control system will have been designed by a technical assistance contractor under an AID direct contract before the advances are given. In addition, the contractor will be responsible for installation and implementation of the system during its initial phase. The advance will be kept at a minimum at the start and closely monitored by the USAID Controller. After enough experience has been gained to properly evaluate the Foundation's ability to handle and account for U.S. Government funds, it is anticipated that the advances will follow more routine USAID practice. Even though an advance is provided, this method is still characterized as one of the AID preferred methods.

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Item No. 2:
Foundation Activities, Alexandria Foundation, Same justification as for item No. 1.

Item No. 3:
Technical Assistance, Long Term TA - US Firm, AID Direct Contract. No justification necessary.

Item No. 4:
Technical Assistance, US and Local, AID Direct Contract. No justification necessary.

Item No. 5:
Technical Assistance, Evaluations - US Firm, AID Direct Contract. No justification necessary.

Item No. 6:
Audits, AID Direct contract, no justification required.

Section 3. Detailed Assessment, as Required by 5.B.2.6.

"If local currency is to be made available to an ICI or to any other organization responsible for controlling and reporting on the use of such funds, the mission should first assess the organization's financial management procedures and related internal controls. Such an assessment should also be performed as a prerequisite for providing grants to indigenous PVOs. Subsequent audit or evaluation reporting on the project should measure performance in reference to the assessments made under 1. above, as well as other appropriate factors."

As previously stated in the justification for giving advances for Foundation operating costs, a full scale assessment cannot precede the first tranche of capitalization or else there will be nothing to assess. Our interests will again be protected by having in place an accounting and internal control system designed by a technical assistance contractor before the first tranche disbursements are made. Any subsequent disbursements will be dependent on successful evaluation of the Foundations' handling of the initial capital given them and their following of the prescribed accounting and control systems.

Section 4. Evaluation of the Need for Audit Coverage

Payment Policy Verification Statement 6. requires:

"PP's are to include an evaluation of the need for audit coverage in light of potential risks and are to describe planned contract and audit coverage by the host government, AID, and/or independent public accountants. Project funds should be budgeted for independent audits unless adequate audit including assessments of the Foundations coverage by the host country is reasonably assured or audits by third parties are not warranted as, for example, in the case of direct AID contracts or direct placement of participants by AID".

Independent audits and submission of certified financial statements by the Foundations are a project requirement. Funds have been set aside under the evaluation and audit line item of the project for management and compliance type audits by local CPA firms. The cost of using CPA firms to produce certified statements is a legitimate expense under our operating support grant. These grants are, of course, also auditable by A.I.D.'s Regional Inspector General's Office.

D. Technical Assistance and Training

TA and training to establish the Cairo and Alexandria Foundations will be required for 30 months. This assistance will be instrumental in introducing key managerial approaches and technical skills to the Foundations' Board members and staff. In view of the fact that Egypt has very few SME programs, it will be difficult to locate experienced staff capable of running the planned activities. The TA and training required will provide an orientation to the Foundation Board members and staff of the type of program envisioned in the project design and establish reliable accounting and procurement systems.

The Executive Director, who initially will also run the Operations Department, will be the program manager for each of the Foundations. He or she will be the first employee hired by the Foundations and will have responsibility for recruiting, training and managing other staff members. The Executive Directors also will be the point of contact for the TA and training.

1. Structure of Assistance

AID will contract with a U.S. institution for project direction and specialized short term advisors. There will be a full time U.S. advisor in Egypt who will provide technical direction and also supervise the Egyptian subcontractor. The U.S. institution will have one or more subcontracts with an Egyptian firm or firms. These local firms will place one full time advisor each in the Cairo and Alexandria foundations and also provide short term consultants.

2. Nature and Scope of Technical Assistance

The TA will be used to provide specialized advice to the Foundations over a two-and-a-half-year period. At the same time, these advisors and consultants will be constantly engaged in training of staff.

TA will be required for each Foundation:

- at the outset of the program to orient the boards and executive directors as to the program philosophy, its clientele, its principal characteristics; to advise on staff needs, and to conduct training activities for staff.

- during the first 6 to 12 months to establish management and financial systems and lending policies and procedures; to provide guidance in selection of target lending communities; to aid in organizing SME groups; and to organize observational training experiences abroad; and to establish procurement methods.

- during the next 12 to 30 months to review program approaches and lessons learned and to provide guidance on redirection.

3. Types and Levels of Effort of Technical Assistance

(i) U.S. Institution

- Project advisor (1 for 30 pm) stationed in Egypt.
- Project Coordinator (8 pm over 2.5 years) located in U.S. Institution.
- Short Term Consultants (15 pm over 2 years)
- Institutional analyst
- SME specialist
- Computer programmer
- MIS specialist
- SME trainer

(ii) Egyptian Firm

- Project Advisors (2 for 30 pm each)
- Project Director (8 pm over 30 months)
- Short Term Consultants (87 pm over 30 months)
- Institutional specialist
- Marketing/publications specialist
- Finance/accounting specialist
- Production engineer
- MIS specialist
- SME Trainer

- Credit consultant
- Lawyer

4. Nature and Scope of Training

Training, much of which will be carried out by the short term consultants, will be directed at board members, top management and operational personnel of the foundations. For the most part, training will be undertaken in-country, on the job. In-country seminars and workshops will also be utilized, particularly during the first few months during the start-up period for each foundation. Training through seminars abroad and observational visits to successful foundations in other countries will also be provided.

Training will be provided by the U.S. and Egyptian TA team in the manner outlined below. Approximate length of training is indicated by the number in parenthesis. The cost of training and education is estimated at $412,000. The budget includes funds for in-country workshops and seminars, overseas observational travel, publications and communications (films/videos). The cost of consultant trainers is included in the TA budget; salaries for trainees (staff of Foundations) is provided by monies allocated to operational support.

Training activities during the initial months of the project should include:

- Overseas visits for the Executive Directors and possibly 1-2 board members, accompanied by two members of the U.S. & Egyptian TA team (one month).

- Orientation for branch managers (2), conducted by Executive Directors and TA team. Review of project objectives, review of literature, in-country visits, preliminary contacts with Government and PVO programs (3 weeks).

- Orientation for Extension Officers conducted by Executive Director, TA team & Branch Managers (Note: this might be done in phases with 3 Extension Officers from each foundation receiving orientation, followed at a later date by 3 other officers). Extension Officers would be introduced to project objectives and then trained in their responsibilities through field visits to observe SME work sites and community locations, ongoing PVO programs, etc. (2 months).

- Orientation for heads of TA and Training Departments conducted by the Executive Director and TA team. Review of project objectives and literature on various ongoing TA and training activities for SMEs in Egypt and elsewhere, meetings with various PVO and government groups, discussions with universities and private consultants to identify packages of services, etc. (2 months)

- Orientation for heads of Administrative Divisions conducted by Executive Director and TA team. Initial focus of training will be on accounting & management information systems needed & support program (1 month).

Additional training of branch office personnel will occur as the programs expand into additional communities.

E. Monitoring Plan

USAID and the Foundations' Boards of Directors will be responsible for monitoring project performance. During start-up of project activities and training of Foundation personnel, frequent meetings and reports of the technical assistance team will play an important role. As lending and other project activities begin, financial statements and reports on loans (number, value, purpose), repayment rates, number of new clients, will become important. As both Foundations are intended to become self-sufficient after between three and five years, the Foundations' Executive Directors and USAID will particularly monitor the rate of expansion and quality of the portfolio to ensure that this target can be met. The Foundations' Board of Directors will meet monthly.

1. Management Information System

An important early task will be setting up an MIS system to generate financial statements and reports on project participants. Although the loan forms should be as uncomplicated as possible, data on a few key indicators should be collected for initial loans and updated yearly. These indicators are:

- Type of enterprise,
- Gender of entrepreneur,
- Estimated levels of production,
- Estimated average monthly sales,
- Estimated net earnings,
- Assets,
- Number of employees (full and part-time) and their wages.

This will allow the project to track progress towards the project goal and purpose as indicated in the Log Frame under "Verifiable Measures of Achievement."

2. Baseline Survey

Once the Foundations have been set up, personnel hired and trained, identified Foundation personnel should undertake a very simple baseline survey to identify the number and type of micro and small scale enterprises and their perceived needs in the first areas targeted for assistance. This survey will give Foundation personnel an opportunity to meet entrepreneurs in their area, distribute information, and introduce and explain the program. The survey will complement meetings and other publicity. A list of enterprises will also allow Foundation staff to evaluate the rate of expansion of the loan program and in reaching target groups, including women.

3. Survey of Beneficiary Firms

After the program has been in operation between nine months to a year, a survey of beneficiary firms should be carried out to help the Foundation assess whether its services are meeting the client's needs and additional types of technical assistance and training that the Foundation should provide. This survey should be carried out before the Foundation expands to additional areas to correct any problems that occurred in the initial project areas. This information will be very useful for the Midterm Evaluation and should be repeated every one to two years to make sure that the Foundations are keeping in touch with client needs.

4. Midterm Evaluation

A midterm evaluation will be carried out not later than two years after project activities are initiated. The purpose of this evaluation will be to review the performance of the Foundations and their staff, assess progress in meeting project objectives, and to recommend changes as needed in operations and project design. Such an intensive process of evaluation is warranted because one objective of the project is to develop a model for effectively reaching micro and small enterprises in Egypt.

5. Final Evaluation

In view of USAID's long term interest in developing the potential of micro and small scale enterprises, a final evaluation is scheduled for FY 96. If the project has been successful, a key topic will be identification of the most successful features of the project for replication and assisting USAID in developing reasonable expectations about the amount of time needed for implementation of the various project phases. If not, USAID will want a clear understanding of contributing factors, particularly policy constraints, that should be resolved before additional efforts are undertaken in this area.

V. PROJECT ANALYSES SUMMARIES

A. Administrative Analysis

As indicated in the accompanying organization chart, the Foundations in Cairo and Alexandria will be organized around a Board of Directors, an Executive Director, and three departments. The three departments are the Department of Administration, Department of Operations, and the Department of Training and Technical Assistance. An Organizational Chart appears on the following page.

1. The Board of Directors

The Board of Directors will have principal responsibility for: i) establishment of Foundation policy; ii) approval of its program budget; iii) determination of the program direction; iv) participation in fund raising efforts; v) promotion of policy dialogue with the GOE in support of SMEs; and, vi) in consultation with USAID/Cairo, will appoint the SME projects' Executive Directors.

2. The Executive Director

The operations of a program dedicated to the provision of services to SMEs must be highly streamlined in order to cover costs. Therefore, it is indispensable to appoint an individual who will take pride in building an efficient organization, as opposed to building an institution noted for its large number of staff. The experience of this individual should indicate his or her capacity to accomplish specific objectives with limited resources.

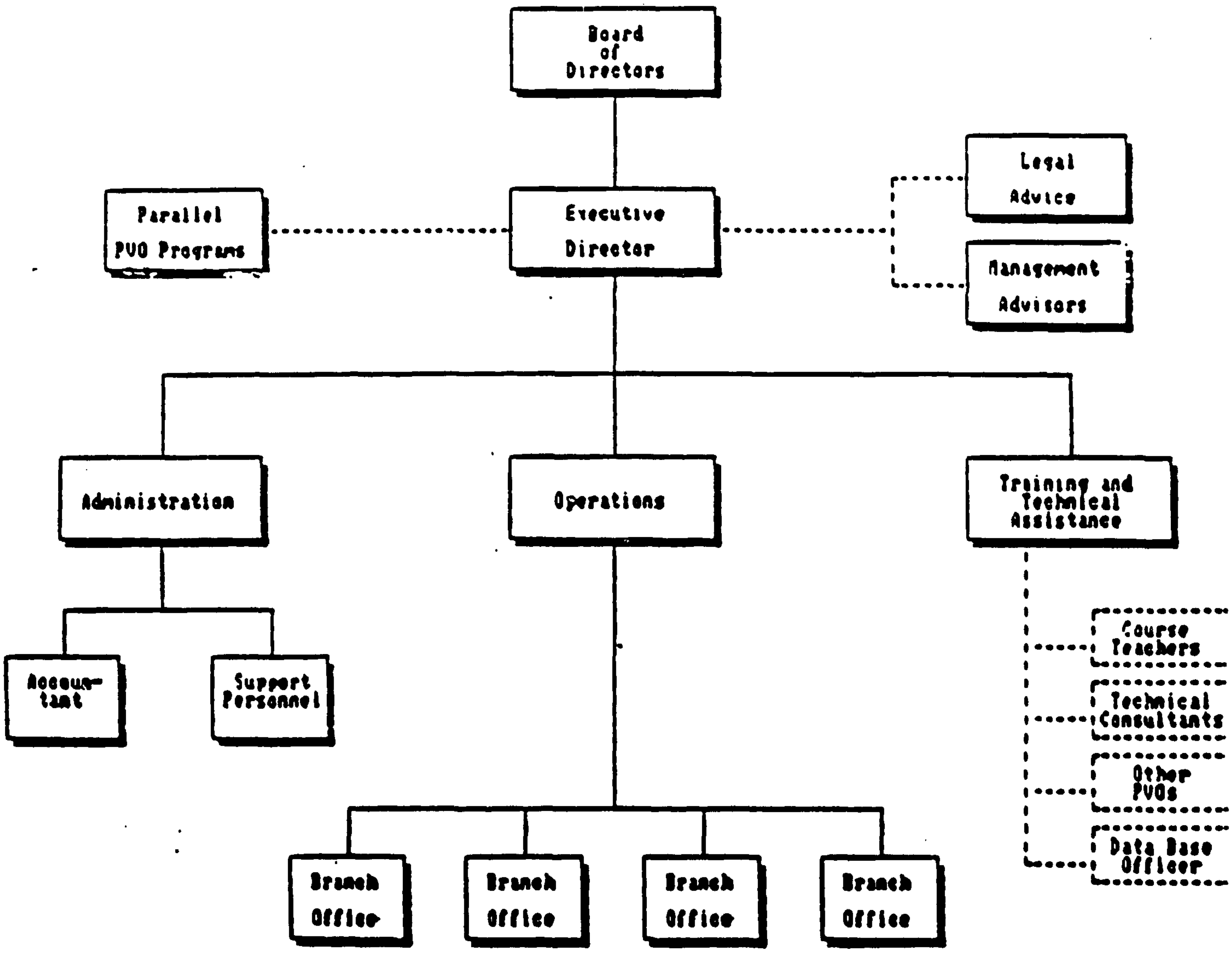
The proposed Organizational Chart portrays a rather small central office, given the scope of the projected program effort. The central office will be staffed by 10 to 15 individuals, several of whom will be support personnel.

In addition to the Executive Director and outside support from lawyers and management advisors, there are three Department Managers. The Manager in charge of Administration, the Manager of Operations, and the Manager of Training and Technical Assistance, all of whom report to the Executive Director. The responsibilities of these department heads are outlined below.

3. The Department of Administration

Administration is responsible for the management information system (MIS) of the entire project operations including; i) contracts and payroll records of all personnel; ii) contracts and

ORGANIZATIONAL CHART



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payments of all temporary advisors, legal staff, and consultants; iii) the accounting system for all credit operations and income from other sources such as management assistance classes and paid-for TA; iv) a profit and loss statement for each branch office; and v) an overall accounting of the entire program to include, a sources and uses of funds account, operations cash flow, and a balance sheet. The Department of Administration in the central office will, among other important functions, act as a control mechanism for each of the branch office credit operations. The daily credit information is channeled from the branch offices to portfolio control in the main office, which is verified by the monthly bank statements, independently compiled by the Foundations' selected banks. Portfolio control then passes the information to the accounting office. Procedures for reconciling any anomalies between accounts of the branch office and cooperating bank are outlined in Annex F, Technical Analysis of Project Operations.

4. The Department of Operations

The Operations Department's main function is to provide credit to groups of participating small and micro entrepreneurs. To this end, the Department of Operations Manager oversees the activities of a group of branch offices, each with its own branch manager and extension officers. At the outset, the Executive Director may also direct this department. Each branch office credit activity is controlled by the computerized systems of both portfolio control located in the Department of Operations and the Department of Administration, in charge of all accounting. While the organizational chart depicts a separate Training and Technical Assistance Department, it is in fact an extension of the Operations Department, with the course teachers, technical consultants and other, cooperating TA programs (e.g., PVOs providing management assistance to SMEs) working in and out of the branch offices.

Too many SMEs have been observed to expand at too rapid a pace during the first two or three years of obtaining credit, only to collapse due to mismanagement. A program providing access to credit has, in addition, an equally important responsibility to the client to provide access to management and technical assistance. SME entrepreneurs will often continue to request ever larger amounts of capital, until they reach a level where they are unable to manage it profitably. In order to assist the entrepreneurs to avoid creating more difficulties than they already have, access to management and technical assistance is essential.

a. Branch Office Managers

The main function of the branch office manager is to be a communicator and promoter of the Foundations' program philosophy and support methodology. The branch manager must be able to effectively communicate and promote these concepts to his or her staff and to the participating SME entrepreneurs. It is not necessary that the Managers of the Branch Offices be adept in finance. The computerized system of portfolio control will provide all of the required financial information in a simple format in order to permit adequate control over a significant sized loan portfolio.

b. Extension Officers

As explained in Annex K, the Extension Officers will be responsible for developing a high quality loan portfolio and assessing management training and TA needs of the participating SME owners. The primary source of income to cover operational costs is internally generated funds (margin charged the borrower over the costs of money and operations) of the portfolio. An incentive system will be established to encourage the Extension Officers to manage ever increasing amounts in their loan portfolios. In addition, the Extension Officer will help formulate cost effective approaches in their consultation with the participants.

5. Department of Training and Technical Assistance

The structure of this department is unlike the other two described above. The Manager of the Department of Training and Technical Assistance will serve as a link between the demand for training and TA activities from the entrepreneurs, generated by the Extension Officers of the Department of Operations, and the supply of these services by contracted trainers as the need arises. In order to minimize costs, there will not be any full-time training or educational staff other than the Manager of the Department. In the organizational chart the dotted lines to the subdepartments are indicative of this contractual relationship.

The Department Manager will also develop contacts with individuals or companies that may be interested in absorbing some of the cost of TA to broaden their sales or experience in working with this massive market. Examples include:

a. Trading houses interested in developing a new market for the sale of machinery. Technicians could be provided to train operators of the machinery with their cost absorbed in the price of the machine(s);

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b. Companies required to import parts for national production have an incentive to purchase locally. Meetings with SMEs and larger-scale manufacturers could be arranged to determine the feasibility of such subcontracting arrangements;

c. University students could be involved in a project working with SMEs. Basic management or marketing assistance activities by the students have been given academic credits toward graduate studies in programs in Mexico and Thailand.

The responsibility is to know what is available for the communities to be served and to utilize such services wherever possible. It should be noted that it is unrealistic to attempt to provide space in the Branch Offices for such courses. If the program is effective, demand will exceed available space. A more appropriate strategy is to take the course to the community.

6. Staff Incentives

In order to expand the project, maintain a healthy portfolio, work toward self-sufficiency and retain good staff, both Foundations will utilize an incentive system.

Extension officers will be treated by management and the accounting department as individual business units. Their direct costs will consist of their base salary plus payroll taxes, and their indirect costs will equal twice their base salary to cover the expenses of support staff at the Branch and Head offices. Bonuses will be paid once direct and indirect costs are covered by specified income generated by the Extension Officer's portfolio. This income is 100% of net income generated on loans to micro-scale enterprises and only 20% of net income generated by small-scale business loans. The recommended, additional incentive placed on micro-scale enterprises is included to encourage both a more rapid project expansion and focus on the primary target group.

The staff incentives are projected to begin the second quarter of the second year of project operations. Based on the surplus income figure (total income less gross salary or gross costs of salary to the Extension Officer), the Extension officer will receive 20% as a bonus (see chart III, in Annex K). No bonus is received if defaults, defined as loans more than 180 days late, surpass 1.5% of the managed portfolio.

The Branch Managers and the Branch Secretary are also included in the staff incentive design. Inclusion of the Branch Manager should act as an incentive for the manager to find ways to improve the capabilities of the Extension Officers. The secretary is included because his or her workload will increase with the expansion in the number of SME clients.

The Branch Manager's incentive has been calculated at 18% of the bonus generated by each Extension Officer, with an assumption that there will be an average of six Extension Officers per Branch Manager.

B. Technical Analysis

1. The Lending Mechanism

The Foundations, both by appearance and in fact, are Intermediate Financial Institutions. They will act as the link between large domestic banks, which at present are lending almost exclusively to large borrowers, and the small and micro entrepreneurs, who at present are nearly totally excluded from borrowing from formal financial institutions. 1/

A collateral account will be created by depositing funds (up to U.S. $8.0 million for each Foundation) under the name of the Foundation into a savings account at one or more selected banks. Pre-authorized overdraft privileges on checking accounts will be negotiated with the banks, up to an amount equal to the initial deposit. This banking operation is defined as a "collateral account with the right of offset". Funds will be drawn on these checking accounts as loan demand is generated in the branch offices. The loan portfolio will appear in the balance sheet of the Foundations' SME program because all checking accounts of the branch offices will be registered under the name of the Foundation. The interest generated on the collateral account will be automatically reinvested into the same account. Retention of interest earnings on the collateral account is essential if the project purpose is to be achieved. The retained interest will allow the loan portfolio to grow and will lower the fees charged to borrowers sufficiently to make the program more affordable to the SMEs.

The structure will minimize costs since the credit component of the project pays interest to the bank only when loans are disbursed. Simultaneously, the credit funds are accruing a higher rate due to the charges assessed for lending the money to the

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1/ Nearly all credit from the formal financial institutions in Egypt is currently subsidized credit (cost of funds is below the inflation rate). Following what Claudio Gonzales-Vega terms the "Iron Law of Interest Rates", only the larger or wealthier borrowers can gain access to funds available.

SME client. As the installment payments are recuperated from the client and redeposited into the bank, operating statements immediately reflect a decrease in the overdraft (interest) charges on the checking account. Net interest income for the project is calculated each month simply by subtracting the interest due to the bank (on the overdraft checking account) from the total interest income generated each month from the installment payments. The information is recorded on each month's bank statement. Except in the case of defaults, the collateral account will never be drawn down. Therefore, disbursements to the collateral account will be treated as expenditures for USAID project monitoring purposes.

The financial projections indicate that funds will earn 10% per annum when placed on deposit. In turn the bank will charge the Foundations 15% per annum for the overdraft privilege, although these figures will likely change over the life of project. However, it is this difference that should encourage the banks to facilitate and support the project.

Auditing procedures for the project should be efficient and simplified by utilizing this system. The capital provided as collateral for the credit fund remains in the savings account. The project's use of the savings account, in terms of an investment, is evaluated by the size of the loan portfolio and its generation of revenues to the project, as shown in balance sheets and profit and loss statements.

Experience has demonstrated that this system is relatively painless to the bank. All drawdowns on the overdraft facility and repayments are carried on the bank's books as though with a single client, the Foundation. It is planned over the life of the project to leverage the Foundation's fund as the project demonstrates the high quality of its loan portfolio. Once the banks become confident of the project, it is expected that they will authorize overdraft privileges exceeding the value of the guarantee fund. The financial projections show this leverage beginning to increase in Year 3. The leverage increases gradually until the end of Year 5, at which time it has reached 2:1, or twice the bank's funds for on-lending to SMEs compared to the Foundation's deposits.

2. Operational Activities of the Branch Offices

The core of the Foundations' activities is the provision of credit and to a lesser extent management training and TA. These activities are carried out at the Branch Office level. The project design contemplates that over a course of approximately one year a single branch office will be in operation to test the project design, de-bug implementation systems, make necessary operational changes, and train new staff to open the second branch

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office. Annex M contains a list of communities in Cairo and Alexandria in which the project design team carried out feasibility study and project design orientation activities. The project would begin in one of these communities as determined by the Foundations and their technical advisors. The successful delivery and recuperation of credit will involve:

a. Promotion

The concept of promotion is inherently educational, and therefore, will play an important role in the ongoing development of the program. This term may also be more narrowly defined as the initial period of program start-up, during which time the staff must comb the targeted communities to disseminate information on the availability of the new services.

The operational goal should be to limit the amount of time that the program staff must dedicate to the costly activities of promotion (e.g., 3-6 months in each community). If the services provided by the program truly meet a need of the small and micro entrepreneurs, word of mouth promotion takes over rapidly, freeing the staff for more productive work. Promotional activity also incorporates a very early form of project design evaluation. If the news concerning the program is not spreading spontaneously through the targeted communities, then perhaps the offered services might not be appropriate. Were this to be the case, the program staff would be encouraged to take another look at the needs of the business people in a given community and modify the project design.

b. The Organization and Recommended Size of the SME Group

Given the size of the SME sector in Cairo and Alexandria, it is clear that the ease with which any project can manage to reach even a part of such a population is related to, what might be termed, the manageable large-scale end of business groups. Projects involving groups of 3-5 business people are very popular and work reasonably well, up to a certain point. As the project expands, the administration of these small groups becomes increasingly complex and unwieldy. As an example, in Peru the Institute for the Development of the Informal Sector (IDESI), currently manages approximately 7,000 groups of five business people each. In order to further expand the project, simplify its operations, and reduce costs, the project is modifying its methodology in favor of larger groups or associations of businesses.

The goal of this project is for the Foundations in Cairo and Alexandria to reach and help organize approximately 25,000 to 35,000 SME owners by the end of the fifth year of lending. Operations would certainly be easier if there were 1,000 groups of 32 businesses instead of 10,666 groups of three. The design of the Project encourages the promotion of larger groups, beginning with an average of 10 and progressing to 32 by the end of the five year period. However, experience will show what the actual group size will be based on social and management considerations. The discussions with SME entrepreneurs during the survey work concentrated on this concept.

c. The Responsibilities of Business Groups

The objective of the promotional activities is the creation and development of groups of businesses. The primary purpose of these business groups is to facilitate the delivery and supervision of the services which the Foundation expects to offer. Given the low average value of the loans to the individual SMEs the groups are responsible for minimizing operational costs.

d. Analysis, Selection and Control

There are many SME projects that have attempted to select potential borrowers using in-house technical staff. Financial analyses are performed with the purpose of determining which business would repay their loans without difficulty or delay. The results of this approach are clear. Late payment rates are almost always higher in these projects than in those that rely on a credit selection process managed primarily by the borrowers themselves. An internal selection process utilized by most formal banking institutions is also much more costly from an operational point of view.

The key to the delegated selection process is to make it in the borrowers own best interest to ensure that only responsible business people join the group and subsequently receive loans. For it is the credit history of the entire group (as if it were one client) in the eyes of the Extension Officers that determine if final approval is granted for a loan by an individual. Only if the repayment rate of the entire group is within preestablished parameters (e.g., no late payments and less than 2% default rate on an annual basis), and the individual's loan proposal has already received the approval of the group, is the loan disbursed. If the late payments of the group exceed the maximum rate, then the loan is not disbursed until the group resolves its problem. This holds even if the individual soliciting the loan has a positive credit history. The incentive for the individual is that if the group as a whole maintains a positive credit history, future loan requests will be automatically approved by the group and disbursements will be made immediately by the Extension Officer. In addition, the total amount of funds invested by the Foundation in this community group will increase.

The ramifications of such a methodology are significant. The entrepreneur quickly realizes that he or she must be very careful to determine that other members in the business group are as responsible as he or she, and that all will be analyzed. At the same time, each has the means to promptly repay the loan amounts.

It is also clear that this methodology defines the primary operational responsibility of the Foundations -- orientational training. Potential clients need to be oriented in the correct formation and management of the business owner group, including, but not limited to selection procedures to help assure responsible members; the elaboration and analysis of credit proposals; and control of the quality of the groups' loan portfolio. In addition, the Foundations are committed to supervising and communicating to each group the latest information concerning their portfolio, while managing a constant training effort to upgrade managerial quality of the groups and the individuals within them.

e. Contracts Signed

In the group mechanism designed for Egypt, each SME producer will use all of the machinery utilized in the business to contractually guarantee him or herself; any new machinery financed by the Foundation loan, or purchased separately will be added to this guarantee. As the Extension Officers progress through the formation of groups, each entrepreneur will sign an individual contract, a copy of which will be safeguarded by the group itself, with the original being filed in the offices of the Foundation.

A second level contract will be signed by all the members of the group, serving to define the responsibilities of the parties involved. Often it has been found that the group contract psychologically cements and formalizes the concept of the group.

In summary, regarding the credit responsibilities of the SME groups, and the corresponding responsibilities of the Foundation, the above mentioned group contract mechanism should accomplish the following:

For the SME Group--

* specify responsibilities for overall supervision of the portfolio within the parameters established by the Foundation, including the formal approval of loans presented by their members;

* define and organize training activities; and

* provide space for the Extension Officers of the Foundation to realize their periodic visits to the group.

For the Foundation--

* provide capital in the form of group approved loans;

* stipulate periodic visits programmed by the Extension Officers to maintain the accounts and to deliver information concerning the quality of the group and individual portfolios; and

* offer educational and training opportunities, as determined by the group.

f. <u>Training and Technical Assistance for SMEs</u>

One of the more important functions of the extension officer in the Project is to organize training programs for SME entrepreneurs. Training here is seen as an integral part of increasing productivity of SMEs.

The training officer will organize training programs that deal directly with the entrepreneur's problems. These will vary widely ranging from general management seminars (marketing, production, financial, general management) to industry-specific workshops or technical problems.

Training programs will vary according to need. Some programs may extend one full day or several days. Still others may be conducted for 2-3 hours in the evenings.

Aside from the extension officer and other qualified Foundation staff, resource people from private industry, government groups, PVOs and specific technical experts will be invited to participate in the training. An orientation course will be held at the beginning of the branch activities in order to explain several services offered by the Foundation and the project objectives.

The role of the Training and Technical Assistance Manager to advance the availability of this support to SMEs will include:

1. Identification of SME Community Management/TA Needs

While the promotional activities are taking place at the outset of project implementation, the TA Manager will need to enter the target communities and survey the management and TA needs of SMEs planning to participate. As the project becomes operational, the Extension Officers will provide the best resource, along with the SME participants, in outlining key areas of training or TA.

2. Development of a Management Training/TA Network

A primary role of the Manager is that of facilitator and liaison between SME groups and public and private entities which provide management or TA assistance. Visits will need to be made to public and private entities to analyze their capabilities, the extent of coverage of target beneficiaries, costs of operations, and interest in providing training or TA activities to groups of SMEs.

3. Referrals--Contract Negotiations

In some cases SME entrepreneurs will have management training or TA needs of the type that are already available in Cairo or Alexandria through the IDDC or a PVO. In this instance, what may be required is nothing more than alerting the SME to a given service and providing instructions to the owner on how to apply for the service.

Other needs will require that the TA Manager develop letters of agreement or contracts between selected entities and/or individuals, and SME groups, outline conditions for management or TA assistance. It will be important that the contracts have clearly defined performance standards by which the TA Manager can measure the effectiveness of the assistance provided. For example, a number of training sessions will be contracted to teach break-even analysis, and the trainer should be required to demonstrate that a set percentage of participants are capable of carrying out a similar analysis on their own. Another topic might include a course on developing a business plan, or a plan to better manage working capital.

SME participants will be required to pay some portion of the training costs if assistance is provided by private entities or some PVO's. One of the best determinants of training or TA effectiveness, when cost are involved, is the willingness of the SME participants to find ways to raise the necessary funds.

g. Operational and Financial Projections

The operational characteristics of the credit program and financial projections are presented in Annex G, Financial Analysis. Key information, summarized below, is representative of a single Foundation and its Branch Offices.

	End of Year		
	(1)	(3)	(6)
Branch Offices	1	4	4
Extension Officers	7	24	24
Groups per Extension Officer	8	20	22
Average Group Size	13	30	33
Total Businesses	1,295	8,646	18,280
* Micro	906	6,052	13,246
* Small	389	2,594	5,034
Average Loan Value (L.E.)			
* Micro	1,375	2,375	3,000
* Small	5,750	8,750	10,000

Financially, the Foundations will require a subsidy for at least three years to cover an operating deficit. Thereafter, the Foundation will be able to generate excess revenues over expenses. These excess revenues would be available to support expanded operations and/or lower charges to clients.

Income Projection

	End of Year (L.E. 000)		
	(1)	(3)	(6)
Gross Income	188	4,323	11,217
Less: Cost of funds, defaults and loss to inflation	176	3,977	9,946
Equals: Financial Margin	12	346	1,271
Less: Cost of Operations	287	702	835
Equals: Surplus (deficit)	(275)	(356)	436
Less: Subsidy	275	356	0
Equals: Excess Revenues	0	0	436

C. Economic Analysis

A small-scale credit project's financial statement is often a convenient place to start in generating information an economic costs and benefits. In this project we do not yet possess the information necessary for such quantitative analysis. Instead, a qualitative analysis was made using four questions. Answers to the questions argue in favor of AID investment in the proposed project.

1. Is it economically beneficial to utilize AID funds for this micro and small business project?

Other experience with such assistance has demonstrated conclusively that such a project is justified from a cost/benefit perspective. These projects are among the most successful in economic terms and generate high economic rates of return.

2. Is the private foundation proposal economically viable?

Small and micro enterprises in Egypt are expected to have less than a 2 percent default rate when borrowing at a 30 percent rate of interest. Given this assumption and international evidence, lending to such enterprises is rational and financial calculations conclude that the Foundations will break even before the PACD.

3. At the borrower level, what is the net impact of the loan?

Impact could be determined by individual enterprise profitability (sales, value added, net profit and productivity) and sustainability (increased investment and sales growth). Impact is also measured by levels of employment created. Evidence from other developing countries concludes that the impact is substantial. In Peru, a development bank disbursed US $42 million in loans to 3,000 small entrepreneurs and after six years sales increased by 160 percent and value added to each firm was US $16,000. In the Peru case, annual sales increased by 31 percent and profits increased by 54 percent. A second example is found with US $16.3 million Grameen Bank project in Bangladesh where household incomes increased 70 percent over 2.5 years. This average annual income increase compares to a national average of 2.6 percent. A World Bank Calcutta-based project of loans to the tailoring sector concluded that rates of return to income are very high, averaging at least 60 percent.

Other areas of positive impact are:

(a) Since formal sources of credit are virtually unavailable to small entrepreneurs, they turn to the informal sector for credit. The cost of credit from the informal sector is several percentages higher than the rates offered in this project.

(b) Reinvestment of earnings into new productive activities and diversification are important indicators of impact. In the case of the Grameen Bank project, one income-generating activity increased dramatically and the number two income-generating activities increased by 20 percent. This finding demonstrates that rural poor have skills that are under-utilized because of lack of capital, and when capital is made available, part of the resulting increase in profit is reinvested into other productive activities.

(c) Savings mobilization and utilization of formal institutions for savings was found in Jamaica and Costa Rica.

(d) In terms of impact on employment and cost per job, Blayney and Otera report that small and micro enterprise promotion contribute at a consistently lower investment per job than medium and large industry within the same subsector.[1/]

4. What are indirect benefits or wider economic impact from programs providing small and micro business loans?

International experience provides evidence that small and micro business are major contributors to overall economic growth. Positive income changes have multiplier affects.

D. <u>Financial Analyses</u>

The primary assumptions used in the financial models shown in Annex H are that:

1) A collateral fund will be established in a local bank which earns an interest rate of 10% per annum;

2) Funds will be lent from the bank to the Foundations as an overdraft at 15% per annum;

3) The end user cost of funds is 30% per annum effective, which will be gradually lowered to 26% by year 5;

1/ See Annex I

4) The default rate is 1.5% per annum;

5) The annual inflation rate is 22% per annum over the life of the project;

6) Beginning in Year 3 of lending, the local banks gradually begin lending at higher than a 1:1 ratio of collateral fund to loans extended ratio up to 2:1 by Year 5 of lending.

Under the model set forth in Annex H, using the above assumptions, the Foundations would break even in the second quarter of Year 3 of lending, which would indicate exceptional performance for a new organization. (See Chart IV, Break-Even Analysis in Annex H.)

It is not practical to explore all of the variables of deposit, on-lending, inflation, and default rates and their effect on end-user rates. However, as a sensitivity analysis, the following set of parameters yielded break-even in financial and economic terms by the last quarter of Year 5:

1) 10% return on collateral fund deposit;
2) 12% on lending rate to the Foundations;
3) 20% per annum end-user effective interest rate;
4) 1.5% default rate;
5) 22% inflation rate.

This would still be acceptable in terms of a goal of establishing self-supporting Foundations that can continue to address the needs of the small entrepreneur clientele.

All of the assumptions will be tested over the LOP. Based on available information, the assumptions used in the financial projections seem reasonable. The deposit rate used for the banks (10% per annum) represents commercial rates. An on-lending rate of 15% would represent a good income for the local bank depending on their actual level of involvement. (In a similar lending program in Indonesia where the bank was taking on all of the transaction costs, administrative costs were approximately 6%.) The inflation rate utilized is 22% per annum, which may be low, but is based on current information. The system is designed to have positive growth at this rate. The default rate will only be shown by time, but seems to be a reasonable figure based on similar programs in other countries.

Overall, the projections show positive growth in the face of inflation. Actual differentials will be established by the Foundations, and the growth in loan portfolio will depend upon these differentials. All of the rates will continue to vary, but with careful implementation and monitoring, the system should be financially sound.

E. Social Soundness Analysis

1. Social Feasibility

a. Socio-cultural Context:

The project will be carried out in Cairo and Alexandria and will be aimed at existing micro and small-scale entrepreneurs.

Recent estimates suggest that small and micro enterprises account for 40 percent of total industrial employment in Egypt. The vast majority of these businesses lack access to the services of established formal financial institutions. As a whole, these entrepreneurs work in an environment characterized by a high degree of competition and low wages.

Most SMEs lack access to formal training and technical assistance programs. They are also frequently hampered by a limited knowledge of basic business skills. Despite these constraints, small and micro enterprises typically demonstrate a higher incremental improvement in productivity and new employment generation for each dollar invested than larger enterprises.

A survey of the SME sector, conducted in 1988, revealed that most entrepreneurs started out as apprentices and then broke off to start their own businesses. Employment patterns favor non-family members; seventy percent of all workers surveyed were hired outside the family. Two-thirds of the entrepreneurs operate their businesses in rented quarters. The entrepreneurs surveyed demonstrated considerable ingenuity, resourcefulness and creativity. By capitalizing on these strengths, it should be possible to achieve substantial increases in production, profitability and employment.

The vast majority of respondents expressed an interest in expanding their business. Such plans included the purchase of new machinery, expanding the number of work shifts, buying more raw materials and opening new sales outlets. The cost of such expansion was estimated at between L.E. 10,000 and L.E. 30,000 by the respondents.

b. Constraints Faced By SMEs:

Various constraints to the growth of SMEs have been identified. These include:

a) Difficulty in obtaining financing to expand existing businesses. This was given as the most serious constraint. Very few of the entrepreneurs interviewed were able to secure loans from formal credit institutions. Informal credit mechanisms are used; the practice followed most often is to purchase and sell materials on credit, and/or participate in an informal credit organization ("gamaya") with family and/or friends.

b) Marketing was a constraint to business stability and growth.

c) Poor management practices and lack of technical skills inhibit productivity.

2. Social Issues Influencing the Project:

During project development, two main social issues were identified which could affect project success.

a) Participation and the role of the individual in the formation of groups:

Although most of the SME communities in Egypt are collections of similar enterprises, suggesting a basis for cooperation among one another, SME owners are generally very independent and circumspect about their transactions and financial status. During preliminary discussions with SMEs, the idea of joining a group or relying on others to obtain a loan was resisted. The initial reluctance to participate in an informal group to secure loans was because: i) The individuals expressed some doubt about the ability to form informal working groups; and, ii) The concept of one group member guaranteeing repayment of another's loan was viewed as not in the first individual's interest. However, when it was explained that formation of the group would benefit all the members, the idea was accepted.

Formation of informal credit groups within the SME community is one of the critical elements in the project. Such groups will lower operation costs and facilitate credit extension and collection. Rather than a formal guarantee by each member for repayment of loans by other group members, a compromise is proposed whereby subsequent loans to the group will be contingent upon satisfactory repayment performance of the entire group. With this methodology, peer pressure acts as a group guarantee. In time, other advantages may evolve out of group action such as purchase of raw materials or opening new market channels. The group mechanism is advantageous to the Foundation as well because it has the potential to influence larger numbers of people, develop a significant loan portfolio, and achieve self-sufficiency more quickly.

b. Social/Religious Concerns:

Eighty percent of the Egyptian population are Moslems. Therefore, it is necessary to be sensitive to the Islamic prohibition against interest in describing payment for financial services. Rather than using such terminology as "interest rate/charges", terms such as "cost recovery" or "cost of lending" are used. Small-scale businessmen who participated in discussions on project design were aware of the cost of delivering credit because the most common form for accessing working capital for SMEs is supplier credit; the effective interest cost of such a credit system is two or three times the estimated end-use cost for project credit. By utilizing SME groups in management of credit delivery and collection system, the cost of credit will be lowered.

3. Social Impact:

An indication of the likely impact of this project can be determined by examining the experience of the World Bank in four large urban projects and three smaller PVO credit programs in Egypt.

The World Bank projects were located in El Salvador, Guatemala, Manila, and Calcutta. Lessons from these projects include:

a) The role played by voluntary agencies is critical because of their firsthand knowledge of the clientele. PVO's operating as grass-roots organizations are able to communicate with the beneficiaries about the program, screen potential borrowers, and maintain interest in loan repayments.

b) Technical assistance was not a necessary component in the projects. Many of the micro-enterprises assisted were involved in simple productive activities which did not require technical assistance.

c) With respect to loan recovery, mutual loan repayment guarantees by borrower groups were an important aspect of project success along with frequent disbursement and collection of loans, immediate action on defaults, and built-in warning indicators for problem cases.

d) It was essential to have sufficient flexibility to change the program to meet the needs of the target group.

In Egypt, the Coptic Evangelical Organization for Social Services (CEOSS) small scale credit programs are considered among the most successful credit programs implemented by private

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voluntary organizations. Field staff are trained in community development and small business creation. Since 1983, the credit fund has increased from L.E. 52,550 to L.E. 100,000 with a default rate of 2%. A group enterprise component is one of the innovative features of CEOSS activities. The program supports both cooperative and worker-owned enterprises.

OXFAM supports two income generating credit activities in Cairo.

a) Zabbaleen Small Industries Credit Program (ZSIP)

The project basically consists of a revolving loan fund to extend credit to community residents to upgrade their waste recycling capabilities through the use of appropriate machinery. The credit fund is managed by the Garbage Collectors Society at Moqattam, a PVO. Loans vary in size from L.E. 200 to L.E. 10,000 per client. The program does not include a group guarantee mechanism. The default rate has been almost 25% and the Fund was further decapitalized due to the use of a 7% interest rate at the outset. The rate has since been raised to 10%.

b) Income Generation for Female-Headed Households:

This L.E. 100,000 credit program provides loans and skills training to female heads of households in the Moqattam garbage collector's settlement and the adjacent community. Groups of women are formed to select loan recipients and guarantee loans. The group functions as a promoter of innovation and new technology to the community. Loan sizes range from L.E. 75-200 and technical assistance is provided directly to the group. The default rate is 1.7% per annum.

4. Spread Effects

At the individual beneficiaries' level, there will be a substantial, positive effect on jobs created and income generated. We anticipate reinvestment of additional earnings in new or expanded productive activities. Indirect benefits will accrue to the wider economy because income changes at the beneficiary level will have a multiplier effect.

5. Replicability and Sustainability

Flexibility and adaptability of the program to different community needs is important. The OXFAM and CEOSS programs both underwent modification to better fit with community needs. This project must retain the same flexibility so that its ultimate goals can be reached.

Self-sustainability is built into this project design. By the PACD, sufficient interest income will be generated to achieve financial self-sufficiency with end-user charges as low as 20% per annum. Self-sustainability is also predicated on the existence of community-level groups to promote loan extension, guarantee repayments, and act as a conduit for technical assistance to the community.

VI. CONDITIONS PRECEDENT AND COVENANTS

The Foundations are new institutions and the Project itself will fund establishment of the accounting system for each Foundation. The first year of the Project is primarily for establishing the main offices and branch offices, hiring and training the staff, and beginning both the short and long term technical assistance.

1. Conditions Precedent

(a) Disbursements in year 1 will be in three stages. In stage one, $100,000 will be released (divided equally between the two Foundations) to establish main offices. Stage two for each Foundation will begin when it has hired its Executive Director, the Foundation's main office is equipped and operational, and the Technical Assistance contractor is in place. The remaining funds for operational support for year one will be released at this time, as well as the training/education budget, assuming satisfaction of (f) below. Stage three will begin when the Foundation's staff has been hired and trained, the accounting and management information systems have been approved by A.I.D., at least one branch office has been established, and the first quarter of lending projections have been submitted to A.I.D. At this point, the first quarter collateral fund release will be made to the Foundation, assuming all other pertinent conditions have been met.

(b) Prior to any disbursement of the collateral fund to one of the Foundations, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the collateral fund, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., evidence from a bank or banks indicating that the Foundation has entered into an overdraft agreement, along with a description of the terms of that agreement.

(c) Prior to any disbursement of funds under this Project to either one of the Foundations, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the Project, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D. in form and substance satisfactory to

A.I.D., evidence that it has been legally registered with the Ministry of Social Affairs in Egypt.

(d) Prior to any disbursement of funds under this Project to either one of the Foundations in year 2 of lending, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the Project in year 2 of lending, that Foundations shall, except as otherwise agreed to in writing, demonstrate to A.I.D. that it has installed, equipped and begun operating a main office and at least one branch office. The same condition precedent shall apply with respect to subsequent years until that Foundation demonstrates in a fashion satisfactory to A.I.D. that it has installed, equipped and begun operating a sufficient number of branch offices to efficiently lend funds to the target clientele.

(e) Prior to any disbursement of the collateral account to either one of the Foundations, or the issuance by A.I.D. of any documentation pursuant to which any disbursement will be made for the collateral fund, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., the names of the individuals who will serve as its Executive Director, Operations Manager, Branch Manager (if any identified yet), Training and Technical Assistance Manager and Administrator, with a clear statement of each officer's duties and authorities.

(f) Prior to any disbursement of funds under this Project to either one of the Foundations for activities under the Technical Assistance and Training components, or the issuance by A.I.D. of documentation pursuant to which any disbursement will be made for these components, that Foundation shall, except as otherwise agreed in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that it has appointed counterparts for all long-term technical advisors.

2. <u>Covenants</u>

a. The Foundations shall, unless otherwise agreed in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., prior to the Foundations next fiscal year during each year of the Project:

(1) annual audited financial statements; and

(2) annual implementation and financial plans for the Foundation itself and each existing and planned Branch Office.

b. The Foundations shall ensure that no Government of

Egypt employees will be employed by the Foundations or Branch Offices during the life of the Project without the prior written approval of A.I.D.

VII. EVALUATION PLAN

After the lending program has been operating between nine months to a year, a survey of beneficiary firms should be carried out to help the Foundation assess whether its services are meeting the client's needs and additional types of technical assistance and training that the Foundation should provide. This survey should be carried out before the Foundation expands to additional areas to correct any problems that occurred in the initial project areas. This information will be very useful for the Midterm Evaluation and should be repeated every two years to make sure that the Foundation is keeping in touch with client needs.

1. Midterm Evaluation

A midterm evaluation will be carried out three years after project activities are initiated. The purpose of this evaluation will be to review the performance of the Foundations and their staff, assess progress in meeting project objectives, and to recommend changes as needed in operations and project design. Such an intensive process of evaluation is warranted because an objective of the project is to develop a model for effectively reaching micro and small enterprises in Egypt.

Recent evaluations of USAID's experience with employment generation projects concluded that the policy environment is the single most important determination of project success. So that this area will not be overlooked, the midterm evaluation team will also review information collected on constraints on micro and small scale enterprise operations and assess progress made in addressing these constraints. The evaluation team will recommend an action program to the Foundations' Executive Director and Board of Directors, USAID, and GOE officials.

2. Final Evaluation

In view of USAID's longstanding interest in developing the potential of micro and small scale enterprises, a final evaluation is scheduled for FY 96. If the project has been successful, a key topic will be identification of the most successful features of the project for replication and assisting USAID in developing reasonable expectations about the amount of time needed for implementation of the various project phases. If not, USAID will want a clear understanding of contributing factors, particularly policy constraints, that should be resolved before additional efforts are made in this area.

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Small and Micro Enterprise Development Project (263-0212) Logical Framework

ANNEX A

NARRATIVE	VERIFIABLE MEASURES OF ACHIEVEMENT	MEANS OF VERIFICATION	ASSUMPTIONS
Project Goal:	Measures of Goal Achievement:		
Expand economic output of the micro and small scale (productive) enterprise subsector. Increase employment and income among low-income residents of Cairo and Alexandria.	- Expanded sales by program participants. - Increased assets of program participants. - Greater amount of locally produced goods. - Increased employment by firms. - Increased net earnings by firms. - Increased employment stability in enterprises assisted by the project. - Increased wages or earned income to employees.	Baseline Study Foundation MIS Reports Surveys of Beneficiary Firms Midterm and Final Evaluations	- Overall economic conditions do not adversely affect lower socio-economic urban sectors. - Demand exists for expanded SME production. - SME demand for additional credit is high. - Jobs created will represent a net increase in employment. - New employment will decrease incidence of poverty.
Project Purpose:	Conditions that will indicate purpose has been achieved (End of Project Status):		
To create a system that will provide credit and improved business and technical skills to micro and small scale entrepreneurs.	- Loan default rate of less than 1.5%. - Increased levels of production. - Increased investments in plant and equipment. - Improved returns on investment. - Improved management of funds. - Improvements in product mix and marketing.	Baseline Study Foundation MIS Reports Surveys of Beneficiary Firms Midterm and Final Evaluations	- SME's apply credit to enterprise improvement and expansion. - SME's demand and utilize technical assistance and training.
Project Outputs:	Magnitude of Outputs:		
Establish two functioning foundations for micro and small enterprises in Cairo and Alexandria to provide the following services: - Credit to increase levels of working capital and investments in plant and equipment. - Training in basic business subjects for participants. - Technical assistance to apply modern business concepts and overcome specific problems. Identify impediments to SSE's and recommended changes for action by GOE, banks, etc.	- Foundations financially self-sufficient. - Loan default rate of less than 1.5%. - 8 branch offices (4/foundation). -Approx. 32,000 SMEs assisted. - Total loan portfolio: Approx. LE 91 million - Number of courses and trainees. - Improvement in product mix and marketing. - Improved returns on investment. - # of recommendations discussed with GOE and other organizations and implemented.	Foundation MIS reports, financial statements, and other reports. Surveys of Beneficiary Firms Midterm and Final Evaluations	- Foundations are able to charge full cost of capital to borrowers through fees or interest. - Procedures for providing credit are acceptable to SME's. - GOE will allow Foundations flexibility to operate in free market mode with minimal controls.
Inputs:	Implementation targets:		
AID funding for the following: - Credit fund. - Operational support. - Special Projects. - Technical assistance & training. - Project management. - Evaluations & audit.	$10 Million per Foundation $16,000,000 980,000 1,000,000 1,230,000 300,000 490,000 ------------ $20,000,000 ===========		- Availability of AID funding. - All CPs and covenants are met.

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Small and Micro Enterprise Development Project (263-0212) Logical Framework

ANNEX A

NARRATIVE	VERIFIABLE MEASURES OF ACHIEVEMENT	MEANS OF VERIFICATION	ASSUMPTIONS
Project Goal:	Measures of Goal Achievement:		
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Project Purpose:	Conditions that will indicate purpose has been achieved (End of Project Status):		
To create a system that will provide credit and improved business and technical skills to micro and small scale entrepreneurs.	- Loan default rate of less than 1.5%. - Increased levels of production. - Increased investments in plant and equipment. - Improved returns on investment. - Improved management of funds. - Improvements in product mix and marketing.	Baseline Study Foundation MIS Reports Surveys of Beneficiary Firms Midterm and Final Evaluations	- SME's apply credit to enterprise improvement and expansion. - SME's demand and utilize technical assistance and training.
Project Outputs:	Magnitude of Outputs:		
Establish two functioning foundations for micro and small enterprises in Cairo and Alexandria to provide the following services: - Credit to increase levels of working capital and investments in plant and equipment. - Training in basic business subjects for participants. - Technical assistance to apply modern business concepts and overcome specific problems. Identify impediments to SSE's and recommended changes for action by GOE, banks, etc.	- Foundations financially self-sufficient. - Loan default rate of less than 1.5%. - 8 branch offices (4/foundation). -Approx. 32,000 SMEs assisted. - Total loan portfolio: Approx. LE 71 million - Number of courses and trainees. - Improvement in product mix and marketing. - Improved returns on investment. - # of recommendations discussed with GOE and other organizations and implemented.	Foundation MIS reports, financial statements, and other reports. Surveys of Beneficiary Firms Midterm and Final Evaluations	- Foundations are able to charge full cost of capital to borrowers through fees or interest. - Procedures for providing credit are acceptable to SME's. - GOE will allow Foundations flexibility to operate in free market mode with minimal controls.
Inputs:	Implementation targets		
AID funding for the following: - Credit fund. - Operational support. - Special Projects. - Technical assistance & training. - Project management. - Evaluations & audit.	$8 Million per Foundation $16,000,000 990,000 1,000,000 1,230,000 300,000 470,000 ------------ $20,000,000 ==========		- Availability of AID funding. - All CPs and covenants are met.

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Small and Micro Enterprise Development Project
(No. 263-0152)
Project Paper

STATUTORY CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. If money is sought to be obligated for an activity not previously justified to Congress, or for an amount in excess of an amount previously justified to Congress, has Congress been properly notified?

Congressional Notifications have been submitted in accordance with regular agency practice.

2. FAA Sec. 611(a)(1). Prior to 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?

(a) Yes
(b) Yes

3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

The Peoples' Assembly is to ratify the project grant agreement in a timely fashion, as it has in the past.

4. FAA Sec. 611(b); FY 1988 Continuing Resolution Sec. 501. 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,

N/A

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.)

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

The Mission Director will make the required Section 611(e) certification prior to signing the project authorization.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No

7. FAA Sec. 601(a). Information and conclusions on whether project 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.

The Project will provide: (1) previously unavailable credit to small and micro private enterprises in Cairo and Alexandria; and (2) training to improve the business practices of those enterprises, through two newly established private lending foundations.

8. FAA Sec. 601(b). Information and conclusions on how project will investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade

The Training and Technical Assistance and evaluation components will be procured from private U.S. sources

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channels and the services of U.S. private enterprise).

9. 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.

Small and micro enterprises themselves will contribute local currencies to offset Foundation expenses through loan repayment. The Foundations also intend to solicit donations within Egypt. In order to maintain their independence, the Foundations have not sought a GOE contribution. Egypt is not an excess currency country so U.S. dollars will be needed to purchase local currency.

10. 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

11. FY 1988 Continuing Resolution Sec. 521. 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?

N/A

12. FY 1988 Continuing Resolution Sec. 553. 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

No

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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?

13.	FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?	(a) No (b) No (c) No (d) No
14.	FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?	N/A
15.	FY 1988 Continuing Resolution. 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
16.	FY 1988 Continuing Resolution Sec. 541. If assistance is being made	The Foundations may seek PVO registration with AID once they

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available to a PVO, has that organzation 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.?

are fully established.

17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?

N/A

18. FY 1988 Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

N/A

19. 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 same agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Upon signing of the Grant Agreement, the date of such signing will be cabled and the full text will be sent by pouch.

B. FUNDING CRITERIA FOR PROJECT

1. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and

Yes

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
b. <u>FAA Sec 531(e)</u>. Will this assistance be used for military or paramilitary purposes?	No
c. <u>FAA Sec. 609</u>. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. 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; solicitation notices will be published in accordance with standard Agency procedures.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes
3. 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?	Yes
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). 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

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5. 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.) — No

6. 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

7. 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? — Yes
   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

8. 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

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9. FY 1988 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

10. FY 1988 Continuing Resolution Sec. 524. 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

B. CONSTRUCTION

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

2. 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

3. 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 CP), or does assistance have the express approval of Congress? — N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — N/A

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2. 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

3. FAA Sec. 620(h). Do arrangements exist to ensure 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

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1988 Continuing Resolution Secs. 525, 538. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? — Yes

   b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes

   c. FAA Sec. 620(g). 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

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes

e. FAA Sec. 662. For CIA activities? — Yes

f. FAA Sec. 636(i). 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

g. FY 1988 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — Yes

h. FY 1988 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? — Yes

i. FY 1988 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? — Yes

j. FY 1988 Continuing Resolution Sec. 510. To finance the export of nuclear equipment, fuel, or technology? — Yes

k. FY 1988 Continuing Resolution Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes

l. FY 1988 Continuing Resolution Sec. 516; State Authorization Section 109. To be used for publicity or propaganda purposes — Yes

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?

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant

   N/A

direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 30 days of continuous session, of a resolution diapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or — N/A

distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? N/A

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? N/A

6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Secs. 512. Is recipient No

country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, Iran, or South Yemen? — No

Will assistance be provided to Afghanistan without a certification? — N/A

7. <u>FAA Sec. 620(j).</u> Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

8. <u>FAA Sec. 620(l).</u> Has the country failed to enter into an investment guaranty agreement with OPIC? — No

9. <u>FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5.</u> (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — (a) No

10. <u>FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518.</u>
(a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? — (a) Yes; however a bilateral agreement rescheduling such debt was signed 11/14/87.
(b) Has the country been in default for more than one year on interest — (b) No

or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds?

11. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment?

    Yes, taken into account by the Administrator at time of approval of Agency OYB.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

    No

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Adminstrator in determining the current A.I.D. Operating Year Budget? (Reference may be made to the Taking into Consideration memo.)

    Egypt is current on its UN obligations.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?

    No

15. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of

    No

the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

16. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No

17. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? No
Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No

18. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No

19. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and failed to disassociate itself from the No

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communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

20. FY 1988 Continuing Resolution Sec. 528(b). Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? — No

21. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? — No

22. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba or North Korea)? — No

23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion or natural origin? — Yes

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	N/A
FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, 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?	N/A

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?	No

<u>FY 1988 Continuing Resolution</u> N/A
<u>Sec. 549</u>. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

ARAB REPUBLIC OF EGYPT

MINISTRY OF INTERNATIONAL COOPERATION

DEPARTMENT FOR ECONOMIC COOPERATION

WITH U. S. A

900898

FM
PDS
DD

Mr. Marshall D. Brown
Director
USAID/C

1R

Sep, 26 ,1988

ACTION TO 15 DIR
ACTION TAKEN Abd & PP. DATE 10/5
NAME INITIALS DR

Dear Mr. Brown,

This is to request AID funding in the amount of $ 20 million for the Small and Micro Enterprise Project (263-0212).

This project consists of providing loans,technical assistance and business training to small and micro enterprises in Cairo and Alexandria through two private Foundations(the Egyptian small Enterprise Development Foundation in Cairo and the Alexandria Businessmens'Association). These foundations will be started up and capitalized through grants under the project.

Best regards.

Sincerely Yours,

Ahmad Abdel Salam

Ahmad Abdel Salam Zaki
Administrator

Rec'd OR
10/18/88 .90

Annex D

611(a) Determination

Project activities include capitalization of two nonprofit Foundations, in Cairo and Alexandria, technical assistance and training for the Foundation staffs and installation and operation of the Foundations' respective main and branch offices.

Technical Assistance

$1,281,000 has been allocated to meet the dollar and local currency costs for long- and short-term technical assistance over the first 2 1/2 years of the project. The Project contemplates contracting with a U.S. firm to provide a Project Advisor stationed in Egypt for 30 person months, a U.S. based Project Coordinator for 6 person months and 15 person months of short-term consultants, all for a total of $398,000 in year 1, $346,000 in year 2 and $151,000 in year 3. The U.S. firm would be expected to subcontract with one or more Egyptian firms to provide two Project Advisors for 30 person months each, a Project Director for 8 person months and 87 person months of short-term consultants, for a total of $187,000 in year 1, $198,000 in year 2, and $24,000 in year 3.

Training

Training will be carried out by the U.S.-Egyptian technical assistance team, thus costs for the trainers is included in the TA budget allocation. For the most part training will be conducted with Foundation Board members, top management and operational personnel on the job. Trainees' salaries are included in the operational support budget allocation. $230,000 has been allocated for the remaining dollar and local currency costs: conducting in-country workshops and seminars, observational travel to the U.S. and third countries, publications and communication tools.

Operational Support

$980,000 has been allocated for dollar and local currency costs of office installation and Foundation operating costs not met by the loan portfolio. The Foundations are expected to reach the break-even point not later than the 5th year of lending. $345,000 is budgeted for year 1 for equipping one main office and one branch office for each Foundation and salaries and expenses for the four offices for one year. Each main office installation is budgeted at $105,000 with LE 17,900 annual salaries and expenses. Each branch office installation is budgeted at $5,450 with LE 8,775 annual salaries and expenses. $305,000 is budgeted for year 2 when 3 additional branch offices are to be established. $330,000 is budgeted for year three, when 4 more branch offices should be opened. The Foundations are expected to be able to fund these costs plus any new branch offices from their own loan portfolio resources after year 3 of lending.

Capitalization

Each Foundation will be capitalized in the amount of $8,000,000 over four years. Capitalization will be in stages as the Foundations are established and develop reliable accounting systems. The Foundations' lending mechanism is detailed in the Technical Analysis section of the Project Paper. $500,000 will also be allocated to each Foundation to finance innovative activities to support the small and micro business sector. These activities will be subject to prior USAID approval.

As the foregoing shows, all plans necessary to carry out this project and a reasonably firm estimate of the cost to the United States Government have been completed.

Annex E

JUSTIFICATION FROM IS/IR FOR NONCOMPETITIVE GRANTS TO FOUNDATIONS

The Project Paper anticipates the award of grants to the two Foundations without competition. Such noncompetitive awards must be justified to the Mission's grants officer based on one of the exceptions set forth in Handbook 13, Chapter 2, section 2B.3. Competition is not required for these grants because the Foundations "have exclusive ... capability, based on ... specialized facilities or technical competence, or based on an existing relationship with the cooperating country or beneficiaries."

Although the Foundations are brand new, they are the only institutions of their kind in Egypt. Note the detailed discussion in the Project Paper of the lack of credit for small and micro enterprises; there is no credit because there are no institutions providing any. IS/IR considered implementing this project through existing PVO small business credit projects or the producer cooperatives system, but none was judged suitable due to their small size and/or their dedication to providing credit at subsidized rates. These Foundations hope to achieve self sufficiency by project's end. There may be U.S. institutions with capabilities in this area, but one of our goals is establishing indigenous capability. In short, the success of this project depends on the establishment of these two independent Foundations; if they don't receive these grants the project cannot proceed as designed.

Clearance:

IS/IR, Edward Baker DR for E Baker

ANNEX F

APPROVAL OF ADVANCES AND APPROVAL OF ADVANCES IN EXCESS OF 30 DAYS CASH REQUIREMENTS

As Mission Director of USAID/Egypt, I have determined that the advance financing in this project paper's implementation and financial plan is warranted. In addition, I have determined that implementation of this Project (No. 263-0212) will be seriously interrupted or impeded by applying the 30 day rule to advances paid under the Treasury Check method. I hereby approve the granting of up to a 90 day revolving advance to the organizations and GOE agencies implementing this project as required by the methods of implementation and financing section of this Project Paper.

This approval is based upon considerations and justifications discussed in the methods of implementation and financing section of this Project Paper to which this approval is a part thereof.

In accordance with Handbook 1B, Chapter 15 all recipients of advances must have a Financial Management System adequate for controlling and accounting for U.S. Government funds. The USAID Controller will make such a determination before the first advance is made.

CONCURRENCE: William A. Miller
Controller

9/22/86
Date

APPROVED: Marshall D. Brown
Director

9/28/86
Date

Note:

In the case of profit making concerns or non-profit organizations charging a fee this approval is granted for financing under Host Country Contracts only and is being granted for the purpose of allowing for increased competition and/or lower prices. All solicitations for services will clearly indicate that advance financing will be available and the terms of the advance financing will be clearly stated.

Advances to profit making concerns or non-profit organizations charging a fee under an AID Direct Contract can only be approved by AID Washington.

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TECHNICAL ANALYSIS

The Lending Mechanism

The Foundations, both by appearance and in fact, are Intermediate Financial Institutions. They will act as the link between large domestic banks, which at present are lending almost exclusively to large borrowers, and the small and micro entrepreneurs, who at present are nearly totally excluded from borrowing from formal financial institutions. 1/

A collateral account is created by depositing funds (up to U.S.$ 8.0 million for each Foundation) under the name of the Foundation into a savings account at one or more selected banks. Pre-authorized overdraft privileges on checking accounts are negotiated with the banks, up to an amount equal to the initial deposit. This banking operation is defined as a "collateral account with the right of offset". Funds will be drawn on these checking accounts as loan demand is generated in the branch offices. The loan portfolio will appear in the balance sheet of the Foundations' SME program because all checking accounts of the branch offices are registered under the name of the Foundation. The interest generated on the savings fund or collateral account is automatically reinvested into the same account.

The structure is efficient since the credit component of the project pays interest to the bank only when loans are disbursed. Simultaneously the credit funds are accruing a higher rate due to the charges assesed for lending the money to the SME client. As the installment payments are recuperated from the client and redeposited into the bank, operating statements immediately reflect a decrease in the overdraft (interest) charges on the checking account. Net interest income for the project is calculated each month simply by subtracting the interest due to the bank (on the overdraft checking account) from the total interest income generated each month from the installment payments. The information is recorded on each months bank statement.

The financial projections indicate that funds will earn 10% per annum when placed on deposit. In turn the bank will charge the Foundations 15% per annum for the overdraft privilege, although these figures will likely change over the life of project. However, it is this difference that should encourage the banks to facilitate and support the project.

1/ Nearly all credit from the formal financial institutions in Egypt is currently subsidized credit (cost of funds is below the inflation rate). Following what Claudio Gonzales-Vega terms the "Iron Law of Interest Rates", only the larger or wealthier borrowers can gain access to funds available.

Auditing procedures for the project should be efficient and simplified by utilizing this system. The capital provided as collateral for the credit fund remains in the savings account. The project's use of the savings account, in terms of an investment, is evaluated by the size of the loan portfolio and its generation of revenues to the project, as shown in balance sheets and profit and loss statements.

Experience has demonstrated that this system is relatively painless to the bank. All drawdowns on the overdraft facility and repayments are carried on the bank's books as though with a single client, the Foundation. It is planned over the life of the project to leverage the Foundation's fund as the project demonstrates the high quality of its loan portfolio. Once the banks become confident of the project, it is expected that they will authorize overdraft privileges exceeding the value of the quarantee fund. The financial projections show this leverage beginning to increase in Year 3. The leverage increases gradually until the end of Year 5, at which time it has reached 2:1, or twice the bank's funds for on-lending to SME's as compared to the Foundation's deposits.

G. Operational Activities of the Branch Offices

The core of the Foundations' activities is the provision of credit and to a lesser extent management training and TA. These activities are carried out at the Branch Office level. The project design contemplates that over a course of approximately one year a single branch office will be in operation to test the project design, de-bug implementation systems, make necessary operational changes and train new staff to open the second branch office. Annex A contains a list of communities in Cairo and Alexandria in which the project design team carried out feasibility study and project design orientation activities. The project would begin in one of these communities an determined by the Foundations and their technical advisors. The successful delivery and recuperation of credit will involve:

1. <u>Promotion</u>

The concept of promotion is inherently educational, and therefore, should never cease to play an important role in the on-going development of the program. This term may also be more narrowly defined as the initial period of program start-up, during which time the staff must comb the targeted communities to diseeminate information on the availability of the new services.

The operational goal should be to limit the amount of time that the program staff must dedicate to the costly activities of promotion (e.g., 3-6 months in each community). If the services provided by the program truly meet a need of the small and micro entrepreneurs, then word of mouth promotion takes over rapidly, freeing the staff for more productive work. Promotional activity also incorporates a very early form of project design evaluation. If the news concerning the program is not spreading spontaneously through the targeted communities, then perhaps the offered services might not be appropriate. Were this to be the case, the program staff should be encouraged to take another look at the needs of the business people in a given community and modify the project design.

2. The Organization and Recommended Size of the SME Groups

Given the size of the SME sector in Cairo and Alexandria, it is clear that the ease by which any project can manage to reach even a part of such a population is related to, what might be termed, the managable large-scale end of business groups. Projects involving groups of 3-5 business people are very popular and work reasonably well, up to a certain point. As the project expands, the administration of these small groups becomes increasingly complex and unwieldly. As an example, in Peru the Institute for the Development of the Informal Sector (IDESI), currently manages approximately 7,000 groups of five business people each. In order to further expand the project, simplify its operations and reduce costs, the project is modifying its methodology in favor of larger groups or associations of businesses.

The goal of this project is for the Foundations in Cairo and Alexandria to reach and help organize approximately 32,000 SME entrepreneurs in five years. Operations would certainly be easier if there were 1,000 groups of 32 businesses instead of 10,666 groups of three. The design of the Egyptian project encourages the promotion of larger groups, beginning with an average of 10 and progressing to 32 by the end of the five year period. The discussions with SME entrepreneurs during the survey work concentrated on this concept.

3. The Responsibilities of Business Groups

The objective of the promotional activities is the creation and development of groups of businesses. The primary purpose of these business groups is to facilitate the delivery and supervision of the services which the Foundation expects to offer. Given the low average value of the loans to the individual SME's, the groups are responsible for minimizing operational costs.

a. Analysis, Selection and Control

There are many SME projects that have attempted to select potential borrowers using in-house technical staff. Financial analyses are performed with the purpose of determining which businesses would repay their loans without difficulty or delay. The results of this approach are clear. Late payment rates are almost always higher in these projects than in those that rely on a credit selection process managed primarily by the borrowers themselves. An internal selection process utilized by most formal banking institutions is also, much more costly from an operational point of view.

The key to the delegated selection process is to make it in the borrowers own, best interest to ensure that only responsible business people join the group and subsequently, receive loans. For it is the credit history of the entire group (as if it were one client), in the eyes of the Extension Officers that determines if final approval is granted for a loan by an individual. Only if the repayment rate of the entire group is within pre- established parameters (e.g., no late payments and less than 2% default rate on an annual basis), and the individual's loan proposal has already received the approval of the group, is the loan disbursed. If the late payments of the group exceed the maximum rate, then the loan is not disbursed until the group resolves its problem. This holds even if the individual soliciting the loan has a positive credit history. The incentive for the individual is that if the group as a whole maintains a positive credit history, future loan requests approved by the group are automatically and immediately disbursed by the Extension Officer. In addition, the total amount of funds invested by the Foundation in this community group will increase.

The ramifications of such a methodology are significant. The entrepreneur quickly realizes that he or she must be very careful to determine that the other members of the business group are as responsible as he is, just as they are going to analyze him, and that each has the means to promptly repay the loan amounts that they request.

It is also clear that this methodology defines the primary operational responsibility of the Foundation-- orientational training. Potential clients need to be oriented in the correct formation and management of the business owners groups, including but not limited to; selection procedures to help assure responsible members; the elaboration and analysis of credit proposals; and control of the quality of the groups' loan portfolio. In addition the Foundation is committed to supervising and communicating, to each group, the latest information concerning their portfolio, while managing a constant training effort to upgrade managerial quality of the groups, as well as, the individuals within them.

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b. Contracts Signed

In the group mechanism designed for Egypt, each SME producer will contractually guarantee him or herself using all of the machinery utilized in the business; any new machinery financed by the Foundation loan, or purchased separately will be added to this guarantee. As the Extension Officers progress through the process of forming a group, each entrepreneur will sign an individual contract, a copy of which will be safeguarded by the group itself, with the original being filed in the offices of the Foundation.

A second level contract will be signed by all the members of the group, serving the purpose of defining the responsibilities of the parties involved. Most often the group contract psycholologically cements and formalizes the concept of the group.

In summary, regarding the credit responsibilities of the SME groups, and the corresponding responsibities of the Foundation, the above mention group contracts should:

For the SME Group--

* specify responsibilities for overall supervision of the portfolio within the parameters established by the Foundation, including the formal approval of loans presented by their members;

* include the definition and organization of training activities; and

* provide for space for the Extension Officers of the Foundation to realize their periodic visits to the group.

For the Foundation--

* provide capital in the form of group approved loans;

* stipulate periodic visits programmed by the Extension Officers to maintain the accounts and to deliver information concerning the quality of the group and individual portfolios; and

* offer educational and training opportunities, as determined by the group.

H. Training and Technical Assistance for SMEs

One of the most important functions of the extension officer in the proposed project is to organize training programs for SME entrepreneurs. Training here is seen as an integral part of increasing productivity of SMEs.

The training officer will organize training programs that deal directly with the entrepreneurs problems. These will vary widely ranging from general management seminars (marketing, production, financial, general management) to industry specific workshops or technical problems.

Training programs will vary in duration, some may be conducted as full-time activities ranging from one full day to several days, others over the weekend, and still others as part-time activities conducted 2-3 hours in the evenings.

Aside from the extension officer and other qualified staff working in the Foundation, resource persons from private industry, government groups like IDDC, PVOs and specific technical experts will be invited to share their expertise with the entrepreneurs. An orientation course should be held at the beginning of the branch activities in order to explain several services provided by the Foundation and its objectives.

The role of the Training and Technical Assistance Manager to advance the availability of this support to SME's will include:

1. Identification of SME Community Management/TA Needs

While the promotional activities are taking place at the outset of project implementation, the TA Manager will need to enter the target communities and survey the management and TA needs of the SME's planning to participate. As the project becomes operational, the Extension Officers will provide the best resource, along with the SME participants, in outlining the key areas of training or TA need.

2. Development of a Management Training/TA Network

A primary role of the Manager is that of facilitator and liaison between the SME groups participating in the project and other entities, public and private, that afford management or TA assistance. Visits will need to be made to public and private entities to further understand their capabilities, coverage in terms of target beneficiaries and geographics, costs of operations, and interest in providing their training or TA activities to groups of SME's participating in the project.

3. Referrals—Contract Negotiations

In some cases SME entrepreneurs will have management training or TA needs of the type that are already available in Cairo or Alexandria (IDDC or a PVO). In this instance, it may be nothing more than alerting the SME of a given service and directing the owner to where and how to sign up.

Other needs will require, in coordination with the SME groups, that the TA Manager develop letters of agreement or contracts between selected entities and/or individuals who will provide management or TA assistance. It will be important that the contracts have clearly defined performance standards by which the TA Manager can measure the effectiveness of the assistance provided. As an example, in addition to the number of training sessions contracted to teach say, break-even analysis, the trainer should be required to demonstrate an agreed upon percentage of participants who are capable of carrying out a similar analysis on their own. The topic could be developing a business plan, or a plan to better manage working capital, etc.

For assistance from other than GOE entities or some PVO's, the SME participants will be required to pay some portion of the training costs. One of the best determinants of training or TA effectiveness, when costs are involved, is the willingness of the SME participants to find ways to raise the necessary funds.

I. Operational and Financial Projections

The operational characteristics of the credit program and financial projections are presented in Annex H, Financial Analysis. Key information summarized below, is representative of a single Foundation and its Branch Offices.

	End of Year		
	(1)	(3)	(5)
Branch Offices	1	4	4
Extension Officers	7	24	24
Groups per Extension Officer	8	20	20
Average Group Size	13	30	33
Total Businesses	1,295	8,646	15,840
* Micro	906	6,052	11,088
* Small	389	2,594	4,752
Average Loan Value (L.E.)			
* Micro	1,375	2,375	3,000
* Small	5,750	8,750	10,000

Financially, the Foundations will require a subsidy for nearly three full years to cover an operating deficit. From the end of year three on, the Foundation is able to generate excess revenues over expenses. These excess revenues would be available to support expanded operations and/or lower charges to clients.

	End of Year (L.E. 000)		
	(1)	(3)	(5)
Gross Income	188	4,323	11,217
Less: Cost of funds, defaults and loss to inflation	176	3,977	9,946
Equals: Financial Margin	12	346	1,271
Less: Cost of Operations	287	702	835
Equals: Surplus (deficit)	(275)	(356)	436
Less: Subsidy	275	356	0
Equals: Excess Revenues	0	0	436

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Annex H

FINANCIAL ANALYSIS

Client and Loan Term Description

Small industries (5-15 employees) represent 30% of intended clients, with micro-enterprises (less than 5 employees) making up the other 70%. Small industry loans average L.E. 5,000 in the first year, rising to an average of L.E. 10,000 after 5 years. Average loan term is 12 months. Micro-enterprise loans average L.E. 1,000 in the first year and L.E. 3,000 after 5 years. Average loan term is 9 months.

Default Rate

The default rate is estimated at 1.5% per annum. Only through experience will it be known if this is a reasonable assumption, however we base our assumption on similar lending programs in Indonesia and the Dominican Republic which have default rates under 2% per annum after 3-4 years of lending.

Collateral Account

Funds will be deposited in participating banks by the Foundation(s); the banks will provide the Foundation(s) with pre-authorized overdraft privileges. These funds are drawn down on a quarterly basis from a $8 million dollar AID grant to each Foundation for use in providing credit to SME. This grant will constitute the guarantee. During the first eight quarters, the collateral account closely follows the value of the loan portfolio.

At the start of Year 3, assuming a portfolio of high quality, the banks accept overdraft privileges in an amount exceeding the deposited guarantee. The leverage of the fund is projected to increase gradually from 1:1 to 2:1 and by the end of Year 5, the total value of the loan portfolio is projected to be slightly greater than twice the value of the collateral account.

Cost of Funds

The cost of Funds refers to charges by the participating banks for maintaining checking account overdraft privileges, and is assumed to be 15% per annum. This cost represents the commercial market rate. If access to less expensive funds is negotiated by the Foundations, the corresponding cost to the end-user entrepreneur can also decrease.

The cost of operations is projected at 15% through Year 3 when it is lowered to 12.5%. In Year 4, it is decreased again to 11%. The cost of operations is called the differential and includes operational expenses, inflationary losses and defaults. Inflation loss is on the savings account (inflation less interest earned on the deposit) and must be covered by income generated by the loan portfolio. Inflation is assumed to be 22% per annum, based on GOE data. If inflation is higher or lower than this figure, this would affect losses accordingly and end use rates would be adjusted.

Staff Salaries and Incentives

Extension Officers are treated as individual profit and loss centers. Direct costs include the base salary of extension officers plus payroll taxes; indirect costs are calcuated at twice this amount to cover the expense of support staff at the Branch and Head Offices. Bonuses will be paid after direct and indirect costs are covered from certain income generated from the managed portfolio; 100% of net income generated on loans to micro enerprises will be included, but only 20% of the net income generated by the small entrepreneur loans. Of this modified total net income, the Extension Officer will receive 15% as a bonus. No bonus is received if defaults, defined as loans more than 180 days past due, surpass 1.5% of the portfolio.

The Branch Manager's incentive has been calculated as 18% of the bonus generated by each Extension Officer, and it is assumed that there will be an average of six Officers per Manager. The Secretary's incentive is equal to 30% of the Manager's bonus. In total, 22.32% of total income is used as incentives.

Break-Even

Break-even is achieved in Year 3 of lending, assuming a default rate of 1.5%, a differential of 15%, inflation at 22%, and end-use lending rates of 30% per annum. Given commercial costs of funds, survey results indicate that the total cost of funds would be acceptable to the small and micro entrepreneurs. The differential need not be termed an interest cost, but rather the cost of lending or service charge. This concept appears to be acceptable to the small borrower.

Given the non-profit status of the program, the above differential may be lowered once break-even is achieved. This is projected to occur near the end of Year 3 of lending, and again during year 4.

The importance of negotiating an adequate leverage on the collateral or savings account can be seen in Chart IV; break-even is achieved only when the program is successful in securing a greater than 1:1 ratio between the loan portfolio and the collateral account. Even when the default rate is lowered to 0.5% per annum, break-even is still not achieved with a 1:1 ratio, due to the fact that the inflationary losses on the deposited guarantee absorb most of the gross income. The decline in the financial differential is possible only with an increasing ratio, converting this element into a key institutional objective.

Notes to the Financial Projections
Charts I-VI

The following series of six charts contain primary assumptions being used in the development of the Small and Micro Enterprise Project. The charts are inter-related, but each one shows some unique analysis.

CHART I

Chart I shows variables on the top line. In the electronic version of this spreadsheet, the variables can be changed; those changes are then reflected throughout the subsequent charts.

Annual Losses	1.5%
Interest (Annual Effective)	30.0%
Cost of K (Bank Funds)	15.0%
Inflation Rate (Annual)	22.0%
Bank Interest (Annual)	10.0%

Number of Branches

The purpose of showing the number of branches is to demonstrate the relationship between the number of offices and the number of extension officers.

Extension Officers

The assumptions on Program growth are affected by numbers of extension workers. No additional officers are projected after Year 3 to allow for operational consolidation.

Groups per Officer

This is a key assumption affecting program growth.

Average Group Size

Note that membership size per group expands as the program is extended over time. By the fifth year of implementation the group size reaches its maximum level of 33.

Total Businesses

This figure is the result of multiplying the number of promoters by the number of groups per officer by the average group size.

Average Loan Size

The chart reflects expansion of loan size over time. The average size of loan may expand more quickly than projected.

Loan Portfolio-Loan Disbursals

75% of new businesses receive loans during the quarter in which they appear on the charts, a reasonable assumption given educational needs before loans should be disbursed. The remaining 25% are included in the calculations for the following quarter. An average loan term for micro businesses is nine months; and an average loan term for small businesses is twelve months. During the fourth quarter of the first year, 90% of the first quarter businesses receive a second loan. During the first quarter of the second year, 90% of the second quarter businesses receive a second loan, and so on. 80% of first quarter businesses receive a third loan during the third quarter of the second year, etc.

Loan Portfolio - Installments

Installment payments are made monthly for both micro and small businesses. One payment is made during the quarter in which the loan is disbursed. Three are made in the following quarters until only two payments are left, which are cancelled in the next quarter.

Gross Portfolio

Disbursals less installments.

Defaults

The annual loss figure given on line one (1.5%) raised to the 1/4 power as a quarterly calculations applies to the value of the gross portfolio of the same quarter.

Net Portfolio

Gross portfolio less defaults.

CHART II

Guarantee Fund

This fund is referred to as a "collateral fund with right of offset". The size of the fund should have a direct relationship with the value of the loan portfolio.

Current Value

The current value is determined by the inflation rate, the interest rate paid by the banks on the collateral deposit, and the support which the operations may offer from earned interest income.

Inflation

The inflation figure is 22 percent (noted cited at the top of Chart I) and raised to the 1/4 power. This figure applies to the previous quarter's current value of the collateral fund.

Deposit Income

The interest value from Chart I (10 percent) raised to the 1/4 power and applied to the previous quarter's current value of the guarantee (collateral) fund. All interest income is channeled to the guarantee fund until the current value is greater than the accumulated value, at which point the excess is applied to operational costs until break-even is achieved.

Net Portfolio

From Chart I

Gross Income

The interest rate variable from Chart I is raised to the 1/4 power and applied to the present quarter's net portfolio.

Cost of Funds

The Cost of K (from Chart I) is raised to the 1/4 power and applied to the present quarter's net portfolio.

Loss of Capital

From Chart I, represented as defaults.

Financial Margin

Gross Income less Cost of Funds plus Loss of Capital.

Income for Operations

This compares the current value of the guarantee fund with the accumulated value. If the current value is over 5,000 greater than the accumulated value, then the difference is applied to the operations.

CHART III

Businesses Attended

From Chart I, this is the total number of businesses serviced by one extension worker.

Loan Disbursals

The assumptions used here were described in Chart I. 75% of the businesses contacted receive their loans in one quarter and 25% receive their releases in a subsequent quarter.

Installments, Gross Portfolio, Defaults, Net Portfolio, Gross Income

Please refer to Chart I for a description of these figures.

Net Income

Gross Income multiplied by the variable Net Income found at the top of Chart I. This net income figure only affects the subsequent calculations for the incentive system described below.

Incentive System - Extension Officer

Net monthly earnings are L.E. 350, yielding a quarterly figure of 1,050. Diverse benefits increase this figure by 2 (support for overhead) to obtain a minimum income of 3,000. The basis for calculating the incentive system is LE 3,000. In order to build an incentive system favoring micro businesses, 100% of earned interest income is applied to the incentive calculations. In the case of small businesses, only 20% of the interest income generated by the larger small business loans will be included in the incentive system. This is to place a strong incentive promoting the smaller loans. "Total Income" refers to the sum of this adjusted interest income. The incentive bonus is equal to 15% of any surplus between the adjusted interest income and twice the gross salary. If late payments increase, the bonus drops. This system treats the individual extension officer as a profit and loss center.

Incentive System - Branch Manager and Branch Secretary

A manager receives a bonus calculated at 18% of each extension officer's incentive. The secretary earns 30% of the manager's bonus, since his or her work load increases as the number of businesses attended increases.

CHART IV

Break-Even

The break-even calculation is made assuming that a branch office has six extension officers. The figures here do not coincide precisely with the figures in Chart I since the personnel strategy is to hire three individuals in the first year who will establish new offices in the second year. The same applies for those hired in Year 2 for the four new offices planned for Year 3.

Businesses Attended

Businesses attended is a figure from Chart III for one extension officer, multiplied by the 6 officers assumed herein.

Net Portfolio, Gross Income

Chart III figures from gross income times 6.

Financial Costs - Cost of Funds, Defaults

The corresponding variable from Chart I, Column 1 elevated to the 1/4 power and applied to the Net Portfolio figures.

Financial Costs - Guarantee Support

Gross Income less the sum of Cost of Funds and Defaults. All excess income is directed first to the guarantee fund until its accumulated value equals its capitalized value.

Net Income

The Net Portfolio of this one branch office is compared to the total Net Portfolio from Chart I. The resulting percentage is applied to the Available Income from Chart II to determine the total Available Income which should be applied to this branch office.

Salaries

Calculations from Chart III. Payroll taxes are assumed to be 42.8571%.

Administration

Administration costs are estimated at L.E. 6,465 per quarter, but the personnel costs of the manager, the secretary, and the messenger are subtracted. A 10% yearly increase is assumed.

Total Expenses

Total Personnel costs plus Administration

Surplus (Deficit)

Available Income less Total Expenses

Break-Even Analysis

Break-even was analyzed under several scenarios. The figures in the left column, (e.g. 15.0%; 0.5%; 1:1) refer respectively to the spread between interest income and the cost of capital; the default rate; and, the leverage on the guarantee fund. The bottom scenario is the preferred one.

CHART V

A Profit and Loss Statement is constructed for the entire program, assuming that the program will have a total of 8 branch offices and one main office.

Total Gross Income, Portfolio Income, Deposit Income, Cost of Funds, Defaults, and Inflation Loss

Taken from Chart II.

Financial Margin

Income less Financial Costs

Operating Costs - 8 Branch Offices

The total cost of 1 branch office is considered for Year 1, plus the 3 extra extension officers accounted for in Chart I. In Year 2, four branch offices are included, plus 4 additional extension officers also accounted for in Chart I. Only in Year 3 is the total cost of one branch office simply multiplied by 8.

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Operating Costs - 1 Central Office

L.E. 48,000 quarterly cost with 10% annual increase.

Operating Costs - Depreciation

Office installation investments accounted for in the Sources and Uses of Funds Statement (Chart VI) are assumed to depreciate fully in 5 years.

Surplus (Deficit)

Financial Margin less Operating Costs

Chart VI

This is essentially a balance sheet to check if Total Sources and Total Uses are equal.

Annual Losses : 1.50% Interest: 30.00% Cost of K: 15.00% Inflation 22.00% Bank Int 10.00% Net Income 28.20% 4

CHART I

	YEAR 1 I	YEAR 1 II	YEAR 1 III	YEAR 1 IV	YEAR 2 I	YEAR 2 II	YEAR 2 III	YEAR 2 IV	YEAR 3 I	YEAR 3 II	YEAR 3 III	YEAR 3 IV
No. of Branch Offices:	1	1	1	1	4	4	4	4	8	8	8	8
Extension Officers :												
- Hired Year 1 :	9											
- Hired Year 2 :					19							
- Hired Year 3 :									20			
Total :	9	9	9	9	28	28	28	28	48	48	48	48
Groups per Officer :												
- Hired Year 1 :	2	4	6	8	11	14	17	19	20	20	20	20
- Hired Year 2 :					2	4	6	8	11	14	17	19
- Hired Year 3 :									2	4	6	8
Average Group Size :												
- Starting Year 1 :	10	11	12	13	15	17	19	22	24	26	28	30
- Starting Year 2 :					10	11	12	14	16	18	20	22
- Starting Year 3 :									10	13	16	19
Total Businesses :	180	396	648	936	1865	2978	4275	5890	8064	10508	13420	16382
- Micro-Bus. (70%) :	126	277	453	655	1305	2084	2992	4123	5644	7355	9394	11467
- Small Bus. (30%) :	54	119	195	281	560	894	1283	1767	2420	3153	4026	4915
(New Businesses) :	180	216	252	288	929	1113	1297	1615	2174	2444	2912	2962
- Micro-Bus. :	126	151	176	202	650	779	908	1131	1521	1711	2039	2073
- Small Bus. :	54	65	76	86	279	334	389	484	653	733	873	889
Average Loan Value :												
- Micro-businesses :	1000	1125	1250	1375	1500	1625	1750	1875	2000	2125	2250	2375
- Small Businesses :	5000	5250	5500	5750	6000	6250	7000	7500	8000	8250	8500	8750
Loan Portfolio :												
- Loan Disbursals :	297000	482343	606280	894612	2675262	3877556	5066560	7294043	11675356	14505160	18617718	21965993
- Micro-Businesses:	94500	158906	207468	419237	1004537	1450556	2002768	3311093	4495456	5754781	8047881	9863306
- Small Businesses:	202500	323437	398812	475375	1670725	2427000	3063800	3983750	7179900	8750387	10569837	12102687
- Installments :	27375	126734	272230	460507	828212	1574252	2599117	3910826	5838543	8377223	11416715	14933346
- Micro-Businesses:	10500	49156	107520	189706	355829	681868	1134057	1749237	2593127	3686662	5046753	6695800
- Small Businesses:	16875	77578	164718	270801	472383	892384	1465060	2201589	3245416	4690561	6369962	8237546
- Gross Portfolio :	269625	624229	959944	1386485	3229365	5519631	7366500	11207811	17082532	23146776	30261464	37121265
- Micro-Businesses:	84000	193437	296664	521104	1167869	1932202	2793708	4352147	6238247	8283104	11253344	14378886
- Small Businesses:	185625	430792	663280	865381	2060496	3587429	5172792	6855664	10844285	14863672	19008120	22742379
- Defaults :	1005	2327	3564	5170	12038	20582	29706	42092	63701	86315	112846	139429
- Micro-Businesses:	313	721	1091	1943	4355	7205	10417	16229	23262	30888	41964	53620
- Small Businesses:	692	1606	2473	3227	7683	13377	19289	25863	40439	55427	70882	94908
- Net Portfolio :	268620	621902	952380	1381315	3216327	5499049	7336794	11165719	17018831	23060461	30148618	36982837
- Micro-Businesses:	83687	192716	291573	519161	1163514	1924997	2783291	4335918	6214985	8252216	11211380	14325266
- Small Businesses:	184933	429186	660807	862154	2052813	3574052	5153503	6909801	10803846	14808245	18937238	22657571

	YEAR 4 I	YEAR 4 II	YEAR 4 III	YEAR 4 IV	YEAR 5 I	YEAR 5 II	YEAR 5 III	YEAR 5 IV	YEAR 6 I	YEAR 6 II	YEAR 6 III	YEAR 6 IV
No. of Branch Offices:	8	8	8	8	8	8	8	8	8	8	8	
Extension Officers :												
- Hired Year 1 :												
- Hired Year 2 :												
- Hired Year 3 :												
Total :	48	48	48	48	48	48	48	48	48	48	48	48
Groups per Officer :												
- Hired Year 1 :	20	20	20	20	20	20	20	20	21	21	21	22
- Hired Year 2 :	20	20	20	20	20	20	20	21	20	21	21	21
- Hired Year 3 :	11	14	17	19	20	20	20	21	20	20	21	21
Average Group Size :												
- Starting Year 1 :	30	30	30	30	30	31	32	33	33	33	33	33
- Starting Year 2 :	24	28	30	30	30	31	32	33	33	33	33	33
- Starting Year 3 :	22	26	30	30	30	31	32	33	33	33	33	33
Total Businesses :	19360	23320	27000	28300	28800	29760	30720	31680	31977	32604	33264	33361
- Micro-Bus. (70%) :	13552	16324	18900	19740	20160	20832	21504	22176	22383	22822	23284	23412
- Small Bus. (30%) :	5808	6996	8100	8460	8640	8928	9216	9504	9594	9782	9980	10169
(New Businesses) :	2978	3360	3680	1300	600	960	960	960	297	627	660	297
- Micro-Bus. :	2085	2772	2576	840	420	672	672	672	207	439	462	208
- Small Bus. :	893	1188	1104	360	180	288	288	288	90	188	198	89
Average Loan Value :												
- Micro-businesses :	2500	2625	2750	2875	3000	3000	3000	3000	3000	3000	3000	3000
- Small Businesses :	9000	9250	9500	9750	10000	10000	10000	10000	10000	10000	10000	10000
Loan Portfolio :												
- Loan Disbursals :	26959206	34630637.5	38938175	32723262.5	35509150	40564500	42963000	44670700	45227050	46704900	52732350	47384800
- Micro-Businesses:	11348468	15384937.5	17390975	15305637.5	17743650	18670350	19884000	19880700	20747050	17814900	21472350	21514800
- Small Businesses:	15610737	19245700	21533200	17417625	17765500	21894000	22979000	24790000	24480000	28870000	31260000	25870000
- Installments :	18863448	23201467	28332563	32717971	34924808	36170066	37522700	39606495	42050882	43991366	45677800	47511916
- Micro-Businesses:	8510176	10568446	13036200	15150479	16291929	16957368	17748636	19003600	19709216	19940950	19658000	20096916
- Small Businesses:	10353272	12633021	15296363	17567492	18632879	19212697	19774064	20600396	22341666	24050416	25919800	27415000
- Gross Portfolio :	43778594	56339563.5	66735191.5	66491622	66420012	70973240	76749876	80529089	83405750	85888364	92722499	92248613
- Micro-Businesses:	17163558	21916046.5	26197094.5	26254562	27608378	29218656	31244962	33006547	32924930	30676101	32378058	33673119
- Small Businesses:	27915036	34423518	40539097	40237060	39219634	41754684	44803914:	48523442	50480820	55212165	60344441	58576414
- Defaults :	168101	210094	248861	247952	249207	264664	283592	300299	311036	320884	343770	344016
- Micro-Businesses:	64004	81726	97691	97905	102954	108958	116515	119561	122779	114093	120733	125670
- Small Businesses:	104097	128369	151170	150047	146253	155706	167077	180748	188247	206891	223037	218436
- Net Portfolio :	43610493	56129469.5	66486330.5	66243670	66170805	70708576	76465284	80228790	83094732	85567482	92378729	91903407
- Micro-Businesses:	17099554	21834319.5	26099403.5	26156657	27505424	29109698	31128447	31886296	32802151	30561708	32256325	33547639
- Small Businesses:	27810939	34295250	40386927	40087013	38673381	41598970	45336837	48342494	50292581	54006274	60122404	58357918

LOAN PORTFOLIO

CHART II

	YEAR 1 I	YEAR 1 II	YEAR 1 III	YEAR 1 IV	YEAR 2 I	YEAR 2 II	YEAR 2 III	YEAR 2 IV
Guarantee Fund								
- Capitalization	750000		750000		2000000	2000000	2500000	3500000
- Accumulated	750000	750000	1500000	1500000	3500000	5500000	8000000	11500000
- Current Value	750000	737513	1497912	1486906	3499420	5497651	8009020	11511027
- Inflation	0	-30226	-37990	-76347	-75786	-170362	-280210	-408212
- Deposit Income	0	18085	17704	36120	39854	69080	132564	193127
- Guar. Support	0	7654	17718	27133	39352	91630	156662	226112
Net Portfolio	264630	621502	952380	1381315	3216327	5459049	7936794	11245719
- Micro-Businesses	85647	192716	291573	519161	1163514	1524997	2783291	4335910
- Small Businesses	184939	429186	660807	862154	2052813	3574052	5153505	6909801
Gross Income	18209	42150	64561	93630	218034	372773	538034	762346
- Micro-Businesses	5673	13064	19765	35193	78874	130465	188679	259931
- Small Businesses	12536	29094	44796	58445	139160	242204	349355	460415
Cost of Funds	9550	22113	33864	49116	114366	155535	282216	399875
- Micro-Businesses	2975	6852	10367	18460	41372	60440	98968	154176
- Small Businesses	6575	15261	23497	30656	72994	127086	183249	245699
Loss of Capital	1005	2327	3564	5170	12030	20582	29706	42092
- Micro-Businesses	313	721	1091	1943	4365	7205	10417	16229
- Small Businesses	692	1606	2473	3227	7663	13377	19289	25863
Financial Margin	7654	17718	27133	39352	91630	156662	226112	320379
- Micro-Businesses	2385	5491	8307	14790	33147	54941	79294	123526
- Small Businesses	5269	12227	18826	24562	58483	101921	146818	196853
Income for Operations								
- Guarantee Fund								
- Acc. Capital	750000	750000	1500000	1500000	3500000	5500000	8000000	11500000
- Current Value	750000	737513	1497912	1486906	3499420	5497651	8009020	11511027
- Available Income	0	0	0	0	0	0	9020	11027

	YEAR 3 I	YEAR 3 II	YEAR 3 III	YEAR 3 IV	YEAR 4 I	YEAR 4 II	YEAR 4 III	YEAR 4 IV
Guarantee Fund								
- Capitalization	2500000	2500000	2000000	1500000	2500000	6000000	5000000	
- Accumulated	14000000	16500000	18500000	20000000	22500000	28500000	33500000	33500000
- Current Value	14011246	16608571	18710937	20356410	23006920	29161580	34015921	34472350
- Inflation	-596706	-714140	-846524	-953680	-1037540	-1172642	-1486340	-1749052
- Deposit Income	277573	337862	400489	451189	490958	554701	700153	827485
- Guar. Support	320379	494949	656560	858901	1053600	1279449	1599060	1894119
Net Portfolio	17018831	23060461	30146518	35982837	44810469	56129564.5	66406330.5	66246670
- Micro-Businesses	6214985	8252216	11211300	14325366	17099554	22834319.5	26079403.5	26156657
- Small Businesses	10803846	14808245	18937230	22657571	27010939	34295250	40326927	40087013
Gross Income	1153705	1563267	2046773	2507065	3044480	3805021	4507105	4490656
- Micro-Businesses	421313	559417	760019	971109	1159178	1480147	1769277	1773159
- Small Businesses	732392	1003850	1286754	1535956	1885302	2324874	2737828	2717497
Cost of Funds	605155	819904	1072036	1315037	1596930	1996859	2364125	2355497
- Micro-Businesses	220992	293402	398635	509570	608027	776386	928044	930080
- Small Businesses	384163	526502	673371	805659	988903	1219473	1436081	1425417
Loss of Capital	53701	86315	112846	138428	160101	210094	248861	247952
- Micro-Businesses	23262	30888	41964	53620	64004	81726	97691	97905
- Small Businesses	30439	55427	70882	84808	104097	128368	151170	150047
Financial Margin	494949	656560	858901	1053600	1279449	1599068	1894119	1887207
- Micro-Businesses	177089	233097	319400	408111	487149	622055	743942	745174
- Small Businesses	307790	421871	539501	645489	792302	977033	1150577	1142033
Income for Operations								
- Guarantee Fund								
- Acc. Capital	14000000	16500000	18500000	20000000	22500000	28500000	33500000	33500000
- Current Value	14011246	16608571	18710937	20356410	23006920	29161580	34015921	34472350
- Available Income	11246	108571	210937	356410	506920	661580	515921	972350

	YEAR 5 I	YEAR 5 II	YEAR 5 III	YEAR 5 IV	YEAR 6 I	YEAR 6 II	YEAR 6 III	YEAR 6 IV
Guarantee Fund								
- Capitalization								
- Accumulated	33500000	33500000	33500000	33500000	33500000	33500000	33500000	33500000
- Current Value	34461432	34471277	34588646	34729572	34852350	34931283	34995640	35191776
- Inflation	-1757035	-1756464	-1758970	-1762954	-1770135	-1776424	-1780416	-1783901
- Deposit Income	831280	830992	831229	834058	837420	840455	842322	843370
- Guar. Support	1887207	1896754	2014407	2158466	2285627	2367274	2437734	2631707
Net Portfolio	66578805	70706576	75765204	80308718	85094732	88567982	92976729	91926407
- Micro-Businesses	27505424	29105978	31128447	31986256	33802151	33561708	32255325	33549639
- Small Businesses	39073381	41598598	44636437	48312494	50292581	55006274	60121404	58357568
Gross Income	4513374	4793331	5136125	5438707	5632988	5800850	6262215	6250270
- Micro-Businesses	1864591	1973338	2110196	2161571	2223656	2071777	2188587	2274193
- Small Businesses	2648783	2819993	3025929	3277136	3409332	3728873	4073628	3975085
Cost of Funds	2367403	2514560	2694067	2852701	2964680	3045632	3294738	3267986
- Micro-Businesses	978059	1035081	1106867	1133815	1166301	1086715	1149207	1192889
- Small Businesses	1389324	1479179	1587200	1718966	1798307	1958917	2137801	2075097
Loss of Capital	249207	264664	283592	300259	311026	320284	345770	344005
- Micro-Businesses	102954	108958	116515	119551	122779	114390	120739	125670
- Small Businesses	146253	155706	167077	180708	188247	205891	225032	218405
Financial Margin	1896754	2014407	2158466	2285627	2367274	2437734	2631707	2618286
- Micro-Businesses	783598	829299	886914	908405	934496	870669	918917	955731
- Small Businesses	1113156	1185108	1271652	1377222	1432778	1567065	1712790	1662552
Income for Operations								
- Guarantee Fund								
- Acc. Capital	33500000	33500000	33500000	33500000	33500000	33500000	33500000	33500000
- Current Value	34461432	34471277	34588646	34729572	34852350	34931283	34995640	35191776
- Available Income	961432	971277	1088646	1229572	1352350	1431283	1495640	1691776

FINANCIAL MARGIN

CHART III

Calculations Based on 1 Extension Officer	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5				YEAR 6			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Businesses Attended	20	44	72	104	165	238	323	418	480	520	560	600	600	600	600	600	600	620	640	660	690	690	690	726
- Micro-Businesses	14	31	50	73	116	167	226	293	336	364	392	420	420	420	420	420	420	434	448	462	483	483	483	508
- Small Businesses	6	13	22	31	49	71	97	125	144	156	168	180	180	180	180	180	180	186	192	198	207	207	207	218
Loan Disbursals	33000	52905	68905	98168	205568	281260	382501	481848	552606	560687	663325	673775	606425	620662	653475	632087	629900	652000	640400	730000	714850	596650	634300	865050
- Micro-Businesses	10500	17043	22593	46981	79231	106060	153901	218098	218106	238887	301975	286025	258875	312637	293425	246962	315900	315000	248400	324000	383850	301650	340200	484050
- Small Businesses	22500	35862	46312	51187	126337	175200	228600	263750	334500	321800	361350	387750	347550	308025	360050	385125	314000	337000	392000	406000	331000	295000	294000	381000
Installments	3041	14028	30207	51266	83377	135278	204293	291654	387735	468976	532631	591218	630286	636940	637727	637613	632094	632040	644486	652770	667116	687666	686133	682449
- Micro-Businesses	1166	5482	11958	21032	35959	58876	89315	128522	171829	206160	234348	260535	277849	283476	286667	286988	284703	287826	292780	294000	303450	324666	336300	353033
- Small Businesses	1875	8546	18249	30234	47418	76402	114978	163132	215906	262816	298283	330683	352437	353464	351060	350625	347391	344214	351706	358770	363666	363000	349833	329416
Gross Portfolio	29959	68836	107534	154436	276627	422617	601255	731444	956315	1048026	1170720	1261277	1237416	1221138	1256086	1251360	1229166	1249126	1245040	1322270	1370004	1278985	1227055	1409656
- Micro-Businesses	9334	21695	32330	58279	101551	148743	213409	302980	349257	381984	448611	475101	456127	435288	482046	452020	483217	510391	466011	496011	576411	553395	555295	686312
- Small Businesses	20625	47141	75204	96157	175076	273874	387846	428464	607058	666042	723109	786176	781289	785850	774040	799340	745949	738735	779029	826259	793593	725590	671760	723344
Defaults	110	235	400	575	1030	1575	2241	2950	3565	3907	4394	4702	4613	4553	4611	4591	4582	4657	4642	4930	5108	4768	4575	5236
- Micro-Businesses	34	80	120	217	378	554	795	1129	1302	1424	1676	1771	1700	1809	1834	1685	1801	1903	1737	1849	2149	2063	2070	2379
- Small Businesses	76	175	280	358	652	1021	1446	1821	2263	2483	2718	2931	2913	2744	2777	2906	2781	2754	2905	3081	2959	2705	2505	2857
Net Portfolio	29849	68581	107134	153861	275597	421042	599014	728494	952750	1044119	1174326	1256575	1232803	1216585	1252275	1246769	1224584	1244469	1240398	1317340	1364896	1274220	1222480	1404400
- Micro-Businesses	9300	21615	32210	58062	101173	148189	212614	301851	347955	380560	447935	473330	454427	433479	480212	450335	481416	508488	464274	494162	574262	551332	553225	683753
- Small Businesses	20549	46966	74924	95799	174424	272853	386400	426643	604795	663559	726391	783245	778376	783106	772063	796434	743168	735981	776124	823178	790634	722888	669255	720647
Gross Income	2023	4648	7262	10430	18482	28541	40607	53451	64536	70780	79607	85183	83571	82472	83535	83162	83014	84062	84086	89302	92526	86378	83871	95203
- Micro-Businesses	630	1465	2183	3936	6658	10046	14403	20462	23537	25798	30365	32087	30805	32775	33231	30528	32635	34470	31473	33499	38929	37374	37503	46351
- Small Businesses	1393	3183	5079	6494	11824	18495	26204	32989	40999	44982	49242	53096	52766	49697	50304	52634	50379	49592	52613	55803	53597	49004	46368	48852
Net Income	570	1310	2047	2941	5268	8048	11451	15073	18213	19959	22449	24021	23567	23257	23556	23451	23409	23790	23712	25180	26092	24058	23369	26847
- Micro-Businesses	177	413	615	1109	1933	2832	4064	5770	6651	7275	8562	9048	8687	9242	9371	8608	9203	9720	8875	9446	10977	10539	10575	13070
- Small Businesses	392	897	1432	1831	3334	5215	7386	9302	11561	12684	13886	14973	14880	14014	14185	14842	14206	14069	14836	15736	15114	13819	12793	13776
Incentive System																								
Extension Officer																								
- Net Salary	1050	1050	1050	1050	1155	1155	1155	1155	1270	1270	1270	1270	1397	1397	1397	1397	1537	1537	1537	1537	1537	1537	1537	1537
- Gross Salary x 2	3000	3000	3000	3000	3300	3300	3300	3300	3630	3630	3630	3630	3993	3993	3993	3993	4392	4392	4392	4392	4392	4392	4392	4392
- Micro Income: 100%	177	413	615	1109	1933	2832	4064	5770	6651	7275	8562	9048	8687	9242	9371	8608	9203	9720	8875	9446	10977	10539	10575	13070
- Small Income: 20%	78	179	286	366	666	1043	1477	1860	2312	2536	2777	2994	2976	2802	2837	2968	2841	2813	2967	3147	3022	2763	2558	2755
- Total Income	255	592	901	1475	2599	3875	5541	7630	8963	9811	11339	12042	11663	12044	12208	11576	12044	12533	11842	12593	13999	13302	13133	15825
- Surplus	0	0	0	0	0	575	2241	4330	5333	6181	7709	8412	7670	8051	8215	7583	7652	8141	7450	8201	9607	8910	8741	11433
- Bonus=Surplus*20%	0	0	0	0	0	115	448.2	866	1066.6	1236.2	1541.8	1682.4	1534	1610.2	1643	1516.6	1530.4	1628.2	1490	1640.2	1921.4	1782	1748.2	2286.6
- Salary + Bonus	1050	1050	1050	1050	1155	1270	1603.2	2021	2336.6	2506.2	2811.8	2952.4	2931	3007.2	3040	2913.6	3067.4	3165.2	3027	3177.2	3458.4	3319	3285.2	3823.6
Branch Manager																								
- Ext. Bonus x 10%	0	0	0	0	0	20	80	155	191	222	277	302	276	289	295	272	275	293	268	295	348	320	314	411
- # 6 Ext. Off.	0	0	0	0	0	120	480	930	1146	1332	1662	1812	1656	1734	1770	1632	1650	1758	1608	1770	2070	1920	1884	2466
- Gross Salary	2367	2367	2367	2367	2792	2792	2792	2792	2851	2851	2851	2851	3137	3137	3137	3137	3449	3449	3449	3449	3449	3449	3449	3449
- Net Salary	1650	1650	1650	1650	1815	1815	1815	1815	1996	1996	1996	1996	2196	2196	2196	2196	2415	2415	2415	2415	2415	2415	2415	2415
- Salary + Bonus	1650	1650	1650	1650	1815	1935	2295	2745	3142	3328	3658	3808	3852	3930	3966	3828	4065	4173	4023	4185	4485	4335	4299	4881
Branch Secretary																								
- Mgr. Bonus x .3	0	0	0	0	0	36	144	279	343	399	498	543	496	520	531	489	495	527	482	531	621	576	565	739
- Net Salary	450	450	450	450	495	495	495	495	544	544	544	544	598	598	598	598	658	658	658	658	658	658	658	658
- Salary + Bonus	450	450	450	450	495	531	639	774	887	943	1042	1087	1094	1118	1129	1087	1153	1185	1140	1189	1279	1234	1223	1397

CHART IV

Break-Even 1 Branch Office 6 Extension Officers	YEAR 1 I	II	III	IV	YEAR 2 I	II	III	IV	YEAR 3 I	II	III	IV
Businesses Attended	120	264	432	624	990	1428	1938	2508	2880	3120	3360	3600
- Micro-Businesses	84	186	300	438	696	1002	1356	1758	2016	2184	2352	2520
- Small Businesses	36	78	132	186	294	426	582	750	864	936	1008	1080
Net Portfolio	179094	411486	642804	923166	1653082	2526252	3594084	4730564	5716500	6264714	7049356	7539480
- Micro-Businesses	55800	129690	193260	348372	607038	889134	1275604	1811106	2087730	2283360	2697610	2839980
- Small Businesses	123294	281796	449544	574794	1045944	1637118	2318480	2919458	3628770	3981354	4351746	4699970
Gross Income	12130	27000	43572	62580	112092	171246	245642	320706	364516	424980	477642	511090
Financial Costs	12130	27000	43572	62580	112092	171246	245642	320706	387516	424640	477642	511090
- Cost of Funds	6360	14631	22856	32826	58790	89820	127750	160229	203267	222761	250540	260000
- Defaults	667	1534	2397	3492	6166	9420	13402	17642	21317	23361	25274	28115
- Guarantee Support	5103	11723	18319	26312	47128	71998	102442	134041	162932	178550	200820	214095
Net Income	0	0	0	0	0	0	4004	4630	3777	29494	49257	72650
Expenses												
- Salaries												
- 1 Manager	1650	1650	1650	1650	1815	1815	1815	1815	1996	1996	1996	1996
- 6 Ext. Officers	6300	6300	6300	6300	6930	6930	6930	6930	7620	7620	7620	7620
- 1 Secretary	450	450	450	450	495	495	495	495	544	544	544	544
- 1 Messenger	300	300	300	300	330	330	330	330	363	363	363	363
Sub-Total	8700	8700	8700	8700	9570	9570	9570	9570	10523	10523	10523	10523
- Payroll Taxes	4420	4420	4420	4420	4870	4870	4870	4870	5356	5356	5356	5356
- Total Salaries	13120	13120	13120	13120	14440	14440	14440	14440	15879	15879	15879	15879
- Bonuses	0	0	0	0	0	846	3313.2	6405	7888.6	9148.2	11410.8	12448.4
- Total Personnel	13120	13120	13120	13120	14440	15286	17753.2	20845	23767.6	25027.2	27289.8	28328.4
- Administration	3037	3037	3037	3037	3340.5	3340.5	3340.5	3340.5	3675.65	3675.65	3675.65	3675.65
- Total Expenses	16165	16165	16165	16165	17780.5	18626.5	21093.7	24185.5	27443.25	28702.85	30965.45	32004.05
Surplus (Deficit) (15%; 1.5%; 1:1->2:1)	-16165	-16165	-16165	-16165	-17780.5	-18626.5	-17089.7	-19547.5	-23666.25	791.15	18331.55	40653.95
Break-Even Analysis												
15.0%; 0.5% 1:1	-16165	-16165	-16165	-16165	-17780.5	-19810.3	-10486.5	-8666.3	-13805.85	-6647.85	-7343.25	-7262.05
15.0%; 1.0% 1:1	-16165	-16165	-16165	-16165	-17780.5	-18632.5	-13995.1	-14872.3	-18364.45	-14470.45	-14124.25	-14990.05
15.0%; 1.5%; 1:1->2:1	-16165	-16165	-16165	-16165	-17780.5	-18626.5	-16727.7	-19056.5	-22990.25	1499.15	19065.55	41410.55
12.5%; 1.5%; 1:1->2:1	-16165	-16165	-16165	-16165	-17780.5	-18193.3	-20469.1	-23323.1	-26455.45	-20922.25	-6953.45	11677.55
11.0%; 1.5%; 1:1->2:1	-16165	-16165	-16165	-16165	-17780.5	-17923.5	-20090.9	-22805.5	-25820.45	-26924.25	-22747.45	-6375.05
11.0%; 2.0%; 1:1->2:1	—	—	—	—	—	—	—	—	—	—	—	—
CONCLUSION												
Differential	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	12.5%
Surplus (Deficit) (1.5%; 1:1->2:1)	-16165	-16165	-16165	-16165	-17780.5	-18626.5	-16727.7	-19056.5	-22990.25	1499.15	19065.55	11677.55

Break-Even 1 Branch Office 6 Extension Officers	YEAR 4 I	II	III	IV	YEAR 5 I	II	III	IV	YEAR 6 I	II	III	IV
Businesses Attended	3600	3600	3600	3600	3600	3720	3840	3960	4158	4158	4158	4356
- Micro-Businesses	2520	2520	2520	2520	2520	2604	2688	2772	2910	2910	2910	3048
- Small Businesses	1080	1080	1080	1080	1080	1116	1152	1188	1248	1248	1248	1308
Net Portfolio	7396010	7299510	7393630	7360614	7347304	7466014	7442300	7501040	8109976	7645320	7534880	8426400
- Micro-Businesses	2725562	2910074	2941272	2703010	2880456	3030920	2785644	2964972	3445572	3307992	3015380	4102518
- Small Businesses	4670256	4389636	4452378	4658604	4467008	4415086	4656744	4539068	4663404	4337328	4518630	4323882
Gross Income	501436	494032	501210	488972	490084	506172	504516	530012	555136	518860	497226	571210
Financial Costs	501436	494032	501210	488972	490084	506172	504516	530012	555136	518860	497226	571218
- Cost of Funds	263016	259356	262903	261729	261263	265005	264637	281092	291150	271852	260014	259626
- Defaults	27583	27220	27571	27410	27399	27044	27753	29474	30530	28510	27352	31402
- Guarantee Support	210827	208056	210736	209755	209422	212823	212126	225286	233490	217506	209060	240170
Net Income	85490	86037	90734	108064	106101	102566	106939	121136	135339	127082	119874	155111
Expenses												
- Salaries												
- 1 Manager	2196	2196	2196	2196	2415	2415	2415	2415	2415	2415	2415	2415
- 6 Ext. Officers	8382	8382	8382	8382	9222	9222	9222	9222	9222	9222	9222	9222
- 1 Secretary	598	598	598	598	658	658	658	658	658	658	658	658
- 1 Messenger	399	399	399	399	439	439	439	439	439	439	439	439
Sub-Total	11575	11575	11575	11575	12734	12734	12734	12734	12734	12734	12734	12734
- Payroll Taxes	5892	5892	5892	5892	6480	6480	6480	6480	6480	6480	6480	6480
- Total Salaries	17467	17467	17467	17467	19214	19214	19214	19214	19214	19214	19214	19214
- Bonuses	11356	11915.2	12159	11220.6	11327.4	12054.2	11030	12142.2	14219.4	13188	12938.2	16924.6
- Total Personnel	28823	29382.2	29626	28687.6	30541.4	31268.2	30244	31356.2	33433.4	32402	32152.2	36138.6
- Administration	4043.915	4043.915	4043.915	4043.915	4448.4065	4448.4065	4448.4065	4448.4065	4448.4065	4448.4065	4453.4565	4448.4065
- Total Expenses	32866.915	334[illegible].115	33669.915	32731.515	34989.8065	35716.6065	34692.4065	35804.6065	37881.8065	36850.4065	36600.6065	40587.0065
Surplus (Deficit) (15%; 1.5%; 1:1->2:1)	50623.085	52610.885	57064.085	75332.485	71111.1935	66849.3935	72246.5935	85330.3935	95457.1935	91031.5935	82473.3935	114523.993
Break-Even Analysis												
15.0%; 0.5% 1:1	-8477.515	-9703.115	-7124.915	-2904.315	-8834.6065	-5011.6065	-671.0065	-5752.6065	-8834.6065	-5011.6065	-671.0065	-5752.6065
15.0%; 1.0% 1:1	-16110.515	-17040.115	-14966.715	-12147.515	-14645.606	-13697.606	-9227.2065	-14980.006	-14645.606	-13697.606	-9227.2065	-14980.006
15.0%; 1.5%; 1:1->2:1	51395.085	53427.885	57956.085	76225.485	72306.1935	60499.3935	70067.3935	73321.9935	101980.624	87756.7941	85193.9289	70529.0783
12.5%; 1.5%; 1:1->2:1	21929.285	25259.485	27772.485	43009.885	37060.1935	34853.9935	37021.1935	37803.7935	62680.2680	48092.8594	41149.8787	35453.5073
11.0%; 1.5%; 1:1->2:1	4041.085	8159.085	9455.485	10517.285	15624.5935	14435.7935	16447.1935	16239.3935	60366.6644	23541.1836	30017.2787	14241.7153
11.0%; 2.0%; 1:1->2:1	—	—	1731.085	9405.685	6654.3935	5872.1935	8418.3935	7230.7935	6654.3935	5872.1935	8418.3935	7230.7935
CONCLUSION												
Differential	12.5%	12.5%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Surplus (Deficit) (1.5%; 1:1->2:1)	21929.285	25259.485	9455.485	10517.285	15624.5935	14435.7935	16447.1935	16239.3935	60366.6644	23541.1836	30017.2787	14241.7153

BREAK-EVEN ANALYSIS

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CHART V

Profit and Loss Entire Program 8 Branch Offices	YEAR 1				YEAR 2			
	I	II	III	IV	I	II	III	IV
Total Gross Income								
- Portfolio Income	18209	42150	64561	93630	218034	372779	538034	762346
- Deposit Income	0	18085	17784	36120	35854	84383	132560	193127
Loans								
- Cost of Funds	9550	22113	33864	49116	114366	198536	282216	399875
- Defaults	0	1005	2327	3564	5170	12030	20582	27725
- Inflation Loss	0	38226	37930	76347	75706	178362	280210	408212
Financial Margin	8639	-1101	8564	731	58566	71227	87594	117680
Operating Costs:								
- 8 Branch Offices	20665	20665	20665	20665	77722	81106	90974.8	103342
- 1 Central Office	48000	48000	48000	48000	52800	52800	52800	52800
- Depreciation	5522	5522	5522	5522	6340	6340	6340	6340
Surplus (Deficit)	-65528	-75280	-65623	-73466	-78256	-69019	-62520.8	-44802

Profit and Loss Entire Program 8 Branch Offices	YEAR 3				YEAR 4			
	I	II	III	IV	I	II	III	IV
Total Gross Income								
- Portfolio Income	1153705	1563267	2043773	2315825	2812246	3514773	3954586	3940153
- Deposit Income	277573	337862	400493	451189	490868	554981	703193	827493
Loans								
- Cost of Funds	605156	819984	1072026	1315037	1596930	1998889	2364125	2358497
- Defaults	42092	63701	86315	116846	138438	168101	210094	248861
- Inflation Loss	586706	714140	846524	953680	1037540	1172642	1496340	1749052
Financial Margin	197325	303304	439401	385451	530208	732952	597220	414226
Operating Costs:								
- 8 Branch Offices	219546	229622.8	247723.6	256032.4	262936.32	267408.92	269359.32	261952.12
- 1 Central Office	58080	58080	58080	58080	63888	63888	63888	63888
- Depreciation	7430	7430	7430	7430	7430	7430	7430	7430
Surplus (Deficit)	-87731	8171.2	126167.4	63908.6	195954.68	394225.08	256542.68	81055.88

Profit and Loss Entire Program 8 Branch Offices	YEAR 5				YEAR 6			
	I	II	III	IV	I	II	III	IV
Total Gross Income								
- Portfolio Income	3960086	4305724	4506495	4771983	4842449	5089567	5494539	5466517
- Deposit Income	831260	830992	831229	834060	837430	840433	842322	843970
Loans								
- Cost of Funds	2367413	2514260	2694067	2852701	2954648	3042632	3204738	3267986
- Defaults	247952	249807	264664	280392	300299	311036	320204	345770
- Inflation Loss	1757036	1756469	1756970	1762954	1770136	1776424	1780416	1783901
Financial Margin	418946	516780	622023	706716	754704	799908	951423	912830
Operating Costs:								
- 8 Branch Offices	279918.452	285732.852	277539.252	286456.852	308084.452	294803.252	293804.852	324696.052
- 1 Central Office	70276.8	70276.8	70276.8	70276.8	70276.8	70276.8	70276.8	70276.8
- Depreciation	7430	7430	7430	7430	7430	7430	7430	7430
Surplus (Deficit)	61320.748	153340.348	266776.948	342572.348	374022.748	427397.948	580911.348	510427.148

PROFIT and LOSS STATEMENT

CHART VI

Entire Program Sources and Uses of Funds	YEAR 1 I	II	III	IV	YEAR 2 I	II	III	IV	YEAR 3 I	II	III	IV
SOURCES												
USAID												
- Guarantee Fund	750000	0	750000	0	2000000	2000000	2500000	3500000	2500000	2500000	2000000	1500000
- Operating Deficit	65520	75288	65623	73456	78296	69019	62520.0	49802	87731	0	0	0
- Office Install.	110450	0	0	0	16350	0	0	0	21800	0	0	0
TOTAL	925970	75288	815623	73456	2094646	2069019	2562520.0	3549802	2609531	2500000	2000000	1500000
(Cum. Total)	925970	1001266	1816489	1890345	3904994	6054019	8618530.0	12161392.0	14770863.0	17270863.0	19270863.0	20770863.0
(Guar. Total)	750000	750000	1500000	1500000	3500000	5500000	8000000	11500000	14000000	16500000	18500000	20000000
(Operational Total)	175970	251266	316489	390345	404994	554019	618530.0	661392.0	770863.0	770863.0	770863.0	770863.0
CREDIT OPERATIONS												
- Bank Overdrafts	2679625	355609	304042	494085	1047082	2303904	2467451	3551017	5836813	6127945	7201003	6972647
- Guarantee Deposits	0	18085	17704	36120	35854	84083	132550	193127	277573	337062	400493	451109
- Portfolio Income	18209	42158	64561	93638	218094	372779	530094	762946	1153706	1563267	2043773	2315825
- Loan Installments	27375	126734	272238	460337	828212	1574252	2599117	3913826	5838543	8377229	11416715	14993346
- Inflation Loss	0	-38226	-37390	-76347	-75706	-170562	-280210	-408212	-586706	-714148	-845524	-953680
TOTAL SOURCES	1,241,187	579,640	1,466,658	1,021,479	4,940,010	6,225,375	8,019,481	11,386,536	15,129,499	18,192,157	22,215,460	25,279,327
USES												
FOUNDATIONS												
- Offices Installed	110450	0	0	0	16350	0	0	0	21800	0	0	0
- Operating Costs	74187	74187	74187	74187	136462	140296	150114.8	162482	205056	295132.8	313230.6	321512.4
- Operating Surplus	0	0	0	0	0	0	0	0	0	8171.2	126167.4	63938.6
CREDIT OPERATIONS												
- Guarantee Fund	750000	0	750000	0	2000000	2000000	2500000	3500000	2500000	2500000	2000000	1500000
- Guar. Recapital.	0	0	0	0	0	0	0	0	0	0	0	0
- Loan Disbursals	297000	482348	606200	895612	2675262	3977356	5066568	7294949	11675386	14505168	18617718	21965998
- Defaults	0	1005	2927	3564	5170	12838	20882	25906	43092	63701	86315	112846
- Cost of Overdrafts	9550	22113	33464	49116	114466	159535	200216	399875	605155	819504	1072026	1315037
TOTAL USES	1,241,187	579,640	1,466,658	1,021,479	4,940,010	6,225,375	8,019,481	11,386,536	15,129,499	18,192,157	22,215,460	25,279,327

Entire Program Sources and Uses of Funds	YEAR 4 I	II	III	IV	YEAR 5 I	II	III	IV	YEAR 6 I	II	III	IV
SOURCES												
USAID												
- Guarantee Fund	2500000	6000000	5000000	0	0	0	0	0	0	0	0	0
- Operating Deficit	0	0	0	0	0	0	0	0	0	0	0	0
- Office Install.	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	2500000	6000000	5000000	0	0	0	0	0	0	0	0	0
(Cum. Total)	23270863.0	29270863.0	34270863.0	34270863.0	34270863.0	34270863.0	34270863.0	34270863.0	34270863.0	34270863.0	34270863.0	34270863.0
(Guar. Total)	22500000	28500000	33500000	33500000	33500000	33500000	33500000	33500000	33500000	33500000	33500000	33500000
(Operational Total)	770863.0	770863.0	770863.0	770863.0	770863.0	770863.0	770863.0	770863.0	770863.0	770863.0	770863.0	770863.0
CREDIT OPERATIONS												
- Bank Overdrafts	8095757	11429170.5	10605622	5291.5	5814342	4394435	5340000	4963005	3176460	2753534	7154517	-127116
- Guarantee Deposits	490860	554781	703193	827483	831260	830992	831229	834260	837488	840455	842322	543970
- Portfolio Income	2812246	3514773	3954586	3940153	3960086	4205724	4306495	4771980	4942410	5089587	5494539	5466517
- Loan Installments	18863448	23201467	28332563	32717971	34824808	36170065	37522700	39604895	40850882	40991366	46577033	47511916
- Inflation Loss	-1037548	-1172642	-1406340	-1749052	-1757055	-1756469	-1756970	-1762984	-1770135	-1776424	-1780416	-1783901
TOTAL SOURCES	31,724,771	43,527,350	47,109,614	35,741,047	38,543,461	43,044,747	46,443,754	48,213,789	48,257,621	50,938,466	57,280,795	51,911,386
USES												
FOUNDATIONS												
- Offices Installed	0	0	0	0	0	0	0	0	0	0	0	0
- Operating Costs	334253.32	338726.92	340677.32	333170.12	357625.252	363439.652	355246.052	364143.652	380761.252	372510.052	370511.652	402102.852
- Operating Surplus	155954.68	394225.08	236542.68	81055.88	61320.748	153340.348	264776.948	342572.348	374022.748	427397.948	590911.348	510427.148
CREDIT OPERATIONS												
- Guarantee Fund	2500000	6000000	5000000	0	0	0	0	0	0	0	0	0
- Guar. Recapital.	0	0	0	0	0	0	0	0	0	0	0	0
- Loan Disbursals	26499205	34630637.5	39930175	32723262.5	33809150	40664800	43363000	41070700	45327800	45704800	52732360	47304800
- Defaults	138438	168101	210091	248061	247982	249207	264641	280592	300299	311036	320384	345770
- Cost of Overdrafts	1596930	1993859	2364125	2355497	2367403	2514060	2691067	2852701	2954480	3043632	3094730	3267906
TOTAL USES	31,724,771	43,527,350	47,109,614	35,741,047	38,543,461	43,044,747	46,443,754	48,213,789	48,257,621	50,938,466	57,280,795	51,911,386

SOURCES and USES of FUNDS STATEMENT

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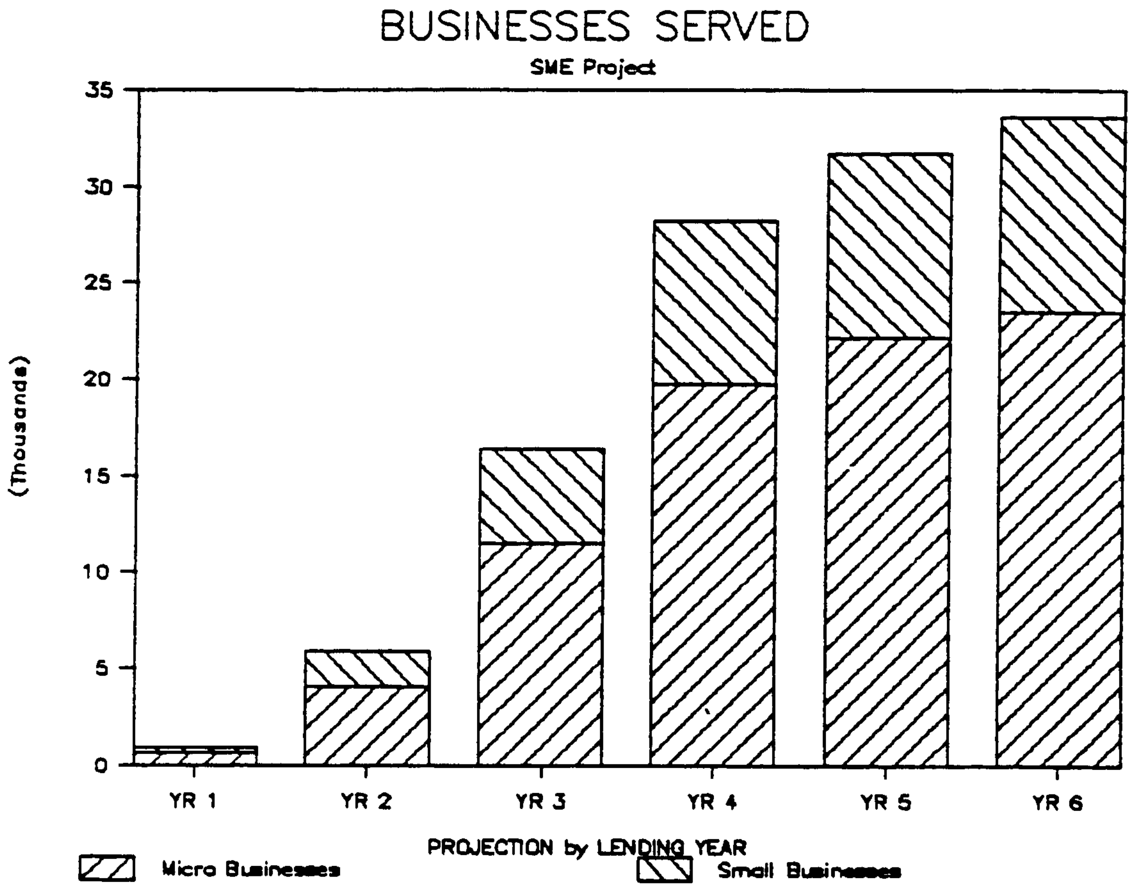
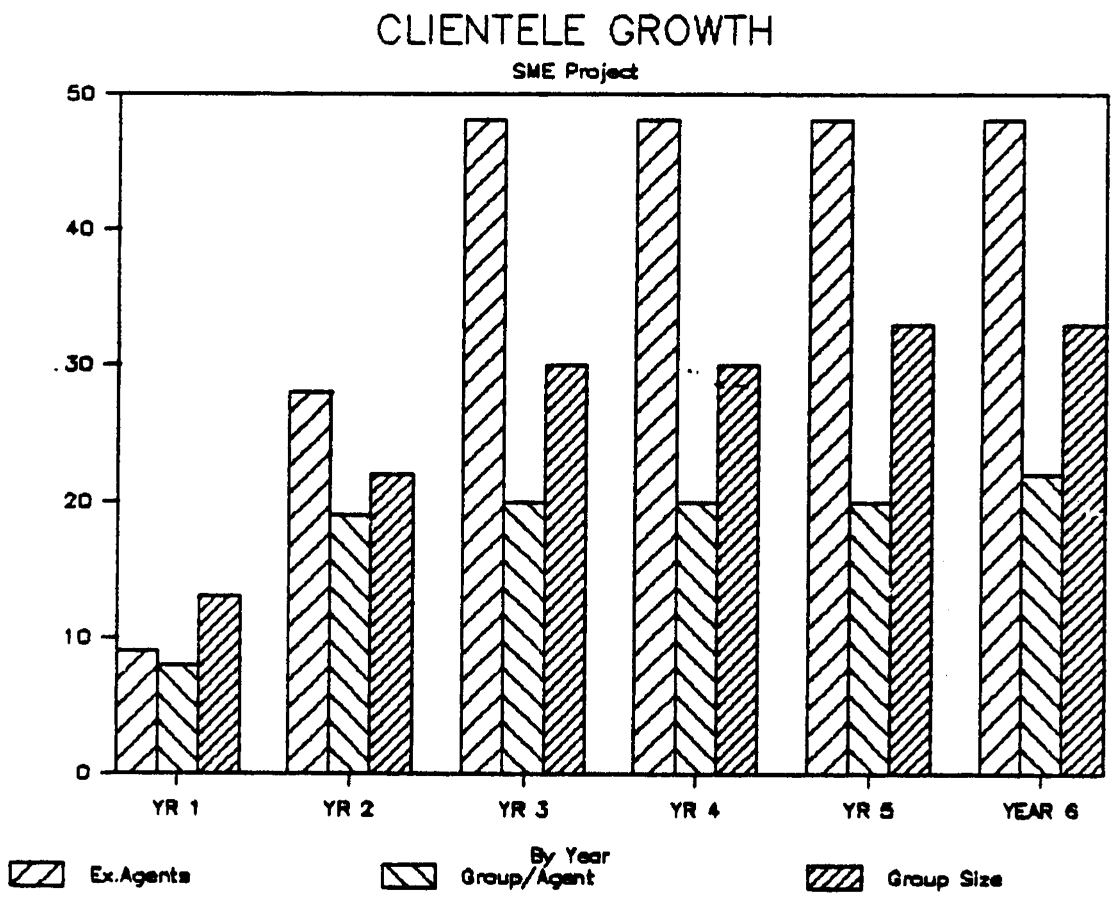


BUSINESSES SERVED
SME Project
(Thousands)
35
30
25
20
15
10
5
0
YR 1
YR 2
YR 3
YR 4
YR 5
YR 6
PROJECTION by LENDING YEAR
Micro Businesses
Small Businesses



CLIENTELE GROWTH
SME Project
50
40
30
20
10
0
YR 1
YR 2
YR 3
YR 4
YR 5
YEAR 6
By Year
Ex.Agents
Group/Agent
Group Size

Economic Analysis

The projected financial statement of the project entity is often a convenient starting place for identifying economic costs and benefits. In general, two types of adjustment must be made to the financial calculation so that it can reflect economic concepts: First, it may be necessary to include (exclude) some costs and benefits which have been excluded from (included in) the financial analysis; second, some inputs and outputs may have to be revalued if their shadow and current prices differ. In the present instance, a comprehensive analysis would necessitate the use of quantitative information we do not, as yet, possess. In lieu of such information, we may conduct a qualitative analysis by disaggregating the problem into four parts:

1. Can AID funds be justified for the project?

2. Is each of the foundations viable?

3. Net impact of a marginal loan at the borrower level

4. Impact of micro and small business loans on the overall economy.

We now discuss these in turn:

1. The first question asks whether it is economically beneficial to AID to invest resources into the micro and small business project (MSBP). Assuming that MSBP is a representative sample of small and micro-enterprise projects that AID traditionally involves itself with, a general statement about such projects would suffice. According to a recent paper by Blayney and Otero (prepared for ST/RD/EED, entitled "Small and Micro-enterprises: Contributions to Development and Future Directions for AID's Support," November, 1985):

"Benefit/Cost analysis of small and micro-enterprise projects that factor in direct and indirect impacts conclude that, in comparison to other AID projects, these projects are among the most successful in economic terms, and generate high economic rates of return".

Furthermore, (i) the development of non-government lending institutions through the MSBP would serve to promote AID's private sector initiatives, and (ii) the overwhelming concentration of loans to the urban poor (70% for micro-businesses employing less than 10 people) would promote equity and income distribution, another key AID objective.

2. The second question posed in the first paragraph relates to the economic viability of each of the foundations. In principle, a project is economically viable if the benefits exceed the cost, suitably priced and discounted. The cost to the foundation of making a loan to small or micro-enterprises is the alternative benefit forgone by not being able to lend elsewhere. That is, we have to judge the relative merits of constrained lending versus unconstrained lending. From an economic and development viewpoint, marginal loans (investments) in small and micro-enterprises in Egypt are expected to have less than 2% default rate when they borrow at 30% rate of interest. The answer to the fourth question (see below) catalogues also the economy-wide beneficial impacts of investing in small and micro-enterprises in Egypt. Overall, we may reasonably argue that lending to such enterprises in Egypt is 'rational'. We may note, also, that financial calculations indicate that each of the foundations is expected to break even by the end of the third year.

3. The third question posed above points us in the direction of investigating borrower-level impact of loans made through the MSBP. That is, we ask about direct income changes by looking at an individual enterprise's profitability (level of sales, value added, net profit, and productivity) and at its sustainability (increased investment, sales growth over time, level of indebtedness). In addition we ask about direct employment created in terms of full-time jobs created (which may include an analysis of the cost per job created). Evidence from several developing countries e.g. Peru, Bangladesh, India, Honduras, Doimincan Republic, Colombia indicates that the impact is substantial, as is seen in the following extract from Blayney and Otera:

   (i) Peru. In Peru, between 1975 and 1981, the Rural Development Fund (RDF) of the Industrial Bank of Peru (BIP), a development bank disbursed approximately 6,200 loans totaling over $ U.S. 42 million to about 3,000 small entrepreneurs. Survey data at the end of six years showed an increase of 160 percent in average declared sales of borrowers, from the time of the first loan to the date of the survey (average size of loan in this program was about $ U.S. 2,500). Annual value added at the time of the survey was $ U.S. 16,000 per firm. Each loan dollar extended was found to produce, on the average a $ .29 increase in gross income per year. Sales increased at an average of 31 percent annually, while net profits went up about 54 percent annually.

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In terms of impact on income, the RDF project contributed to an average yearly increase of 53.5 percent in net income for borrowers. That is, on the average, a $ U.S. 1.00 loan generated $ 1.41 net profit. Expressed in the aggregate, this project generated $ U.S. 60.5 million from $ U.S. 42 million in loans.

(ii) Bangladesh. The experience of the Grameen Bank Project (GDP) in Bangladesh also shows a positive impact on beneficiary incomes. In four years, this project operated in 1,250 villages reached through 86 branches, and extended over 115,000 loans for a total of Taka 195 million to over 58,000 borrowers, landless rural poor 1/.

On average, household income rose about 70 percent in nominal terms over 2 1/2 years among the beneficiaries of the GBP. This data was collected by two outside evaluators using random samples of 600 and 175 (World Bank, 1985). This increase is compared to the average increase in income for landless rural poor in Bangladesh, which the study quotes is at best 2.6 percent per annum.

(iii) India. The data on income increases of loan recipients subsequent to receiving a loan were recorded for the World Bank Calcutta Urban Development Program II. Evidence of the impact income shows highly favorable results. Household income among borrowers in the sample of 631 (in a project that extended over 8.8 million rupees in credit through nearly 3,500 loans), 2/ increased by an average of at least 60 percent. The data on income changes by subsector showed that income increases for borrowers in the tailoring business exceeded 200 percent, approached 50 percent in manufacturing and repair firms, and reached more than 20 percent in trade and other services.

The study points out that while the increases in tailoring are atypical, one can establish an upper limit for income in the other two activities by factoring in the earnings of waged employees. Using the going rate for unskilled labor, the author calculates an increase in annual income among owners and workers somewhere between 82 percent and 117 percent of the loan to the and concludes that, "even if the true figures lie close to the minimum given above, the rates of return to income in this project are still very high". (World Bank 1985).

1/ $ U.S. 1.00 = 12 Takes (TK.) (1985).
2/ $ U.S. 1.00 = 10 Rupees (Rs) (1981).

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Several other benefits accrue to enterprises that receive loans under MSBP. The demand analysis (Annex G) points out the opportunity costs to such enterprises of not being able to access credit readily when they need it. Typically, the effective rates of interest from informal and other sources were several percentage points higher than those envisaged under MSBP. Entrepreneurs in the metal sector admitted of "hidden costs" involved in such informal systems of acquiring credit. Formal sources of finance are virtually non-existent. ("Very few entrepreneurs have been able to secure loans from formal banking institutions").

Another aspect of borrower-level benefits relates to the reinvestment of earnings into new productive activities. That is, the diversification of productive activities is an important indicator of change in the behavior of the clients resulting from the project's impact. With added income, entrepreneurs may shift resources to a new activity that may yield cash income, or may invest it to start a new enterprise while continuing the first one. The Grameen Bank Project shows that whereas before the program, 50 percent of the beneficiaries listed one income-generating activity, after the program that figure was less than 10 percent. Similarly, the number of beneficiaries with two income-generating activities increased by 20 percent, while 24 percent of those interviewed reported three income-generating activities. These findings suggest that the rural poor have skills and abilities that are underutilized because of lack of capital, and that when capital is made available, at least part of the resulting increase in profit is reinvested into productive activities (World Bank, 1985).

Finally, possible savings mobilization resulting from MSBP provides an additional measure of the full impact of the project on borrowers, income. Arguments that the poor, living at subsistence levels, have no savings, and cannot save were countered in a variety of recent studies. In Costa Rica and Jamaica, low-income households have savings, and in the case of Costa-Rice, preferred to save in "formal institutions" but claimed ignorance of procedures and terminology. The Egypt case is likely to bear this out further.

As regards job creation, Blayney and Otero report that small and micro enterprise promotion contribute to this objective "at a consistently lower investment cost per job than medium and large industry within the same subsectors".

4. The fourth question in paragraph one asks about the <u>indirect</u> benefits or economy-wide impact of micro and small business loans. International experience with such projects provides overwhelming evidence that small and micro-enterprises are major contributors to overall economic growth. Income changes occur

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not only at the beneficiary level, but also outside the assisted enterprise through backward and forward linkages, income multipliers and consumer benefits. A final secondary impact will accrue through leveraging of the guarantee fund, expected to reach 2:1 in the later years of the project.

From all of the above, primarily qualitative, considerations, we can forcefully argue in favor of the proposed project together with AID contributions to it.

SOCIAL SOUNDNESS ANALYSIS

The objective of this social soundness analysis is three-fold:

First, to describe the social landscape of the project area, broadly sketching a profile of the target population in order to demonstrate the feasibility and compatability of the project within the social and cultural environment. The analysis is concerned with how well the project fits into the social landscape. We have results of social research undertaken in the design of the project in Egypt which is a useful resource to define the social context of the project. There is also an extensive body of literature from other projects in Egypt and elsewhere.

Secondly the analysis seeks to demonstrate the likelihood that new institutions or practices introduced by the project will be diffused among other groups. In this instance the analysis is concerned not only with project sustainability but with spread effects as well.

Thirdly the analysis examines likely social impact or the distribution of benefits.

A. Sociocultural Feasibility: A Profile of the Small and Micro-Scale Enterprise Sector

The project area encompasses the two urban centers of Alexandria and Cairo. In Egypt, as elsewhere, there are numerous definitions for Small-Scale Enterprises. A concensus was reached among the project design team, based on a review of the literature and persons interviewed in both the public and private sector. The definition of micro-scale enterprise includes those private firms that employ ten or less people and small-scale enterprises are the private firms that employ 15 or less. SME's are further defined as existing businesses with fixed, movable assets of L.E. 5,000 to 25,000 (machinery and equipment).

Despite the large sums of money which have been invested in small enterprise studies in Egypt, satisfactory and reliable survey results have yet to be made. On one point there is agreement - the sector is growing very rapidly in the urban areas, especially in Cairo and Alexandria. There are an estimated 250,000 manufacturing establishments in Egypt employing between ten and fifty employees. The latter group, with about 650,000 employees accounts for about 40% of total industrial employment. Over 75% of these businesses are located in either the Greater Cairo or Alexandria area. They produce a wide range of products including garmets, food products, leather goods, cosmetics, wooden furniture and fabricated metal products.

11SSE production is concentrated in the area of final consumer goods. In terms of percentage of the total work force, the largest groups in the ISIC 4-digit level are; furniture (12.4%), fabricated metal products (12.2%), and tailoring (10.5%). Very small units play an important role in this sector, with 37% categorized as one-person shops, and another 28% with only one employee.

Available studies on SME's in Egypt reveal problems typical to the sector. SME's experience poor access to financing for working capital and investments, due primarily to a lack of collateral and little contact with established financial institutions. High levels of competition exist with local producers accompanied by low income levels. Low income is also due to limited inventories and products, yielding a low return on labor. There prevails an inadequate knowledge of basic business, management and technical operations, especially those skills necessary to expand businesses, enter new product lines and enter new markets. There is a lack of access to needed training and technical assistance in rudimentary business practices, marketing, pricing and technical aspects of busineses, and certain legal impediments (or absence of incentives) exist to formalize businesses and employing workers. Based on AID and World Bank experience with SME support projects around the world, it has been found that productive sector (manufacturing/artisanal) SSE's demonstrate the highest increments in productivity and new employment generation for each dollar invested in the participating firm.

A market analysis was undertaken in May 1988 as part of project development to determine social characteristics of small enterprises. Indepth interviews were taken of 45 SME's in four manufacturing sectors (a non-random sample). The sectors included ready-made garments, leather, metal and woodwork. These four sub-sectors were selected because they play a significant role in private sector output and have a potential for further expansion. The individual interviews were supplemented by groups meetings with an additional 25 small-scale business people. (See Annex N for a more detailed discussion of the survey)

One of the purposes of the analysis was to present a socio-cultural profile of small-scale entrepreneurs, the target group of the program.

The majority of SSE entrepreneurs who participated in this study started out as apprentices and then broke-off to start their own business. Most micro-entrepreneurs in the survey are enterprising people who have established their workshops through hard work and perserverance. Two-thirds of the study population run their businesses in rented shops and the remaining one-third own their business locations. This is not surprising given the very

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high cost of property in the communities of Cairo and Alexandria. It is estimated that 75% of the total number of SSE's Egypt are located in Cairo and Alexandria.

Businesses studied operated for an average of 12.5 years. Entrepreneurs with the greatest longevity in business work in the leather and footwear industry, while the sub-sector with the newer entrants is ready-made clothes. The most common ownership pattern is the single proprietorship with 27 entrepreneurs or 60%, followed by family ownership at 27%, and fewest were classified as partnerships with just six entrepreneurs, or 13% of the total.

Employment patterns favored non-family workers with 70% of all workers hired ouside the family. It was found that the businesses with the higher fixed assets had the greatest amount of employment. In the sample, the average of total assets is L.E. 14,521, with the low end at L.E. 7,966 in leather and footwear manufacturing and the high of L.E. 26,070 for the metal industry.

Average gross sales per month are just over L.E. 16,280 with the low end of the scale among leather and footwear business at just under L.E. 4,770 and the highest monthly gross sale figure of L.E. 37,315 for the metal industry. Production sales figures per month were also utilized to help estimate the current, shop capacity of the sample of enterprises visited. The average operating capacity for the total 45 enterprises was nearly 52%. The ready-made garment business demonstrated the highest operating capacity of 67%, while leather and footwear had an estimated capacity of only 32%. The last two figures represent a fairly accurate picture of the current status of the garment and leather industries. The ready-made clothing industry is enjoying a boom and is expanding very rapidly. The expansion is being felt by the micro-scale enterprises as well, and their owners admit to good sales during this period. On the other hand, the leather and footwear industry seems to be passing through a difficult phase due mainly to the considerable increase in raw material prices and marketing problems.

The most common marketing approach of the SME entrepreneurs interviewed is direct sales to final customers. With the exception of six entrepreneurs (garments and leather) who sell a portion of their production on the international market, the rest sell domestically (57% local and 38% regional sales).

Major Financial and Management Constraints

One of the objects of the survey was to determine what financial and management constaints affect the small-scale entrepreneur. The survey sought detailed responses on credit, the various formal and informal credit sources, and how the SME's are managed. The survey results conclude that there was a potential for expansion but that lack of credit for capital was a constraint.

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Very few entrepreneurs have been able to secure loans from formal sector banking instiutions. Five of the entrepreneurs interviewed said they were able to secure bank financing. One loan was for a house, the remaining four were enterprise investments. Two of the four enterprise loans were arranged through special programs of HIPCO (the Handicraft Industries and Productive Cooperative Organization) and DIB (the Development Industrial Bank) for small-scale industry.

In practice the productive cooperatives do not lend money. Very few entrepreneurs said they had dealings with a cooperative. Conditions for membership include presentation of a commercial license, registration and tax cards, plus an initial membership fee. They went on to say that the cooperatives provide few useful services. The businessman who received the DIB loan borrowed L.E. 150,000 to expand his small-scale, furniture business. The loan was repayable over 10 years with 13% interest plus L.E. 50 service fee. Of the two remaining proprietors to receive a bank loan, one was able to secure a loan amounting to L.E. 1,500 (garments industry). Collateral provided included promissory notes and the guarantee of a public sector employee. The last entrepreneur to receive a bank loan was operating a metals industry shop and obtained L.E. 20,000 to purchase machinery and equipment. The remaining respondents, many of whom deal with banks for other services such as savings or checking accounts, stated that banks require a higher collateral than they could provide, and that they could not locate a bank willing to provide small loans to businesses with limited assets.

The interview findings point to more difficulty in securing bank loans among the micro-scale entrepreneurs. Most use a variety of informal mechanisms. A common practice among the garment, leather and metals industry entrepreneurs is to purchase raw materials on credit. Although some material suppliers require a major cash payment up front, and a short term to repay, (one-two months), the total purchase price remains six to eighteen percentage points higher. The furniture manufacturers interviewed all are forced to pay cash for their lumber. The alternative to high cost supplier credit is for the business owner to request an advance payment for contracted orders and pay the supplier cash. Thirty of the 45 business owners followed this practice to provide themselves with the necessary working capital.

Borrowing from family/friends or participating in "Gamaya" are common sources of business finance (26 and 27 of the 45 interviewers respectively). "Gamaya" is practiced everywhere in Egypt to cover personal or family expenses or to pay business debts. The obligatory-savings, lottery-credit system requires a monthly payment of from L.E. 50 to 100 for a period 10 to 12 months,

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as agreed among members. Members draw lots to determine which month they can utilize the entire group savings.

Partnerships appear to be dying out in the business communities interviewed. Only one entrepreneur obtained credit from a friend acting as a silent partner, or "morsharkah." "Morsharkah" is usually an unregistered transaction and apparently is often between friends and neighbors. The amount borrowed was L.E. 5,000. The agreement between them was to invest the money for one year, after which the entire amount plus approximately 20% of the profit would be paid to the silent partner.

After finance, marketing was mentioned as the most serious constraint to business stability and future growth. Observation and comment by the interviewees points to the need for management and technical assistance to enhance management skills, and improve productivity, lowest among the leather goods and wood production SSE entrepreneurs.

When asked about their future plans, the vast majority of the respondents expressed interest in expanding their businesses. Plans included buying new machinery, working two full shifts, buying more raw materials, opening new show-rooms, and expanding to reach the export market. Estimated costs of expansion ranged from L.E. 500 to L.E. 50,000, with the majority of the proprietors responding in the L.E. 10,000 to 30,000 range.

Major Social Factors Affecting the Project

The surveyors faced two social issues affecting sucess of the project.

(1) The role of the individual in the formation of a group is one issue. Although most of the SSE communities here in Egypt are collections of similar type enterprises, suggesting a basis for cooperation among one another, SSE entrepreneurs are generally very independent and secretive about their transactions and financial status. The idea of joining a group to rely on others to obtain a loan and to mutually support one another is new, and at the outset was rejected. There is an initial reluctance to become involved.

The formation of informal solidarity groups is important to success of the project. For such a program to have a major impact, the largest number of micro-businesses should be reached. The most viable method proposed, therefore, was that of informal solidarity groups through which credit would be extended and managed. The micro-entrepreneurs would form themselves into a group of potential borrowers. The process of selection would be delegated to the group itself, ensuring that only responsible members are included.

This idea was presented to each of the entrepreneurs who responded to the structured indepth interview and to an additional number who participated in the group meetings. An explanation of the program's objectives was given at the onset. Its approach, dealing with the micro-entrepreneurs as businessmen rather than as recipients of subsidized services, was emphasized. Initially, individual businessmen seemed reluctant to endorse their support of the project. They were unable to envisage the advantages it would offer and expressed some doubt in their ability to form groups.

A plausible explanation for this initial reluctance on the part of individual businessmen might have been their inability to grasp the concept of the informal groups. Hence, it was important to redefine and interpret this concept to the reality of their circumstances and to focus on their importance, a mechanism through which cost of credit could be reduced. The group meetings promoted open discussion and exchange of opinions concerning the feasibility of this approach. Through the meetings, the entrepreneurs could identify a common need for credit and realize the advantages gained from the program. It was discovered that the reluctance of participation centered on the concept of one group member guranteeing the repayment of another. Following a good understanding of the opportunities for assistance offered, they expressed enthusiasm and willingness to participate in such a program when it becomes available. One of their suggestions, however, was that a written description of the project be distributed among them.

The advantages of forming groups are many. The major advantage for the SSE project participant is access to financing. In Egypt the group members will not guarantee one anothers' loan but instead will receive subsequent loans only upon satisfactory performance or pay-back of the entire group. In this way, the anticipated peer pressure for timely payment upon all members acts as a group guarantee mechanism. In time other advantages could evolve out of the group including group members purchasing raw materials in bulk and opening new market outlets with combined finished products.

For the foundations, the advantages of the group mechanism center around the potential to reach large numbers of people, develop a significant-sized portfolio and reach self-sufficiency within a reasonable period of time.

(2) <u>Egyptian Social and Religious Tradition on Payments for Financial Services</u>

In Egypt religious and social tradition affect the design of this project. With approximately 80 percent of the population followers of the Islamic faith, there is need for sensitivity using terms to describe how project beneficiaries will pay for financial services.

The religious issue is quite straightforward. Whenever possible the terminology "interest rates" or "interest charges" is not used. Rather terms such as cost recovery or self sufficiency are used.

Initial reactions were negative to including costs for credit, but attitudes changed after examining current reality. The most common access to working capital for SEE entrepreneurs is supplier credit. The businessmen realize the real cost of this credit (commonly two to three times more than estimated project credit costs) and two, they spoke of the costs to them in time, paper work and legal fees when they attempted to obtain credit from formal financial institutions. In addition, the entrepreneurs could appreciate the need for a Foundation to cover costs and if it didn't, the project would not be able to continue.

Resolution of the Two Issues in Project Design

It was decided that the group guarantee concept would not be implemented in Egypt. Rather, subsequent loans would be provided to individual SSE entrepreneurs only if the total group portfolio was performing within acceptable parameters. This places some responsibility on the group for individual performance and for additional credit without requiring an individual guarantee. While the effect on the portfolio performance is the same, there was a turning point reached in the discussions about the group concept with the entrepreneurs. The entrepreneurs appreciated that there were real costs associated with delivering credit and that they could have an impact on lowering costs.

Understanding these two points and further realizing that the entrepreneurs were being asked to assist in the management responsibilities of the portfolio to help lower costs resulted in the group concept being met with enthusiasm. At the end, the entrepreneurs expressed understanding of the project design and realized the advantages of their participating.

A. Sustainability and Spread Effect of the Project

In order to examine the issue of sustainability and diffusion, the analysis examines activities supported by other donors such as the World Bank. The World Bank had four projects and from these developed useful lessons and guidelines for sucessful projects. There is limited but useful experience with credit programs in Egypt through OXFAM and the Coptic Evangelical Group for Social Service (CEOSS). We cite these programs and draw general conclusions about diffusion.

The World Bank's Experience

Support activities for microenterprises were carried out mainly through the Urban Development Projects Department of the World Bank. The major objective of these projects was to relieve urban poverty through improving access to social services and through increasing incomes. While the first goal was easily pursued through slum-upgrading and sites-and-services schemes (construction of low-cost housing projects, provision of sanitary health facilities), the second proved more difficult because there was no consensus on the best method to increase incomes and no clear policy about funding microenterprises.

The target group was defined as those people or enterprises who had no access to institutional support. There was no specification of activity, income level, or assets. And enterprises in the service and trade sector were considered as worthy of funding as those in the manufacturing sector because they also generated income. The prime objective was to improve productivity rather than to create jobs.

A further decision had to be made as to the choice of collaborating host country institutions since the WB does not (and could not) manage projects on its own. It was found that large commercial banks were often unsuitable because they were not organized to handle large numbers of necessarily small loans.

Important lessons can be learned form the four projects — in El Salvador, Guatemala, Manila and Calcutta— funded by the Urban Development Department of the WB. First, the involvement of voluntary organizations in a supportive role (especially grass roots organizations with experience in low-income areas) was critical because of their first-hand knowledge of potential clientele. These organizations could explain the program to the participants, emphasize the necessity of loan repayment, and screen likely borrowers.

Second, technical assistance was not a necessary component of these projects. While initially technical assistance was to be provided, in none of the four cases was it actually implemented due to borrowers' illiteracy, lack of time to attend training seminars, and lack of interest. Since many of the microenterprises were involved in simple productive activities, they did not need technical assistance, aside from rudimentary accounting procedures. The cases demonstrated that, even without technical assistance, income levels and the number of jobs increased.

The Bank found that five guiding principles should be needed to make microenterprise support schemes financially viable: 1) mutual loan repayment guarantees by members of borrower groups; 2) frequent collection procedures; 3) immediate action on default payments; 4) built-in warning indicators to identify problem cases; and 5) cost-control mechanisms.

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The program should be flexible enough to change if original plans are found inadequate to meet the needs of the target group.

In Egypt two PVOs, CEOSS and OXFAM, have carried out small credit projects for SSEs.

1. CEOSS: The CEOSS Income and Employment Generation project was initiated in July 1983 with financing provided by USAID and Catholic Relief Services (CRS). Funding was secured to cover project activities over a three-year period. The project is implemented in Minia Governorate. Its main goal is to promote rural-based income-generating and employment projects.

CEOSS's off-farm income generation program is divided into four distinct projects. Under the Loans for Development activity, credit is provided to the very poorest of the self-employed or potentially self-employed in Minia and Assuit. Clients are extremely poor vendors and others engaged in petty trades and services, as well as the totally unemployed whose incomes are below LE 20 Egyptian Pounds per month and may be as low as the LE 5 Egyptian Pounds provided through the government social pensions. Originally, most of the beneficiaries were very poor women, many of whom were widows or divorcees without families to support them. Recently, however, there has been a greater number of men among the borrowers. Individual loans have been granted (ranging between LE 100 - LE 1000) to generate employment and increase incomes through micro enterprises such as grocery/kiosks, animal/poultry production, sewing/knitting machines, irrigation pumps, carpentry and other equipment/tool kits. Loans have also been granted for group enterprises (ranging between LE 3000 - LE 4000) to start businesses such as cement brick production, village restaurants and bakeries.

Implementing Organizations: The program is carried out by CEOSS/CRS in 26 villages in 9 districts--6 districts in the Minia governorate and 3 in Assuit governorate. CEOSS activities are concentrated in al-Minya (50 percent), Cairo and Assuit (40 percent), and 10 percent elsewhere in Egypt. CEOSS has a staff of 325 employees. It is one of the largest Egyptian PVOs, and considered by many donors to be the most effective. The Ministry of Social Affairs is an observer on the CEOSS 8-person Board of Directors.

Results: CEOSS has built an income generation component into a well-established and effective community development scheme in a number of town sites in Minia and Assuit. The CEOSS Income and Employment Generation project is considered one of the most successful credit programs implemented by a private voluntary organization. Field staff in charge of loan's disbursement, as well as technical assistance and follow-up, are of high professional standard as a result of the regular in-house training they receive in community development and small business creation. Each field worker is responsible for 25-30 project feasibility studies per month.

Program success has been measured by the size of credit fund which increased from LE 52,550 to LE 100,000 since program start-up. The low default rate (2 percent) is a second indication. On the other hand, the current interest rate should be increased because it barely covers the program's administrative costs (10 percent).

One of the innovative features of this program is the Group Enterprise program. This program promotes the development of cooperative and worker-owned enterprises in local communities. The current outstanding group enterprise projects are seven, each group consists of three individuals. Loans for groups are quite high with a maximum value of LE 5000 per group. The most successful group enterprises supported by CEOSS are: cattle fattening, poultry raising, rabbit raising, dairy production, furniture manufacturer, and carpentry workshops.

In addition to financial and managerial assistance, CEOSS provides loan beneficiaries with training at their ISTA training Center.

2. OXFAM has two credit programs for the urban poor.

A. The Zabbaleen Small Industries Credit Program (ZSIP):

The Zabbaleen Small Industries project (ZSIP) was financed by OXFAM and implemented at the Moqattam Garbage Collectors (Zabbaleen) settlement in Cairo (10,000 inhabitants). The program's main objectives are: a) to increase the income of the zabbaleen through the introduction of reprocessing technology and specific machines. b) to create a healthier environment by providing use for waste materials that pose serious health hazards. c) to build the institutional capacity of the local PVO, Garbage Collectors Society (Gameya) to manage a revolving credit scheme.

The program bascially consists of setting up a revolving fund to extend loans to community residents to upgrade their waste recycling capabilities through the use of appopriate machinery.

Managing Institution: The credit fund has been managed by "The Garbage Collectors Society at Moqattam" (Zabbaleen Gameya), which is a private voluntary organization that extends social, technical and financial services to the local community.

Start-up Date: The ZSIP has been implemented over two phases. Phase I was initiated in June 1983 and Phase II in June 1984.

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Size of Credit Fund: Phase I program set up a revolving fund of LE 33,770. An additional LE 60,000 was added during Phase II (July 1984). The total size of the credit fund amounted to LE 93,770. Currently, the revolving fund operates on a LE 138,500 budget.

Size of Portfolio: LE 107,991 for machines from which 33 clients benefited and LE 18,109 for working capital are extended to 18 clients.

Procedures of Client Selection: Applications are submitted to the Gameya office. Client selection is determined by a committee consisting of 6 board members, the gameya accountant and the administrator. Their role is to review applications, assess viability of enterprises, and submit recommendations to the board of directors for the final decision. A check is then issued to the beneficiary.

Loan Guarantee: Each client signs a loan contract stipulating the size of the loan and the terms of disbursement. When the loan is used for the purchase of equipment, the machine is registered in the gameya's name until the client repays his last installment. Ownership of the machine is then transferred to him. A small number of applicants received loans for working capital. In such instances the beneficiary is required to sign a check for the amount of the loan, which is used as collateral in case of default.

Observations:

(A) The zabbaleen Gameya has been responsible for the entire range of program activities, from selecting loan beneficiaries to disbursing loans and monitoring activities. One of the program's deficiencies is that individual loan receipients do not receive any technical assistance during business start-up.

(B) The current interest rate (10 percent) has to be increased to enable the Gameya to cover its administrative expenses, and to encourage micro-business owners to deal with actual costs, inflation rates being approximately 20 percent.

(C) Interest rates for the commercial and service sectors should be higher than the charge for industries. This would encourage micro-industries to invest in the community.

(D) The Board of Directors has to try enforcing the group guarantee mechanism to overcome the high default rate among program beneficiaries. The group guarantee system has proved successful in the same community when administered in another income-generating project.

B. OXFAM: Income-Generating Project for Female-Headed Households

Background: The Income-Generating project for Female-Headed Households is a credit and technical assistance program which has been co-financed by OXFAM and the Ford Foundation. Specific program objectives are:

(A) Providing female-headed households with loans and/or skills required to start and manage small income-generating enterprises.

(B) Drawing these women into the network of communication and information concerning productive opportunities in the community.

(C) Establishing a cadre of trained female personnel in low-income communities capable of maintaining this program after assistance program ends.

The project is being implemented in two low-income communities in Cairo, the Moqattam Zabbaleen community and the Manshiet Nasser main settlement. The program operates through group lending.

Managing Institution: EQI in cooperation with the Zabbaleen Gameya (Garbage Collectors Society), both PVOs.

Start-Up Date: August 1986.

Size of Credit Fund: At project start-up, LE 10,000 was allocated for the revolving fund; LE 4,000 has been disbursed.

Size of Portfolio: The size of the portfolio is LE 5,950 divided as follows:

Equipment	LE 850	7 clients
Working Capital	LE 2600	24 clients
Goats	LE 2500	28 clients

Client Selection Procedures: The actual selection mechanism is that of "self-selection". Groups are formed by the women themselves after they are made aware of the group's function and of the possibility of subsequent loans.

Procedures for application, approval, disbursement and collection:

1. Women apply in groups to the project extension officers who are appointed from the community.

2. Written applications are submitted to the Gameya.

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3. The extension officers meet with the groups to discuss their individual projects and to insure that the group is cohesive.

4. A loan management committee, consisting of members of the Gameya, the local priest's wife, and an EQI representative, meets once a month. The committee reviews group applications and approves loan disbursement.

5. Loan disbursement is carried out by the Gameya accountant and the collection of monthly installments is the responsibility of the extension officers.

Observations: Project philosophy relies on credit group guarantees. The credit group is the main guarantee mechanism. The members of the group co-sign a contract specifying the total amount of the loan. So far, repayment has been quite high with most groups meeting payment deadlines. The high repayment rate is a good indication of the functional role of credit groups for social pressure. Technical assistance is provided directly to the group rather than to individual beneficiaries through technical courses and on-the-job training. Some difficulties are still facing the project due to favoritism exercised by the PVO board members, and little mutual support and cooperation between beneficiaries.

Conclusions about Sustainability and Diffusion: The characteristics that determine sustainability and diffusion in these cases include:

(a) The existence of a community organization that educates people on new technology and innovations;

(b) The active presence of a community-level organization as an effective voice for the people.

(c) The level of credit is tailored to the level of complexity of the small scale enterprise.

(d) Participation of the small-scale entrepreneur in a group which selects loan recipients and engages in some type of guarantee for individual repayment performance is critical to success.

C. IMPACT:

In this section, answers to 4 questions serve to structure an analysis on impact. In general the conclusions strongly support this project, and as with other experience, these projects are among the most succsessful in economic terms. Social impact is positive and beneficiaries achieve high rates of benefits from the project.

(1) What is the probability that the project will achieve some spread effect?

In terms of the likely spread effect of project benefits, substantial evidence from evaluations of other small-scale credit activities indicates that at the individual income level, change is substantial and that effects on employment and number of jobs created is also positive.

In the case of Peru between 1975 and 1981, the Rural Development Fund of the Industrial Bank of Peru disbursed 6200 loans totally $42 million to 3000 small entrepreneurs. At the end of six years, survey data showed an increase of 160 percent in average declared sales of borrowers. Each loan dollar extended produced on average a $.21 increase in gross income per year. Sales increased at an annual average of 31 percent and net profits increased at an annual level of 54 percent.

In Egypt, one measure of social impact is the size of the credit portfolio and whether that fund expands or contracts. The CEDSS program began in 1983 with a credit portfolio of LE 52,550 and today it has increased to LE. 100,000. The low default rate of 2 percent is another indication of success. OXFAM's Zabbaleen Small Industry Credit Program (ZSIP) started with a revolving fund of LE 33,770 in June 1983 and increased to LE 93,770 in June 1984. Today the OXFAM ZSIP credit fund total LE.138,500.

(2) Are project activities suitable for replication?

Exact replication of project activities from one community to the next is generally not a wise policy. In the World Bank's experience with four projects, one of the recommended principles is that the program be flexible to change if the original plan is found not to meet the needs of the target group. Each community differs in its credit needs, and the ability to adapt the program to the unique characteristics of the community is important. This principal is evident in the case of the CEOSS progran when the group-lending portfolio was modified to accommodate to a smaller number of group participants. CEOSS originally structured its group lending portfolio to groups of 20 or more members. After some modifications, the number of participants in the group was reduced to nine or less. Currently, CEOSS extends loans to 7 groups, each group consisting of 3 individuals.

In the case of this project design, promotion teams enter the community at the beginning of the project to advertise credit and technical services of the program. It is this initial promotion which will determine whether there is demand for the services. The initial survey concluded that there was a demand for credit, but credit needs vary by community and it will be the task of the promotion team to determine what credit needs exist and how to tailor the services of the project to the community.

(3) Can project activities and benefits be expected to continue beyond the life of the project?

Projections are that benefits and project activities not only will continue beyond the life of the project, but that the credit system will become self-sustaining by year three of the project. In the case of the credit component, a collateral account of U.S. $8.0 million is set up for each Foundation into a savings account at selected banks. Funds will be drawn on these accounts as loan demand is generated by branch officers. The accounts and funds made available for credit will each earn sufficient interest to have the foundation self-sustaining by year three. By the end of year 5 the leverage of the account will have reached 2:1 or twice the banks' initial funds will be available for lending to small-scale entrepreneurs. The assumptions are that the cost of borrowing will be 30 percent per annum and that the default rate on the loans will be less than 2 percent.

(4) What is the probability that there will be an equitable distribution of benefits among small scale entrepreneurs who participate in the program?

Projections and prior program experience indicate that benefits are distributed equitably among participating groups of enterpreneurs. Evidence from other programs such as the Grameen Bank in Bangladish indicates that participants have additional income and are able to shift resources to new activities which yield more income. Additional capital to poorer groups such as small-scale enterpreneurs is utilized in productive ways to increase income further.

In Latin America, the level of beneficiaries served by microenterprise intervention varies by the level of social complexity of the target group. At the lowest level, the microentrepreneur does not perceive themselves as entrepreneurs but are doing what they can to support themselves and families. They are marginal entrepreneurs and require intensive intervention to build self-esteem. A medium level of organization involves microenterpreneurs with a basic understanding of business principles. An example of entrpreneurs at Level II of complexity would include such professions as tailoring, small vending and street vendors. The most advanced group, Level III, are microenterprises with good business skills and a clear understanding of business principles and the market opportunities. Assistance will vary according to the organizational level of the micro enterprise. What worked in every instance was the existence of small informal groups within the community to guarantee the loan and provide assistance to members.

This project will be targeted at groups of 1-15 employees engaged in the manufacturing sector. The level of social organization with this group is Level II or III. The importance of creating a viable community organization with active participation by beneficiaries is a critical component in the project.

Administrative Analysis

As indicated in the accompanying organization chart, the Foundations in Cairo and Alexandria will be organized around a Board of Directors, and Executive Director, and three departments. The three departments are the Department of Administration, Department of Operations, and the Department of Training and Technical Assistance.

ORGANIZATIONAL CHART

1. The Board of Directors

The elected board of directors will have principal responsibility for the; i) establishment of Foundation policy, ii) approval of its program budget, iii) determination of the program direction; iv) participation in fund raising efforts, v) promotion of policy dialogue with the GOE in support of SMEs, and vi) in consultation with USAID/Cairo, will name the SME projects' Executive Directors.

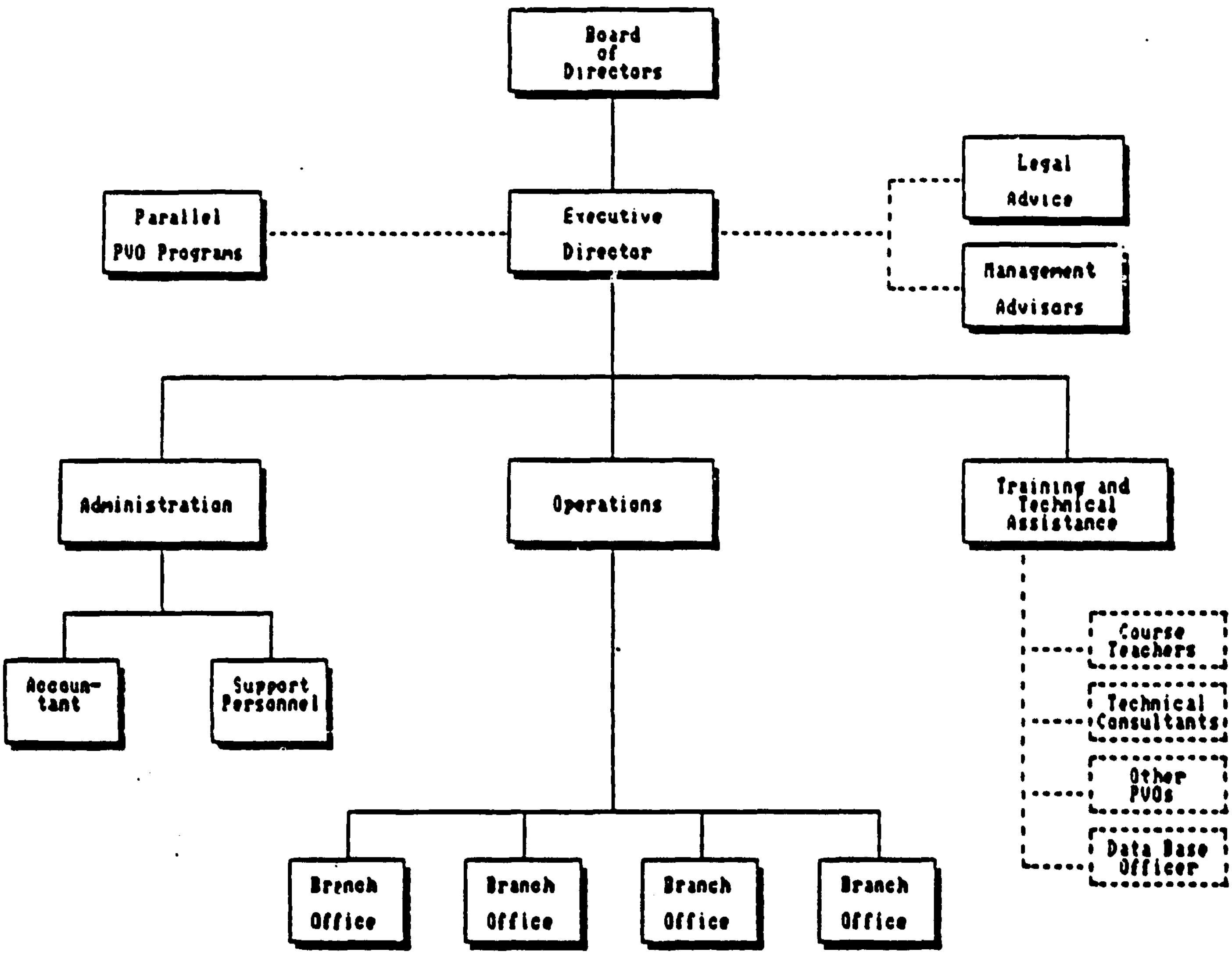
2. The Executive Director

The operations of a program dedicated to the provision of services to SSE's must be highly streamlined if there is to be any hope of covering costs. Therefore, it is indispensable to appoint an individual who will take pride in building an efficient organization, as opposed to building an institution noted for its large number of staff. The experience of this individual should indicate his or her capacity to accomplish specific objectives with limited resources.

The proposed Organizational Chart portrays a rather small central office, given the scope of the projected program effort. The central office will be staffed by 10 to 15 individuals, several of whom will be support personnel.

In addition to the Executive Director, outside support from lawyers and management advisor, there are three Department Managers. The Manager in charge of Administration, the Manager of Operations, and the Manager of Training and Technical Assistance all report to the Executive Director. The responsibilities of these department heads are outlined below.

ORGANIZATIONAL CHART



3. The Department of Administration

Administration is responsible for the management information system (MIS) of the entire project operations including; i) contracts and payroll records of all personnel, ii) contracts and payments of all temporary advisors, legal staff, and consultants, iii) the accounting system for all credit operations and income from other sources such as management assistance classes and paid-for TA, iv) a profit and loss statement for each branch office, and v) an overall accounting of the entire program to include, a sources and uses of funds account, operations cash flow, and a balance sheet. The Department of Administration in the central office will, among other important functions, act as a control mechanism for each of the branch office credit operations. The daily credit information is channeled from the branch offices to portfolio control in the main office, which is verified by the monthly bank statements, independently compiled by the Foundations' selected banks. Portfolio control then passes the information to the accounting office. Any anomalies, between the branch office accounts and the cooperating bank is provided on this topic in Annex G, Technical Analysis of Project Operations.

4. The Department of Operations

The Operations Department's main function is to provide credit to groups of participating small and micro entrepreneurs. To this end, the department of Operations Manager oversees the activities of a group of branch offices, each with its branch manager and extension officers. At the outset the Executive Director may also direct this department. Each branch office credit activity is controlled by the computerized systems of both portfolio control located in the Department of Operations and the Department of Administration, in charge of all accounting. While the organizational chart depicts a separate Training and Technical Assistance Department, it is in fact an extension of the Operations Department, with the course teachers, technical consultants and other, cooperating TA programs (e.g., PVOs providing management assistance to SSE's) working in and out of the branch offices.

Too many SME's have been observed to expand at a rapid pace during the first two or three years of obtaining credit, only to collapse due to mismanagement. A program providing access to credit has, in addition, an equally important responsibility to the client to provide access of management and technical assistance. SSE entrepreneurs will often continue to request ever larger amounts of capital, until they reach a level where they are unable to manage it profitably. In order to assist the entrepreneurs avoid creating more difficulties than they already have, access to management and technical assistance is essential.

a. Branch Office Managers

The main function of the branch office manager is to be a communicator and promoter of the Foundations' program philosophy and support methodology. The branch manager must be able to effectively communicate and promote these concepts to his or her staff and, as importantly, to the participating SSE entrepreneurs. It is not necessary that the Managers of the Branch Offices be adept in finance. The computerized system of portfolio control will provide all of the required financial information in a simple format in order to permit adequate control over a significant-sized loan portfolio.

b. Extension Officers

As explained in Annex G the Extension Officers will be responsible for developing a high quality loan portfolio and assessing management training and TA needs of the participating SSE owners. The primary strategy for covering operational costs are the internally generated funds (margin charged the borrower over the costs of money and operations), of the portfolio. Further, the proposed incentive system for operations office staff encourages the Extension Officers to manage ever increasing amounts in their loan portfolios. In addition, the Extension Officer will help formulate cost effective approaches in the consultation with the participants.

5. Department of Training and Technical Assistance

The structure of this department is unlike the other two described above. The Manager of the Department of Training and Technical Assistance must serve primarily as a link between the demand for training and TA activities from the entrepreneurs, generated by the Extension Officers of the Department of Operations, and the supply of these services by contracted trainers on an as needed basis. In order to minimize costs there will not be any full-time training or educational staff other than the Manager of the Department. In the organizational chart the dotted lines to the sub-departments are illustrative of this contractual relationship.

This manager will develop links with a number of sources to provide appropriate instruction for SME entrepreneurs (e.g., IDDC, and PVO's) where links can be established.

The Department Manager will also develop contacts with individuals or companies that may be interested in absorbing some of the cost of TA to broaden their sales or experience in working with this massive market. Examples include:

a. Trading houses interested in developing a new market for the sale of machinery. Technicians could be provided to train operators of the machinery with their cost absorbed in the price of the machine(s);

b. Companies required to import parts for national production have an incentive to purchase locally. Meetings with SSE's and larger-scale manufacturers could be arranged to determine the feasibility of such sub-contracting arrangements;

c. University students could be involved in a project working with SSE's. Basic management or marketing assistance activities by the students have been awarded with credits toward graduate studies, e.g., Mexico and Thailand.

The responsibility is to know what is available for the communities to be served and to utilize such services wherever possible. It should be noted that it is unrealistic to attempt to provide space in the Branch Offices for such courses. If the program is effective, demand will exceed available space. A more appropriate strategy is to take the course to the community.

6. Staff Incentives

In order to expand the project, maintain a healthy portfolio, work toward self-sufficiency and retain good staff, both Foundations will utilize an incentive system.

Extension officers will be treated by management and the accounting department as individual operating or business units. Their direct costs will consist of their base salary plus payroll taxes, etc. and their indirect costs will equal twice their base salary to cover the expenses of support staff at the Branch and Head offices. Bonuses will be paid once direct and indirect costs are covered by specified income generated by the Extension Officers portfolio. This income is 100% of net income generated on loans to micro-scale enterprise and only 20% of net income generated by small-scale business loans. The recommended, additional incentive placed on micro-scale enterprises is included to encourage both a more rapid project expansion and focus on the primary target group.

The staff incentives are projected to begin the second quarter of the second year of project operations. Based on the surplus income figure (total income less gross salary or gross costs of salary to the Extension Officer). The Extension officer will receive 20% as a bonus (see chart III, in Annex H). No bonus is received if defaults, defined as loans more than 180 days late, surpass 1.5% of the managed portfolio.

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The Branch Managers and the Branch Secretary are also included in the staff incentive design. Inclusion of the Branch Manager should act as an incentive for the manager to find ways to improve the capabilities of the Extension Officers. The secretary is included because his or her work-load will increase with the expansion in the number of SSE clients.

The Branch Manager's incentive has been calculated at 18% of the bonus generated by each Extension Officer, with an assumption that there will be an average of six Extension Officers per Branch Manager.

ANNEX L

UNITED STATES GOVERNMENT
memorandum

DATE: June 1, 1988

REPLY TO ATTN OF: Roger L. Russell P.E., PDS/PS Roger L Russell

SUBJECT: Micro Enterprise Project-Environmental Section (263-0212)

TO: Peter Downs, PDS/PS

Please review the following for inclusion in the Project Paper:

Environmental Section

The activities of this project qualify for a "Categorical Exclusion" under the provisions of CFR 216.2(c) Sections (2)(x) and (xiii). The project provides funds to Egyptian private, non-profit organizations which will act as intermediate credit institutions whose objective is to assist in the capitalization of small businesses of 15 or less employees; providing working capital loans of up to 10,000 L.E. and capital for fixed equipment and machinery. AID's objective in providing financing does not require knowledge of or control over the details of the specific activities under the project.

UNITED STATES GOVERNMENT

memorandum

DATE: June 1, 1988

REPLY TO ATTN OF: Roger L. Russell P.E., PDS/PS
Mission Environmental Officer, Egypt

Aug 26 Gurney

SUBJECT: Environmental Statement for Project Paper
Micro Enterprise Project No. 263-0212

TO: Mr. Glenn Whaley
Ms. Kathryn Saterson, ANE/PD/ENV

The Mission proposes the following as part of the Project Paper:

Environmental Section

The activities of this project qualify for a "Categorical Exclusion" under the provisions of CFR 216.2(c) Sections (2)(x) and (xiii). The project provides funds to Egyptian private, non-profit organizations which will act as intermediate credit institutions whose objective is to assist in the capitalization of small business of 15 or less employees; providing working capital loans of up to 10,000 L.E. and capital for fixed equipment and machinery. AID's objective in providing financing does not require knowledge of or control over the details of the specific activities under the project.

This project is straightforward as described and no additional information would be gained concerning Environmental concerns through further study. In the absence of further guidance from ANE/PD/ENV, USAID/Egypt proposes this memo as concurrence by AID/W to a "Categorical Exclusion" for the project.

Institutional Analysis

1. Government Affiliated Institution:

The analyses presented below are drawn from interviews with officers and managers of the various institutions as well as written materials and previous studies available to the team from AID and other sources.

Name of Institution: Industrial Design & Development Centre (IDDC)

Background:

In 1963, the Institute of Small Industry (ISSI) was established in cooperation with ILO to serve the private sector. In 1968, the Engineering and Industrial Design and Development Center (EIDDC) was established in cooperation with UNIDO to serve the public sector. In 1977, the two institutions were merged together under the name of EIDDC to serve both the public and private sectors.

The center is affiliated with the Organization of Engineering Industries which supervises all public sector factories in the engineering industries field. The center is based in Cairo, with branch offices in Alexandria and Ismailia. The GOE, with other donors such as AID, World Bank and the GTZ, provide its funding.

IDDC provides a wide range of technical and managerial services to small and medium industries. The center offers the following services:

a) **Technical Extension Services:**

Technology adaptation, choice and selection of machinery/equipment, process engineering, methods engineering, time studies and standards, quality control, layouts, jig and fixtures, and industrial safety training. IDDC contacts 2,000 persons each year through the extension program.

b) Industrial Management & Business Management Services:

Marketing management, financial management, record-keeping and accounting, production management, personnel management, product costing and cost analysis, management training, sub-contracting training.

c) Research & Information:

Market information, machinery/raw materials suppliers, importation data, exportation data, local production data, industry classification, product manufacturers, and area survey training.

d) Project Development & Special Projects:

Industry profiles, feasibility studies, technical/managerial collaboration with other agencies involved in SSE development. The center also has an industrial data bank to facilitate industrial sub-contracting.

Credit:

IDDC does not provide credit directly. However, it scans and recommends clients to the Development Industrial Bank (DIB). About one-third of the center's clients are financed by DIB.

Training Courses:

This is the core of the center's operations. The center offers a variety of vocational and management courses. In addition to standard programs, customized ones are also offered to meet the needs of its clients. Courses last a few days or weeks, based on training needs.

Facilities & Equipment:

The center possesses impressive facilities with well-equipped workshops for ceramics, carpentry, welding, heat treatment, tools and dies, and electroplating. The center has also recently received portable tools to create a mobile training capability.

Target Group:

The IDDC caters mainly to small and medium industries whose work force ranges between 5 and 300 people. The clients are distributed among the following industries: metal working and light engineering - 49%; textiles and garments - 14%; agro-industry - 7%; woodworking - 4%; leather - 3%; electrical and electronics - 3%; chemicals, glass, paper, construction and handicraft - 2% each.

IDDC/Alexandria

This center is a branch office of the IDDC/Cairo and does not have any of the vocational training facilities of Cairo. However, it initiates training courses in accounting, cost accounting, computers, project design, quality control and marketing. Its primary clients for training and technical assistance are those enterprises which are borrowers from the Development Industrial Bank.

Conclusion:

The center suffers from two major limitations. First, it is not particularly attuned to the needs of smaller entrepreneurs. Secondly, the bureaucratic inefficiencies typical of public agencies may reduce its flexibility and effectiveness.

Nevertheless, it is felt that the IDDC has a good potential of becoming one of the principal conduits to be used by this project for training and technical assistance to micro and small industries. However, it is recommended that the proposed project make use of IDDC training and workshops/facilities through contractual procurement of specific services and technical knowledge on selected training courses.

2. Cooperatives

Name of Institution: Union of Production Cooperatives

Background:

Enabling legislation for a system of voluntary producers' cooperatives was first passed in 1956 as Law 317, and was substantially revised under Law 110 in 1975. This law was designed to encourage the small producers to form cooperatives, and empowers such organizations to undertake a wide variety of activities on behalf of their members.

The small scale producers were defined by these laws as those with nine employees or less, and summarily labeled 'harafeyin,' or handicraft workers. Under the 1975 law, they operate under the ultimate supervision of the Ministry of Local Government, while 'small industries,' legally defined as those with 10-50 employees, are under the supervision of the Ministry of Industry.

Law 317 establishes a hierarchical structure for productive cooperatives, as shown below:

1. The Basic or Primary Productive Cooperative: is formed of at least 10 proprietors from within a single industry or cluster of closely related industries. There may be any number of cooperatives within a given industry. Those are empowered to undertake the following:

   a. identify work opportunities;

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b. provide machinery, equipment, materials and spare parts;

c. undertake marketing and exhibitions;

d. study the market and assist members to tailor their production accordingly;

e. provide consulting services regarding production and quality control;

f. borrow from banks on a priority basis at subsidized interest rates and on-loan to members;

g. undertake import and export activities on behalf of members;

h. receive grants and loans from any source with which it has no conflict of interest;

i. charge membership fees (no upper limit).

2. The United Productive Cooperatives: This level of cooperative organization consists of units made up of two or more basic or primary co-ops in the same or related industries. It is empowered to undertake the same activities as those listed under (1) above for this larger group. This level is not really operational in Egypt; it exists only on paper.

3. The General Productive Cooperative: This level of organization unites all cooperatives of a single industry into the national framework. It is mandated to do the following:

a. carry out production-related research;

b. plan consumption of raw materials;

c. import raw materials;

d. purchase raw materials wholesale;

e. build factories as service industries to the industry involved;

f. own vehicles for distributing raw materials and distributing products;

g. export products;

h. put on exhibitions;

i. advertise products;

j. establish and operate design/engineering offices;

k. provide technical consulting services to members;

l. build and operate vocational training centers;

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m. borrow from banks and on-loan to members;

n. publicize the industry.

4. The Central Union for Productive Cooperation: At this, the highest level of productive cooperative organization, the nationwide cooperatives are joined into a single union. The central tasks of this union center around overall encouragement of productive cooperation and supervision of yearly budgets of the cooperatives, as shown below:

   a. planning of cooperative production;
   b. census of workers by classification (industry);
   c. for every industry with 100 or more workers, encouraging the development of a cooperative;
   d. encouraging the spirit of cooperation through research, exchange of experience with international and local cooperatives, etc.
   e. construction and operation of vocational training centers;
   f. holding conferences on productive cooperatives and sending delegates to such conferences held by others;
   g. coordination between productive cooperatives and other types of cooperatives;
   h. planning assistance to member cooperatives in technical, financial, legal, and cooperative affairs;
   i. resolution of conflicts between cooperatives and within boards of directors of individual cooperatives.

All of the these levels of cooperatives in HIPCO ... the Agency for Handicraft Industries and Productive Cooperatives. Established in 1973 under the directorship of a Vice-Minister of the Ministry of Local Government, it was initially a national level agency with responsibility for overall administrative supervision of the cooperatives. As part of the decentralization policies of the national government, a Ministerial Decree was issued in 1980 which established a Directorship of Productive Cooperation in each of the Governorates. Since that time, the primary responsibility of HIPCO has been to serve as the national level link between the cooperatives and the government/public sector.

Findings:

While this legal framework entitles the productive cooperatives to undertake a full range of activities to support cooperatives, in fact, very little implementation has ensued. It appears that active co-ops are rare, and are mostly to be found in industries which have pressing and apparent reasons for cooperating.

At the present time, according to individuals at the Union level, there are approximately 370 primary productive (or sector) cooperatives with 500,000 members. They indicated that there are approximately 1.5 million small entrepreneurs outside the productive cooperative membership.

In discussions with Union representatives, some clarification was obtained on the services which are provided to members:

Training — Five percent of the net revenue of member cooperatives is placed into a training fund (estimated to be 100,000 LE annually). Part of this fund goes to the Union and a portion stays at the local level. The union has been primarily involved in management training with the assistance of the Friedrich Ebert Foundation. Adequate funds are available for management training. However, vocational training funds are needed for small scale entrepreneurs.

Technical assistance — The Central Union has a specific department for providing technical assistance, but this effort is just starting.

Credit - All credit supplied by the Credit Union is in kind. Supplies and raw materials are provided to member cooperatives and finished goods are purchased at fixed prices.

The Central Union of Productive Cooperatives collects fees from members for developmental purposes. These revenues are placed in deposit banks in a development "Fund." The Fund can be used as collateral for loans from commercial banks. Further, the Fund has made some individual loans at 15% interest -- 2% over their cost of funds from Nasser Bank.

Conclusions:

The productive cooperatives could provide access to thousands of SSE's who are members. But with the legislative history of the cooperative movement, the confusion over GOL control, weak leadership, and apparent lack of widespread support in the small scale enterprise sector, the advisability of using the Central Union of Productive Cooperatives needs much more careful study. The cooperative structure would be of very limited benefit in the extension of credit. However, the structure should be considered further in the design and provision of technical assistance and training. Collaboration in these areas might best be undertaken at the level of the General Cooperatives, which have more direct access and knowledge of the needs of specific sectors.

3. Private Voluntary Organizations:

A. Productive Families Society.

Background:

The Productive Families Society was founded as a PVO in 1967, under PVO Act No. 32. Its primary function is to enhance the family's productivity by increasing its income and in turn, improve the family's standard of living. In addition, PFS also assists poor families by providing them with low interest loans and training. This welfare segment of their program represents approximately 10% of their participating families. PFS provides its member families with raw materials for the production of ready-made garments which are marketed through PFS.

The PFS is closely affiliated to the Ministry of Social Affairs. Most of the society workers in Cairo are on the Ministry's payroll. Nevertheless, the society is run by a private sector board of directors.

The number of families assisted by PFS in Cairo is over 3,300, of which some 300 are below the poverty line.

PFS/Cairo has as its members 140 societies who produce, among other commodities, ready-made garments. Those member societies obtain a significant portion of their raw materials from PFS. They also market some of their production through PFS.

Training, Technical Assistance and Marketing:

The Society trains its clients in the use of sewing, embroidery and knitting machines. It offers three- and six-month courses. It also supplies the cloth, thread and production accessories. The society markets its products through a chain of retail stores and permanent exhibits in Cairo and Alexandria.

Credit:

As a secondary function, the society provides loans at 6% interest to about 300 of its member families who fall below the poverty line. The recipients are screened in advance by the Ministry of Social Welfare. A relative's paycheck is typically accepted as collateral. The maximum loan is LE 200 (US $90). Such loans are usually used for making down payments on sewing machines. Repayments of these loans approach 100%.

PFS/Alexandria

This institute is independently organized and governed by its own board of directors elected from the private sector. It acts as an umbrella organization for 61 societies in Alexandria. Those member societies are active in numerous fields among which are ready-made clothes and embroidery. About 2,900 families benefit from PFS programs.

The primary functions of the PFS are :-

* The procurement of raw materials at wholesale prices and selling same to 61 member societies, as well as individual families.

* Marketing of finished products through a permanent exhibition as well as national exhibitions. Retail prices are about 10% to 20% above cost. This provides PFS a very significant competitive edge in marketing.

* A minor part of its program is to assist poor families (as approved by the Ministry of Social Welfare) through training programs and small loans. The number of participants in this program does not exceed 10% of the total member families.

Currently, PFS/Alexandria has 16 employees of whom only one is seconded from the GOE (Ministry of Social Welfare), while the balance of employees are on PFS' own payroll.

Conclusion:

The target group for PFS represents a very low income segment in Egypt. Sewing and garment production is the focus of PFS training. Many of the clients have never been in business and, through PFS training, are for the first time being productively engaged and now have a skill.

As these PFS clients gain additional experience, they could become a natural target group for loans to be made by the new Foundation. Further, the organizational skills of PFS staff could be useful as the Foundation begins to promote group formation in various locations throughout Cairo and Alexandria.

B. Plan International

Background:

Plan International is an international institution based in the U.S under the name of 'Foster Parents Plan.' It is funded by private donors from Europe and North America. In 1981, it started its Egyptian operation.

Services:

Plan International provides the very poor with bas'c support. Education, health, and hygiene are high priorities. Recently, P.I. started a vocational skills program. In collaboration with IDDC, it has set up 15 vocational training centers. These aim at promoting carpentry and shoemaking in poor communities.

Credit:

P.I. disburses loans ranging from LE 200 to LE 2,000 at no interest. In 1987, they loaned a total of LE 147,000. The default rate is 30%.

Target Group:

Plan International serves impoverished families with an average income of LE 80/month. They operate in three overcrowded, poverty-stricken Cairo neighborhoods: Old Cairo, Zinhum and Ain el Sirra. Their services currently reach about 50,000 people (heads of households and families).

Conclusion:

Plan International is designed as a social welfare rather than a business operation. It is more concerned with subsistence support than generating production. It seems to operate efficiently and reach a broad base.

The organization seems to be well connected at the grass-roots level. The utilization of these connections merits further study by the Foundation.

Graduates of the vocational skills program might be good targets for credit.

C. OXFAM

Background:

OXFAM is an international non-profit organization based in the United Kingdom. It was established in the early 40's after World War II to carry out relief work in Europe OXFAM started to expand its scope of work in the 60's, from providing relief to hungry, sick, or homeless people to placing much more emphasis on carrying out development programs. To finance its programs the organization depended mainly on fund-raising efforts in England, private donations, sales from the OXFAM gift shops, and income from its trading company.

In 1975 OXFAM started its activities in Egypt as part of its regional program, which also included Yemen and Jordan. Assistance was given in the form of block grants to local groups carrying out welfare programs. OXFAM opened an office in Egypt in 1981 that supports groups working in agriculture, health, and social development. The Cairo office currently has six employees: three professionals, a part-time consultant, an administrative assistant, and a driver. Its annual budget is about LE 350,000.

Services:

OXFAM provides the very poor with basic support in the fields of income generation, agriculture, health, and hygiene. OXFAM is not an implementing agency, it assists local groups technically and financially in managing their community-based programs. Health is a high priority on the Cairo office's agenda. Out of 20 programs, fourteen are in the health sector, including four with handicapped persons, three are income-generating, and three are educational in nature.

Training is a new area that OXFAM is planning to develop. It has started training PVO staff in program management and in innovative techniques for inducing community participation in program implementation and self-help. The first such course took place in Cairo, in April 88, and was attended by 20 participants. The trainees consisted of OXFAM local staff and PVO program staff. This led to a closer working relationship among both groups and a better understanding of their respective roles. The course, which was conducted by a member of OXFAM/England education department, specializing in management techniques, proved to be very successful. Cross-sectoral training is an area in which OXFAM would like to expand.

Credit :

See discussion of two credit programs which follow :

Target Group :

OXFAM serves the poore of the poor by providing basic services and financing social welfare programs. Although, the organization places great emphasis on improving the situation of women, the Cairo office has not succeeded in reaching a larger number. Most of their programs benefit women indirectly, with the exception of one income-generating program that is directly targeted at women. Their programs are concentrated primarily in Cairo with a few in Alexandria. Their current programs are urban based, basically because the Cairo office is run by a very small group of people and they don't want to overextend themselves; secondly, half of the Egyptian population lives in urban centres.

Conclusion :

OXFAM is primarily a social welfare organization that is more concerned with subsistence support than with generating production. They have recently decided to phase out of credit programs with SSEs and concentrate on training activities. The training programs are well run and could be supportive of loans to be provided by the Cairo foundation.

OXFAM
- Credit Program #1 -

The Zabbaleen Small Industries Credit Program (ZSIP)

Background :

The Zabbaleen Small Industries project (ZSIP) was financed by OXFAM and implemented at the Moqattam Garbage Collectors (Zabbaleen) settlement in Cairo (10,000 inhabitants). The program's main objectives are . a) to increase the income of the zabbaleen through the introduction of reprocessing technology and specific machines. b) to create a healthier environment by providing use for waste materials that posed serious health hazards. c) to build the institutional capacity of the local PVO, Garbage Collectors Society (Gameya) to manage a revolving credit scheme.

The program basically consisted of setting up a revolving fund to extend loans to community residents to upgrade their waste recycling capabilities through the use of appropriate machinery.

Managing Institution :

The credit fund has been managed by "The Garbage Collectors Society at Moqattam" (Zabbaleen Gameya), which is a private voluntary organization that extends social, technical and financial services to the local community.

Start-up Date :

The ZSIP has been implemented over two phases. Phase I was initiated in June 1983 and Phase II in June 1984.

Size of Credit Fund :

Phase I program set up a revolving fund of LE 33,770. An additional LE 60,000 were added during Phase II (July 1984). The total size of the credit fund amounted to LE 93,770. Currently, the revolving fund operates on a LE 138,500 budget.

Number of Clients :

Total outstanding clients are 46, and the total cumulative number of clients from June 1983 to date is 51.

Number of Loans Provided :

Total current outstanding loans are 48; the cumulative number of loans made are 53.

Type of Loans :

Two types of loans are extended under this program : loans for purchasing machinery (plastic granulation machines, rag-pulling machines, carpentry machines etc..) and loans for working capital extended mainly to service and commercial enterprises.

Size of Portfolio :

LE 107,991 for machines from which 33 clients benefited and LE 18,109 for working capital are extended to 18 clients.

Loan Terms :

Originally, Phase I and Phase II programs extended loans for investment and working capital at 7% interest, repayable over 36 months with a three-month grace period. Recently, the Gameya Board of Directors took the decision to limit the repayment period to a maximum of 18 months with a two-month grace period.

Interest Rate :

The project initially charged 7.0% on loans extended. The interest rate per loan will be increased to 10% in the near future.

Maximum and Minimum Size of Loans and Loan Average :

Loans disbursed ranged between LE 200 and LE 10,000 per beneficiary. During the first two phases of the program the average loan size was LE 2,450. The Gameya Board of Directors has recently taken the decision that the ceiling on loans will be LE 1000 per applicant.

Types of Clients :

Industrial	66.0%
Services	5 7%
Commercial	28.3%

Default Rates :

Till April 30th, 1988 total amount of loans disbursed was LE 126,100. The default rate is 24.5%.

Lending Criteria :

For an applicant to receive a loan, he must fulfill the following criteria :

a- be a resident of the Moqattam Zabbaleen Settlement.

b- have a clear economic need for the loan, and

c- be willing to pay a percentage of the price of the machine or set up expenses from his own funds.

Procedures of Client Selection :

Applications are submitted to the Gameya office. Client selection is determined by a committee consisting of 6 board members, the gameya accountant and the administrator. Their role is to review applications, assess viability of enterprises, and submit recommendations to the board of directors for the final decision. A cheque is then issued to the beneficiary.

Loan Guarantee :

Each client signs a loan contract stipulating the size of the loan and the terms of disbursement. When the loan is used for the purchase of equipment, the machine is registered in the gameya's name until the client repays his last instalment. Ownership of the machine is then transfered to him. A small number of applicants received loans for working capital. In such instances the beneficiary is required to sign a check for the amount of the loan, which is used as collateral in case of default.

Links to banking Institutions :

No links to banks. Management of the revolving credit fund is the Gameya's responsibility.

Collection Procedures :

Although clients are expected to pay their monthly installments at the Gameya, in many cases the Gameya Administrator is obliged to go from house to house to collect late payments

Use of Reflows :

Repayment of loans, principle and interest, are added to the revolving loan fund. Reflows are used for the disbursement of additional loans. Non- payment risks are taken by the Gameya

Problem Areas :

According to the Gameya Director, the program's current deficiences are :

a- No in-depth survey is conducted in order to assess viability of loan prior to its approval.
b- No effective action has been taken to date by the Board of Directors against late repayments.

Observations :

a- The zabbaleen Gameya has been responsible for the entire range of progam activities, from selecting loan beneficiaries to disbursing loans and monitoring activities. One of the program's deficiencies is that individual loan recipients do not receive any technical assistance during business start-up.
b- The currrent interest rate (10%) has to be increased to enable the Gameya to cover its administrative expenses, and to encourage micro-business owners to deal with actual costs, "inflation rate being approximately 20%".
c- Interest rates for the commercial and service sectors should be higher than the charge for industries. This would encourage micro-industries to invest in the community.
d- The Board of Directors has to try enforcing the group guarantee mechanism to overcome the high default rate among program beneficiaries. The group guarantee system has proved successful in the same community when administered in another income-generating project.

OXFAM
- Credit Program # 2 -

Income-Generating Project for Female-Headed Households

Background :

The Income-Generating project for Female-Headed Households is a credit and technical assistance program which has been co-financed by OXFAM and the Ford Foundation. Specific program objectives are :

a- Providing female-headed households with loans and/or skills required to start and manage small income generating enterprises.

b- Drawing these women into the network of communication and information concerning productive opportunities in the community.

c- Establishing a cadre of trained female personnel in low-income communities capable of maintaining this program after assistance program ends.

The project is being implemented in two-low income communities in Cairo, the Moqattam Zabbaleen community and the Manshiet Nasser main settlement.
The program operates through group lending.

Managing Institution :

EQI in cooperation with the Zabbaleen Gameya (Garbage Collectors Society) (PVO).

Start-Up Date :

August 1986

Size of Credit Fund :

At project start-up, LE 10,000 was allocated for the revolving fund;
LE 4,000 has been disbursed.

Number of Clients :

Total outstanding currently (April 30th, 1988)	59 beneficiaries, forming 19 credit groups
Total cumulative from start to date	59 beneficiar. s, forming 19 credit groups

Number of Loans Made :

Total outstanding currently	59
Total cumulative	59

Type of Loans :

Loans were disbursed for the purchase of equipment, as working capital, and for the initiation of small animal husbandry projects (goats).

Size of Portfolio :

The size of the portfolio is LE 5,950, divided as follows :

Equipment	LE 850	7 clients
Working Capital	LE 2600	24 clients
Goats	LE 2500	28 clients

Loan Terms :

Repayment schedules are flexible and determined by the type of project. The maximum repayment period, however, is 24 months. No grace period is granted and installments are repayed on a monthly basis.

Interest Rate :

The interest rate was initially set at 10%, and has now been increased to 15% to cover a greater part of the project's administrative costs.

Average Size of Loans :

The average loan size is LE 100 per applicant.

Maximum and Minimum Size of Loans :

There is no set minimum, but the smallest loan disbursed was LE 75. The maximum loan size, however, is set at LE 200 per applicant.

Type of Clients :

Industrial	15%
Commercial	43%
Animal husbandry	42%

Default Rate : 1.7 %

Lending Criteria :

To receive a loan, a woman must fullfil the following criteria :

1- Head a household, i.e. be the main provider for her family. This category includes widows, divorcees, deserted wives, etc...
2- be mentally and physically capable of participating in an income-producing activity.
3- be ready to join self-formed credit groups consisting of 3 - 5 women.

Client Selection Procedures :

The actual selection mechanism is that of "self-selection". Groups are formed by the women themselves after they are made aware of the group's function and of the possibility of subsequent loans.

Procedures for application, approval, disbursement and collection :

1- Women apply in groups to the project extension officers who are appointed from the community.
2- Written applications are submitted to the Gameya.
3- The extension officers meet with the groups to discuss their individual projects and to insure that the group is cohesive.

4- A loan management committtee, consisting of members of the Gameya, the local priest's wife, and an EQI representative, meets once a month. The committee reviews group applications and approves loan disbursement.
5- Loan disbursement is carried out by the Gameya accountant and the collection of monthly installments is the responsibility of the extension officers.

Links with Banking Institution :

None

Use of Reflows :

As a revolving fund.

Risk :

Members of the group take the risk of default and delinquency.

Problems Identified by the Project Manager :

1- Resistance of some women to meet repayment schedules despite group pressure to do so.
2- Exclusion of the very poor women from the project due to unsuitable guarantee requirements and lack of sufficient support.
3- Exercise of favoritism by the selection committee.

Observations :

Project philosophy relies on credit group guarantees. The credit group is the main guarantee mechanism. The members of the group co-sign a contract specifying the total amount of the loan. So far, repayment has been quite high with most groups meeting payment deadlines. The high repayment rate is a good indication of the functional role of credit groups for social pressure. Technical assistance is provided directly to the group rather than to individual beneficiaries through technical courses and on-the-job training. Some difficulties are still facing the project due to favoritism exercised by the PVO board members, and little mutual support and cooperation between beneficiaries.

D. Coptic Evangelical Organization for Social Services (CEOSS)

Background:

CEOSS is a Christian community-based private voluntary organization which started its activities with a literacy program in 1952, in a small Egyptian village in Minia Governorate. Today CEOSS is one of Egypt's largest and most experienced community development organizations. CEOSS' main goal is to develop self-reliance - develop a village's ability and desire to help itself. CEOSS field workers concentrate on developing local village leaders.

CEOSS' operation is highly structured with three main departments in the fields : of Local Development, Technical Services, and Learning Resources. Each department comprises a number of sectoral programs (see attached Organizational Chart). CEOSS field offices are located in Minia Governorate, with a branch office in Cairo. Their work is currently divided into five sectors; Comprehensive Development, Agriculture, Resource Services, Publishing, and Training.

Services :

CEOSS is a community-based, comprehensive development agency which provides multiple services to the lower brackets of the Egyptian community. The following section briefly describes the range and type of services they extend :

- The Comprehensive Development Program: offers classes in literacy, home economics, health education, family planning and Bible studies. The program also includes vocational training activities in carpentry, electrical repair, sewing and knitting. Under this program loans and grants are extended to villagers to start their own businesses.

- Agricultural Projects : started over 30 years ago with the distribution of chicks to villagers, local honey production was also promoted through the distribution of bee colonies to local villagers. As a result farmers' incomes were increased through the sale of honey and the bee's natural pollinating activity improved the crop yield. Cattle fattening farms were set up to provide meat to local communities at subsidized prices, and to serve as a model to surrounding breeders.

- The Resource Service Projects : have added a productive facet to CEOSS' multiple service activities. Its carpentry shop sells inexpensive furniture produced by their trainees. The "Happy Home Center" produces 2000 items of ready-made garments per year. These two centers also provide training and job opportunities for local residents.

- The CEOSS Publishing House : "Dar El Thakafa" is one of the largest Christian publishing houses in the Middle East. It produces Christian books which are distributed through street vendors and its own chain of stores all over the country.

- The Conference and Study Center : is a six-story well-equipped conference facility which can accomodate 100 people. It serves as a place of discussion and study for both program participants and CEOSS staff.

Credit :

Since 1980, CEOSS has actively supported the efforts of local men and women to initiate and/or expand income-generating activities. CEOSS has received USAID and CRS financial support for this program since 1983, under a three-year Income and Employment Generation project. See discussion of credit project which follows :

Target Group :

CEOSS' target group are the poorer and most disadvantaged segments of their communities. Both Christians & Muslims are recipients of loans. The loan recipients are spread over some 40 villages in Minia Governorate. An assessment conducted in 1985 indicated that 41% of the beneficiaries were women, more than half of the projects funded were new undertakings, and 60% of the beneficiaries were neither self-employed nor holding a steady job prior to the receipt of the loan.

Conclusion :

As indicated in the report, CEOSS is one of the largest and most successful local community development organizations Its success is the result of a highly structured operation, widely spread community-based staff, strong emphasis on training, and a strongly motivated team of office-based and field workers Close project monitoring by CEOSS field staff is the main factor behind the agency's overall program success and low default rates.

A second contributing factor is training. All CEOSS community staff
receive one week of intensive training in their income and employment generation programs as part of their annual two-month training sessions. Written guidelines of program goals, eligibility requirements, and field staff responsibilities are provided to all field staff in their training manuals.

CEOSS is definitely an agency that has the necessary organizational capabilities and flexibility to operate a credit program targeted at small entrepreneurs. It is also capable of extending the necessary training and technical assistance required for the implementation of a comprehensive program.

The CEOSS Income and Employment Generation Project

Background :

The CEOSS Income and Employment Generation project was initiated in July 1983 with financing provided by USAID and Catholic Relief Services (CRS). Funding was secured to cover project activities over a three-year duration. The project is implemented in Minia Governorate. Its main goal is to promote rural-based income-generating and employment projects. The project's main objectives were :

a- to upgrade and expand the existing Loans for Develpment Program, a program providing credit and technical assistance to income-generating activities and micro-enterprises of the very poorest of the self-employed or potentially self-employed.

b- to initiate a loan - as opposed to grants - component with the agency's existing Community Enterprises program that provides technical and financial assistance to community-owned services (e.g. health, education), as well as economic ventures with direct community benefit including the establishment of a new and separate lending and management assistance scheme for private group enterprises which are not connected to village development committees.

c- to initiate and establish vocational skills training activities for young men in carpentry, furniture painting, upholstery and palm-leaf work within CEOSS' ongoing skill's training program.

During program implementation, the following modifications were introduced to the original objectives :

a- The Community Enterprise program was dropped and substituted by a lending scheme for private groups. The program now provides credit and management assistance to group-owned enterprises.

b- Under the vocational skills training program, training in woodworking has been replaced by furniture painting and upholstery, palm-leaf work was substituted by basic electricity and construction plastering.

Start-Up Date :

The project was initiated in July 1983.

Size of Credit Fund :

In July 1983, the project funds allocated for credit amounted to LE 52,550. Currently, the revolving fund operates on a LE 100,000 budget.

Number of Clients :

Total outstanding clients are 218 and the total cumulative number of clients from July 1983 to date is 550.

Number of Loans Made :

Total current outstanding loans are 218 and the cumulative number of loans made were 550.

Type of Loans :

Loans were extended under the three program components to : individuals, groups, and graduates of the skills training programs. The use of the loans varied from: loans for purchasing tools and equipment (sewing machines represent more than 50% of these equipment loans) to loans for working capital. Some were extended to assist people in setting up Animal and Poultry breeding schemes.

Size of Portfolio :

The total size of the portfolio is LE 100,000; out of which LE 40,000 were disbursed for equipment to 137 clients, and LE 60,000 for working capital to 413 clients.

Loan Terms :

The loan repayment period varies in relation to the size of the loan. There are basically two types of repayment schedules. Individual loans of less than LE 200 per client are repayable on a monthly basis over a six-month duration. Loans above the LE 200 bracket are repayable over a duration of 20 - 30 months with a grace period of one to two months depending on the type of business. While group loans follow a repayment schedule of 30 to 36 months, with a grace period of six months.

Interest Rate :

Originally the interest rate was set at 6% per year, currently the interest rate is 4% for loans less than LE 300 per applicant and 10% for loans of more than LE 300.

Maximum and Minimum Size of Loans and Loan Average :

Individual loans range between LE 50 and LE 3000 per client. Group loans range between LE 1000 and LE 5000 each. The average size loan for individuals is LE 1150, while for groups it is LE 2750.

Type of Clients :

Industrial	25%
Services	25%
Commercial	50%

Default Rate :

Till April 30th, 1988, the default rate was 2%.

Lending Criteria :

For an applicant to receive a loan, he/she must fullfil the following criteria :
a- be a resident of Minia Governorate
b- have a clear economic need for the loan.
Initial screening of loan applicants is done by the field staff residing in the villages.

Client Selection Procedures :

Applications are submitted to the field worker who is in charge of a certain number of villages in Minia Governorate. In many instances, since the target group is the poorest of the poor, the field staff play a major role in the screening of suitable projects and individuals in the villages they are assigned to. They prepare application requests for applicants, submit them to the review committee and discuss them with the assigned loan officer. In-depth surveys are also compiled on each case, the file is then submitted to the technical review committee for final approval. This committee comprises the Head of the Economic Development department, his assistant, the chief accountant, and the loan officer. Approval for any loan disbursement is carried out by this committee.

Loan Guarantee :

Individual loans are guaranteed by a local village leader who is accepted by the field staff. Group loans are guaranteed by a group contract co-signed by the members applying for the loan.

Collection Procedures :

Monthly repayments are collected by the field staff in the villages he/she is assigned to.

Use of Reflows :

Loan installments plus interest are added to the revolving loan fund. Repayment risks are carried by CEOSS.

Problem Areas :

According to the CEOSS Minia branch officer, one of the problems they are currently facing is lack of new project ideas and that more and more applications are submitted by well to do villagers.

Another program constraint are the multiple program responsibilities of the single loan officer which limit the further expansion of the loan program. The loan officer is responsible for project assessment, follow-up, coordination and delivery of technical assistance/training.

Observations :

The CEOSS Income and Employment Generation project is considered one of the most successful credit programs implemented by a private voluntary organization. Program activities cover over 40 communities in Minia Governorate. Field staff in charge of loan's disbursement, as well as technical assistance and follow-up, are of high professional standard as a result of the regular in-house training they receive in community development and small business creation. Each field worker is responsible for 25 - 30 project feasibility studies per month.

Program success has been measured by the size of credit fund which increased from LE 52,550 to LE 100,000 since program start-up. The low default rate (2%) is a second indication. On the other hand, the current interest rate should be increased because it barely covers the program's administrative costs (10%)

One of the innovative features of this program is the Group Enterprise program. This program promotes the development of cooperative and worker - owned enterprises in local communities. The current outstanding group enterprise projects are seven, each group consists of three individuals. Loans for groups are quite high with a maximum value of LE 5000 per group. The most successful group enterprises supported by CEOSS are: cattle fattening, poultry raising, rabbit raising, dairy production, furniture manufacturer, and carpentry workshops.

In addition to financial and managerial assistance CEOSS provides loan beneficiaries, with training at their ITSA training Center.

Annex N

MARKET ANALYSIS OF SSE'S

Objectives :

The purpose of this market analysis is two-fold :

(1) to present a socio-cultural profile of small-scale entrepreneurs who are the target group of a support program that will provide them with credit and technical assistance.

(2) to assess the SSE's credit needs and the feasibility of promoting a community designed and managed credit system.

Methodology :

The following data collection instruments were used :

A. Indepth interviews were administered to a purposeful (non-random) sample of 45 SSE's in four manufacturing sectors in Greater Cairo & Alexandria in: ready-made garments, leather, metal and woodwork. These 2 cities have the largest concentration of SSE's in all of Egypt, estimated to be 75%. These four sub- sectors were selected for study because they play a significant role in private sector output and have revealed potential for further expansion. The interviews were conducted in several geographical zones where these businesses are clustered. The zones are Manshiet Nasser, Bab el Louk, Shoubra, Helwan, & El Mousky in Cairo and Victoria Maharam Bey, El Manshia, Seouf, El Laban, and El Atareen in Alexandria.

Baseline information was obtained on the following :
(1) history of enterprise
(2) personal characteristics of enterprise
(3) production
(4) marketing
(5) finance
(6) future plans for expansion and foreseen problems and constraints

B. Group meetings were conducted with an additional 25 small scale business people to discuss in more detail the above-mentioned issues and to explore reactions to the proposed credit mechanism and its underlying philosophy.

A team of 3 social surveyors and the principal investigator conducted the indepth interviews and the group meetings with the SSE's engaged in diverse productive sectors. The surveyors were briefed during several sessions to ensure detailed coverage of required information and to acquire an accurate understanding of the investigated questions. They were also asked to present the group credit mechanism and to get the businessmen's reactions to it.

Successive meetings were held with the same group of SSE's over a two-week period to present new concepts, discuss shared problems, credit availability, expansion possibilities, etc. At these meetings, the interviewees were encouraged to voice their honest opinions and reactions to the proposed program, which aims at addressing their felt needs. The purpose of these meetings was to listen to business people, thereby serving as an invaluable tool for developing the project design presented in section IX.

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Profile of the Ready-made Garment Sector

Although the public sector dominates the textile industry, ready-made clothing is controlled by the private sector, accounting for 70% of the total ready-made garment production. Moreover, most of these SSE's are micro businesses with less than 15 employees.

Of the total of 45 cases covered by this study, 13 were businesses engaged in making a variety of garments, three of which were owned and run by women. Seven enterprises were located in Cairo, 6 in Alexandria. Most businesses were both home-based (9), and privately owned (8). The average age of business is 8.5 years, demonstrating this business sector's recent expansion and development. Only 6 people working in his sector were apprenticed in similar businesses. The remaining 7 entered the business from diverse backgrounds. One was a public sector employee, another a housewife, the third a medical doctor, fourth a university student and the fifth a truck driver, all of which illustrates, the unrestrictive nature of this trade and its attractive financial potential.

Almost half of the entrepreneurs initially supplied capital for their business from personal savings. Three were supported by their families, 3 raised capital through a combination of savings and financial support from family and friends, and the last enterpreneur went into a business partnership. Current ownership shows that eight are presently sole ownerships. None of the proprietors have any other businesses and only two of these presently maintain outside employment.

All businesses operate twelve months a year; several entrepreneurs admitted, however, that work slackens during the summer months.

Production

The SSE's investigated produce a variety of ready-made garments, knits or fabrics, for men, women, and children. Total assets based on estimated inventories of machinery and equipment, tools, finished products and raw material averaged LE 12,235 each, ranging from L.E 2000 - 17000. Businessmen have from one to nine full-time, non-family employees. Average number of nonfamily workers is 4.9. Only 4 of the businessmen engage family members, mostly on a full-time basis.

The number of employees corresponds to the size of assets. Thus, businesses with the largest assets have the greatest number of workers.

For most entrepreneurs, the entire production process is accomplished in their workshops. Only 2 businesses are sub--contracted for part of the production process, the finishing

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process of overlocking and making button holes. These also happen to be the smallest micro businesses, hiring only 2 part-time family members.

In the garment industry, production capacity reaches peak levels during feasts, as well as the summer and winter seasons, when consumer demand is high. The average production capacity, however, for all businesses is 67%. Some work at only 30% capacity, while 2 claim production at 100% capacity. Reasons given for lower levels of production are lack of working capital, shortage of raw material, decrease in consumption, or inavailability of machinery needed to produce both summer and winter apparel on a regular basis.

Finance

The micro business entrepreneurs use several credit mechanisms to finance their business. Our findings have shown that the absence of formal sources of credit from banking institutions forces these entrepreneurs to use a variety of informal lines of credit.

Only one of the 13 businesses investigated was able to secure a bank loan, amounting to L.E. 1500, for investment in fixed assets and working capital. Collateral provided included promissory notes and the guarantee of a public sector employee. The loan repayment period extended over 5 years, with monthly installments fixed at L.E. 33.490 per month. The interest rate was 8%, plus 2% bank commission.

The remaining respondents, seven of whom deal with banks for other services such as savings or current accounts, stated that banks require a higher collateral than they could provide, and that they could not locate a bank willing to provide small loans to businesses with limited assets.

In practice the productive cooperatives do not lend money. Only 3 entrepreneurs said they had dealings with a cooperative. Conditions for membership include presentation of a commercial licence, registration and tax cards plus an initial LE 100 membership fee.

The remaining ten entrepreneurs are not members, claiming that cooperatives no longer provide useful services.

A common practice to cope with the liquidity problem is to buy raw material on credit as indicated by almost half of the interviewees. Wool or textiles purchased in this manner are more expensive, however. One entrepreneur stated that he pays 1 L.E. extra for each kilogram of wool priced at L.E. 16 per kg. Another stated that the price of one meter of fabric costing L.E. 2 is increased by 25 pt if bought on credit.

Repayment is made in a variety of ways. Some suppliers require that 75% of the price be paid immediately and that the rest be payable at the end of the same month. Even then, the entrepreneur has to pay one additional pound per kilogram above the cash price for the remaining 25%. For spun cotton, for example, the price of which is 9 LE per kilo, an additional pound per kilo would have to be paid. Another businessman said that prices were generally increased by at least 10% if repayment was to be made within a six-month period.

Entrepreneurs who are forced to make cash payment for raw material stated that this system limited the amount they ould purchase. One entrepreneur said he had no other alternative but to pay in cash since he knew of no wholesaler who would accept to sell textiles on credit.

The other alternative to purchasing raw material on credit is to request advance payment for received orders. Five stated that an ac ance payment of 20-50% was required of customers.

Other sources for obtaining credit are money lenders, family, or friends. Seven of the entrepreneurs interviewed stated that borrowing from family members was the most common form of quick credit. Money is borrowed for a variety of reasons, to purchase raw material, repay suppliers, pay wages during dead seasons, or simply to acquire working capital.

Only one businessman obtained credit from a friendacting as a silent partner. The amount borrowed was L.E. 5000. The agreement between them was to invest money for one year, after which the entire amount plus approximately 20% profit would be incursed.

The final way of obtaining credit is to participate in a gameya, a practiced phenomenon community wide. This is another informal method of savings used to cover personal or family expenses or to pay debts, repair machinery etc . Amounts payed in a gameya ranged from LE 50 - 100 monthly for a period of 10 or 12 months, as agreed among members.

Future Plans

When asked about their future plans to expand, all the small and micro entrepreneurs expressed interest in enlarging their businesses. Plans included buying new machinery, working two full shifts, buying more raw material, and expanding to reach the export market. Estimated costs of expansion ranged from LE 500 to LE 30,000. The majority, however, cited figures of LE 10,000 or LE 20,000.

Moreover, nine of those interviewed did not perceive of any marketing problems related to expansion; they said they would hire extra workers. Constraints faced at present, however, are lack of working capital on the one hand and difficulties with bureaucratic procedures related to taxation, social security requirements for hired help, or shortages of raw material and accessories.

The remaining four entrepreneurs did not wish to expand, claiming that markets would be closed to their products, since larger businesses monopolized marketing outlets.

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Profile of the Leather and Footwear Sector

This sector is predominantly privately owned and run, 95% of production being private. Moreover, most of these SSE's are micro businesses. Ten enterprises making foot wear and leather handbags were investigated. All but one of these operate out of rented shops, the remaining business being home-based. This business sector is well established, having operated an average of 18 years. Most of the entrepreneurs interviewed have learned the trade through apprenticeship, starting young as "Saby" or apprentices, graduating to "Musaaed" or assistant craftman, and finally leaving to become a business proprietor or "Osta". Nine of the entrepreneurs raised their initial capital through savings. Only 1 sought a partner to fund the establishment.

As for ownership, 7 of the enterprises are self-owned, while 3 are shared with partners. For nine of the ten businessmen, the workshop is the only business. Only one owns an additional business, a retail shop to market his products.

All but one of the businesses operate throughout the year.

Production:

Eight of the ten leathermaking enterprises in our sample are involved in shoemaking, while only two produce women's handbags. One business is presently engaged in shoe repair only while the others produce traditional shoes either with leather soles or with prefabricated plastic ones. Total assets for these businesses are relatively small, starting with less than L.E. 500 to as much as L.E. 20,000. Small workshops use simple tools like hammers, pliers or scissors, while the larger ones are operated with more sophisticated machines for sewing soles, pressing leather etc... Average total assets are estimated to be L.E. 7,966.

The number of produced units per month ranges from 50 to 300 pairs of shoes. Unit prices vary between LE 5 and LE 24 a pair, showing a broad range in quality.

The majority have indicated that the entire production process is accomplished in their workshops.

The maximum production capacity reported by the entrepreneurs is only 60%. More than half of the sample are working at only 20% capacity, while the average is as low as 32.5%.

Reasons cited for the decreased output were lower consumer demand due to abnormally high raw material prices have to then be borne by buyers. An example mentioned was that of leather whose price increased from LE 3 to LE 12, which almost brought production to a complete halt. Shoemakers at the micro level

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produce only to meet orders received from individual clients or shoe retailers.

Furthermore, due to this increase, shopowners have been forced to become more selective and limit the number of orders they made with several manufactures who do business with them.

Marketing

The common pattern is marketing through retailers as indicated by practically all of the businessmen. Only one sells of all his products directly, while another markets half of his output through a retailer and the other half through direct sales.

Their products are mainly absorbed by domestic markets within their communities. Only two said their products were exported to the Arab markets through middlemen.

Peak seasons, when consumer demand is higher, are during the month of Ramadam, at the begining of the school year, before mothers day and, in general, at the beginning of summer and winter.

As with entrepreneurs in clothing, the majority in this sector have problems with liquid cash since 74% of them are forced to sell on credit, with more than half selling on a full credit basis. Credit installments are scheduled over 12 months for most of the sample members. Other [illegible]ations were mentioned, however, that had shorter installment schedule of 10 days, 2 months or 5-6 months. One man said that retailers were in full control, since they would return the products if pressured for repayment. The producers, therefore, had no alternative but to accept the retailer's terms.

It is apparent that this business sector is experiencing hard times. All those interviewed stated that sales were decreasing for a variety of reasons. Their interpretation of this situation is that the tanners monopolize the leather market and control raw material prices. Due to inadequate working capital and increased raw material prices, the micro businessmen have their production curtailed since at the other end of the spectrum the consumer or ultimate client is unable to respond to increased costs. One entrepreneur said he was forced to purchase raw material of poorer quality at black market prices, making it very difficult to stay in business.

Finance

Findings on availability of formal credit again confirm results of previous studies. Very few banks make loans to SEE's. In fact one exeptional case included in this study received a loan of L.E. 650 to purchase a sewing machine. This was made available through a special program to assist SSE's with the

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HIPCO project. None of the others have ever received bank loans, some claiming that their businesses were too small to ask for a loan, while others saying they had been reluctant to approach banks fearing inability to pay back installments at high interest rates on time.

As mentioned earlier, the entrepreneurs have no faith in productive cooperatives, stating that even if they do provide some services, such as allocation of raw material, these services are only offered to a few who have influence with their leaders.

Most of those interviewed in this sector do not belong to cooperatives, and the few who do claim no real benefits.

Six businessmen affirmed may bought raw material on credit. Of these, 4 were aware of the increase in price on material bought in this manner. Prices could increase by 10%. One respondent calculated an increase of 25-60%. The remaining 4 entrepreneurs, however, insisted that the price of raw material was the same whether bought in cash, or on credit.

None of those interviewed borrow from money lenders. Moreover only 3 said they participated in gameyas, paying monthly sums of L.E. 40 - L.E. 100, and using their share of the money for family or business expenses.

As for coping with lack of cash by demanding advance payment on orders, the majority said they did not; the few who said they did required 20% advance in addition to a 10% option if the client were new.

The largest source of credit is probably family or friends. Half of the entrepreneurs said that it was more convenient to borrow from family members and friends who would be more understanding of their circumstances.

Future Plans

Despite the critical problems the leather business sector is experiencing, the vast majority would like to expand their work. Percieved costs for further growth ranged from L.E. 1000-30,000. Eight of the nine businessmen wishing to expand production indicated that money for expansion would be used to purchase machinery, raw material, and hire more workers. They believed that they would have no trouble marketing their products, despite the current problems they face, and that they would be able to penetrate new markets. On the other hand when asked about percieved difficulties related to fullfillment of their plans, marketing in particular was frequently mentioned as extremely restraining. They said that opening the export market was necessary because local markets were saturated.

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Profile of the Metal Small and Micro Business Sector

The metal industry have experienced grouth in recent years. One of its sub-sectors is the aluminum industry. Many small private sectors workshops have spring up. Twelve of these were investigated, 2 producing aluminum household equipment or partically sub-contracted parts in the production process of such equipment and the remaining ten producing the following: metal tubing, machinery needed for production of plastics, and ornamental items such as picture frames and pendants.

Ten of the entrepreneurs in this sector rent their workshops and 2 own them. These businesses have operated on average for 10.73 years. In this trade, 100% of the enterpreneurs were started off as apprentices who eventually opened up their own workshops.

Eleven of the 12 entrepreneurs used their savings as capital to start off their businesses, and received no financial assistance from their families. At present, only six of the business are self owned. Of the remaining 6, 4 are family owned and two are shared with partners.

Production :

The metal and aluminum workshops included in this study produce a variety items as mentioned above. Inventory of average total assets was estimated at L.E. 26,070, starting at L.E. 1,400 and reaching a maximum of L.E. 200,00.

The 12 businesses employ a total of 44 workers, both full and part-time. However, the majority (29) are non-family full-time employees, while 2 are non-family part timers. The remaining 13 laborers are family members. Ten are full-time and three are part-time. The largest number of employees in one business is 9 persons, six of whom are full time workers.

More than half of the businesses complete the entire production process in their workshops, while others manufacture only part of the process.

The present average production capacity level for these businesses is 58%. Two work at full capacity, 5 at 50% capacity, and 5 at 30-40% capacity. Reasons given for minimal levels were that since production runs parallel to demands for orders, the depressed economic conditions cut down on both demand and production. Furthermore, shortage of skilled labor and lack of automated machines needed to substantially increase output were also given as reasons for low production levels.

Marketing :

The most common marketing pattern for the metals sector is through direct sales of finished product. There are a few, however, who sell to wholesalers or retailers. The markets are almost evenly divided between local and regional markets. None have ventured into the international market.

On the whole, members of this sector do not think that there are peak seasons for production, although a few have indicated that the month of Ramadan and the summer months are better for business because the working day is longer. Moreover, there is an increased demand in Ramadan for the production of metal lanterns associated with this festive month.

Sales tend to be made exclusively in cash or credit. Only 2 businesses combine both forms of payment, provided the cash portion is 20 to 50% of the entire sum. One entrepreneur said he required 20% cash payment, collecting the remaining amounts in weekly installments over a maximum period of one month. Those who sell strictly on a credit basis, collect installments weekly or monthly. This arrangement, however, does not exceed a total period of 3 months, since cash is needed for business operation.

The market conditions for this sector are negative. All those interviewed believe that sales are decreasing because of the poor economic conditions and the reduction in consumer demand. Furthermore, SSE's are losing business due to the competition from larger investment companies that have entered the market, offering a wider variety of products at lower prices, and monopolizing raw material of superior quality. Finally, decreased sales have also been attributed to the highly inflated prices at which raw material is imported.

Finance :

This sector is similar to the previous two in that bank loans are highly uncommon. Only 1 out of 12 business proprietors secured a bank loan for L.E. 20,000 to purchase machines. Interest was fixed at 13% with 8 yearly installments of L.E. 2,500 plus interest. The respondent could not recall the percentage of commission charged by the bank.

As stated earlier, production cooperatives do not extend loans, and the overwhelming majority of businessmen are not members of these institutions.

Of the other informal systems for acquiring credit, borrowing from family friends or participating in the Gameya are both common. As mentioned earlier, money lenders are dying out in such communities. Seven of the interviewers said they participate in a Gameya and 8 borrow from friends or relatives. Other means for dealing with liquidity problems are purchasing raw material

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on credit and/or requesting advance payment from customers. Only 4, however, said they bought on credit and half of these were aware of hidden costs entailed in such an arrangement, a price increase of 10% and a week's deadline for repayment. As for advance payment on orders, eight request 20 to 40% of prices of products.

Future Plans :

Despite the negative market conditions today, entrepreneurs in this sector also have great aspirations for business expansion. The overwhelming majority wish to see their production grow. Only one proprietor is content with his lot, claiming that he has reached a stage of self-sufficiency. The others would like money to purchase arger quantities of raw material and to buy new machinery and new molds. Plans for expansion would require larger workshops and more workers. Because of the nature of this business sector and its relaince on expensive machinery, the costs cited for expansion were considerably higher than in the other sectors. One example is L.E. 400,000 required for establishing a rod-iron foundry. However, the figures more commonly quoted were between L.E. 10,000 and L.E. 60,000.

The majority forsaw no marketing problems and believed they could generate more employment.

The difficulties that would hamper this expansion were lack of credit, and problems with licensing and taxation.

Profile of the Woodworking and Furniture SSE's

Woodwork produced in small and micro workshops consists of furniture, as well as doors and windows for housing construction.

Ten such workshops were surveyed. One is home-based and owned by the proprietor. The remaining 9 shops are located in separate workskops; three of these are self-owned and 6 are rented. These businesses have operated, on average, for 13.5 years. Two were established 30 years ago, while four others are relatively new, having operated for 3 to 5 years.

Since the woodworking sector is an artisanal trade, it is not surprising that all proprietors learned the necessary skills through apprenticeship. The majority raised initial capital through retained earnings, but similar to the metals industry 40% are currently family-owned businesses while 60% are self-owned ones.

The majority stated that their businesses operate all year round. None own other businesses and only one holds another job, an employee in the public sector.

Production

The woodworkers manufacture a wide range of products from simple items such as plate racks and plain tables to more elaborate ones such as kitchen casinets or furniture for bedrooms and dining rooms. At this level, the businesses are more family-oriented, drawing on family labor. However, the two largest workshops included in this sector employ more full time non-family workers than full or part-time family members or relatives. The smallest of the businesses is a one-man enterprise.

Average total assets of the investigated enterprises were estimated to be L.E. 11,810 (ranging from L.E. 4,000 to 36,000), with the bulk of assets being spent on raw material.

In this trade, specializing in the manufacture of certain parts of the final product is common. The finished product may run through several hands. Seven of the ten business proprietors said they are partially sub-contracted for the manufacture of part of the line production. Two of these, however, also make finished products in their workshops. The majority of businesses are operated at 50% capacity only. The maximum cited was 70% of total capacity, and the minimum was 20%, although the owner of that enterprise had 6 full-time employees and assets of I.E 16,200.

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Marketing

People in this sector tend to market their products by directly selling to customers after receiving orders. The few exceptions to this are the manufacturers of small wooden items, like plate stands or small tables, that are produced on a massive scale. Two thirds of the entrepreneurs stated that there were peak seasons during which production increased. The summer month is usually busy. Labor migrants returning from Arab countries invest in furniture. Summer is also the marriage season associated with young couples about to furnish new homes.

As for mode of payment, four entrepreneurs said they sell on a 100% cash basis. The others accept payment in installments but demand at least 20% of the price upon placement of an order. The highest asked for was 50%. Duration of installments could be limited to 2 or 3 months, or extended for over 24 months for a bedroom suite. The products are primarily sold in the local and regional markets.

Most members of this trade believe that sales are decreasing. They attribute market deterioration to the high increase in the price of wood, a commodity that is mainly imported, and that is therefore tied to the devaluation of the Egyptian pound against foreign currencies. Others stated that despite price increases, there were also shortages of raw material. They also expressed concern about stagnation of the economic market in general. Only one businessman stated that the market was expanding because there was greater demand than supply.

Finance

Two businessmen reported dealing with banks to secure loans. The first acquired L.E. 6000 toward purchasing a house. The terms specified monthly installments of L.E. 98 over a duration of 60 months. Interest and commission amounted to 10%. The second borrowed L.E. 150,000 from DIB to expand his business and buy machinery. The loan was repayable over 10 years with 13% interest plus L.E. 50 service charges.

The remaining entrepreneurs said they had thought of borrowing but market conditions had discouraged them. Another simply indicated that he could not qualify for a loan because he could not fullfill all the bank's requirements.

Three of the furniture manufacturers are members of the productive cooperative, but according to these businessmen the cooperatives provide few useful services. They sometimes supply raw material, but small entrepreneurs never benefit. The remaining seven are not members of any cooperative.

Fil

In the wood manufacture sector, cash is used to buy raw material. None of the businessmen reportedly have been able to secure wood on credit. In the absence of the above, 90% said they were forced to demand advance payments of 20-70% for orders. The average is close to 50%.

Among the other methods of obtaining credit, the most common is borrowing from family or friends, rather than from money lenders or participating in a gameya. The few who said they joined gameyas stated that members were usually businessmen in their same trade. Money is used to buy raw material, or is used for personal or family expenses.

Future Plans

Most of the entrepreneurs wish to see their businesses grow. Examples of their plans include opening a show room or establishing a workshop equipped with electrically-operated machines to produce finished products on a massive scale. They believe that this would generate more jobs and increase production.

Capital required to fullfil their expansion plans ranged from as little as L.E. 1000 to 50,000. The middle range, however, was closer to L.E. 30,000.

Very few think they would have marketing problems. They plan to display and sell furniture in show rooms rather than work on the basis of orders received from individual customers. Moreover, if they produce larger quantities, it will be easier to deal with the retailers.

Problems associated with expansion include primarily lack of credit availability, increased government taxation, and to a lesser degree shortage of both skilled workers and raw material.

Credit Assessment and the feasibility of the Group Credit Mechanism

The ultimate success of the credit program is determined in large measure by a correct assessment of the target group's credit needs and by its members' acceptance of the basic concepts underlying a program intended to serve them.

There is little doubt that shortage of credit seriously limits the ability of small-scale businessmen to develop and expand.

Discussions with micro-entrepreneurs during the group meetings have further substantiated the findings obtained from the individual qualitative interviews.

The concept presented to micro-businessmen focused on the feasibility of providing credit and technical assistance through a foundation that could ultimately become self-sufficient by recovering its operational costs. It was, however, necessary to explore many of the issues underlying such a program.

The first of these issues was that of informal soliderity groups. For such a program to have a major impact, the largest number of micro-businesses should be reached. The most viable method proposed, therefore, was that of informal solidarity groups through which credit would be extended and managed. The micro-entrepreneurs would form themselves into a group of potential borrowers. The process of selection would be delegated to the group itself, ensuring that only responsible members are included.

This idea was presented to each of the entrepreneurs who responded to the a structural indepth interview and to an additional number who participated in the group meetings. An explanation of the program's objectives was given at the onset. Its approach, dealing with the micro-entrepreneurs as businessmen rather than as recipients of subsidized services, was emphasized. Initially, individual businessmen seemed reluctant to endorse their support of the project. They were unable to envisage the advantages it would offer and expressed some doubt in their ability to form groups.

A plausible explanation for this initial reluctance on the part of individual businessmen might have been their inability to grasp the concept of the informal groups. Hence, it was important to redefine and interpret this concept to the reality of their circumstances and to focus on their importance, a mechanism through which cost of credit could be reduced. The group meetings promoted open discussion and exchange of opinions concerning the feasibility of this approach. Through the meetings, the entrepreneurs could identify a common need for credit and realize the advantages gained from the program. Following a good understanding of the opportunities for assistance offered, they expressed enthusiasm and wilingness to participate in such a program when it became available. One of their suggestions, however, was that a written description of the project be distributed among them.

Another issue discussed was the cost of proposed loans. Here again, initial reactions were negative, but attitudes changed gradually after lengthey discussions. When the loan's proposed cost was explained in relation to the hidden expenses of buying raw material on credit and the financial loss of cashing gameya subscriptions several months after participation, entrepreneurs realized the advantages of joining the proposed credit program.

Conclusions

Most micro-entrepreneurs covered by the study are enterprising people who have established their workshops through hard work and perseverance. The majority started out as apprentices who learned the skills of the trade, and who then broke off to start their own businesses. One third of these now operate in privately owned locations, while the remaining two thirds run their businesses in rented ones. Given the very high cost of property in the urban communities of Cairo and Alexandria, this is not a surprising phenomenon.

It is interesting to note that of the 4 manufacturing sectors investigated, only the garment industry has attracted outsiders to the trade.

Businesses investigated have operated 12.5 years on average. The most established is the leather sector, while the most recent is that of ready-made clothes.

The average total assets of the micro businesses is L.E. 14,521. The metal manufacturers were found to have the highest assets, while those with the lowest assets were leather, which although the oldest business, has not grown at the same pace as the others.

The average operating capacity for all is 51.5%. The ready-made garment business reported the highest production capacity, 67%, while mandufacturers of leather products had an operating capacity of only 32%. Those two figures represent a fairly accurate picture of the current status of these businesses. The ready-made clothing industry is currently enjoying a boom and is expanding very rapidly to include even micro-entrepreneurs, who admit to good sales. On the other hand, the leather industry seems to be passing through a difficult phase because of the considerable increase in raw material prices. Hence, the first affected are micro-entrepreneurs of that sector, who have expressed concern over present conditions and are having marketing problems.

As for sources of finance, all four sectors are similar. Very few entrepreneurs have been able to secure loans from formal banking institutions. Therefore, they have had to resort to informal lines credit, mainly family and friends. The majority also depend on credit for the purchase of raw material and on advance payments for orders made. The only exceptions, however, are furniture manufactures who are forced to pay in cash for the wood they buy.

The common marketing pattern is either that of sales to retailers or direct sales to customers.

With a few execptions whose products are exported, most entrepreneurs sell their products domestically, having no access to international markets, although they realize the vital potential of such channels.

Plans for expansion are still an unattainable dream for these micro businessmen. They recognize that plans can only materialize with credit. Acquiring credit is a high priority. It will enable them to develop their businesses.

Finally, our investigations have shown that in addition to credit there is an obvious need for technical assistance to improve productivity, enhance management skills, and resolve marketing problems.

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SMALL AND MICRO ENTERPRISE PROFILE

Sub-Sector Activity	No. of Enter-prises	Ownership Pattern	Employment		Total Assets avg.	Production		Current Shop Capacit (%)	Market			Sources of Finance
			Family	Non Family		Unit Months	Unit Price		Local (%)	Regional (%)	Export (%)	
Ready-made Apparel	13	self 61.5% family 30.7% partner 7.6%	17.2%	82.8%	LE 12239	851	LE 8	67%	81%	15%	4%	* Bank 7% * Material on credit 46% * Money lender 9% * Gamaya 53% * Advance payment 38.5% * Family 62%
Leather Goods	10	self 70% partner 30%	23.7%	76.3%	E 7966	Shoes 111 Handbag 172.5	LE 14 LE 18.6	32.5%	60%	30%	10%	* Bank 10% * Material on credit 67% * Money lender 0% * Gamaya 75% * Advance payment 70% * Family 30%
Wood Pro-duction	10	self 50% family 33.3% partner 16.6%	50%	50%	LE 11810	60	LE 110	49%	40%	60%	—	* Bank 20% * Material on credit 0% * Money lender 0% * Gamaya 30% * Advance payment 90% * Family 50%
Metals	12	self 60% family 40%	29.5%	70.5%	LE 26070	7463	LE 5	58%	50%	50%	—	* Bank 8.5% * Material on credit 33% * Money lender 0% * Gamaya 75% * Advance payment 75% * Family 67%

POTENTIAL BRANCH OFFICE LOCATION

CAIRO:

1. MANSHEYET NASSER :

To serve mansheyet Nasser and moqattam - (mixed industries)

2. MANASRA :

To serve MANASRA (Wood Working), BAB EL SHARIA. (Footware). BAB EL LOUK (Leather and Footware). ABDIN (Metal and Services Industries. Machines and repair workshops) and MOSKY (Ready made garments).

3. SABTEYA :

To serve Sabtya (Engineering workshops) BOLAK (mixed industries). Gaserietta Badran (ready made garments and others).

4. SHOUBRA EL KHEIMA

To serve Shoubra el Kheima (mixed industries) and Shoubra (metal + ready made garments and repair workshops).

5. MATARIA

To serve Mataria district (mixed industries).

6. HELWAN

To serve Helwan district (mixed industries).

7. GIZA

To serve Giza district (Giza + Dokki) (mixed industries).

8. IMBABA

To serve Imbaba district (mixed industries).

ALEXANDRIA

1. EL RAML (mixed industries)

2. EL MANSHIA (clothing & footwear)

3. ABOU EL DERDAR (engineering & metal)

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Questionnaire

General Information

1- Name of entrepreneur :
Age : Sex :

2- Address :
Education

3- Kind of business :

Wood
Metal
Ready made clothes
Leather fost wear

4- Location of firm :

Home
Owned
Outside home
Rented

5- Date firm was established :

6- Acquired capital from :

Family
Savings
Other :
Friends
Partners

7- Business ownership :

Family
Private ownership
Partners

8- How many months during the year is the business operated?

9- Are you involved in any other work (own other business)?

Yes No

State type of business :

10- Are you employed in other work/wages

Yes No

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Production :

11- No of employees in business :

Family		Non Family	
All the time	Part time	All the time	Part time

12- Estimates of total assets value (in L.E.)

Machinery : Local
Imported
Home-made
Equipment :
Tools :
Inventory : Finished
Raw Materials
Total :

13- Estimates of average production :

Kind of product	Unit/month	Average price
----------------	----------	-------------
----------------	----------	-------------
----------------	----------	-------------

14- Location of production :

Entirely inside workshop
Partly sub-contracted
Hiring machines from others

15- At what capacity is business operated? ----------%
If not, what are the reasons?

Marketing :

16- How do you market your products?

Whole-saler
Retail
Direct sales
Local market
Regional market
Export

100

17- What are the seasons during which sales increase?

Why?

18- Do you sell for :

Cash ________%
Credit _______%

If you sell on credit, what is the period of installment collection :

19- How are market condition?

Increasing
Decreasing
Constant

State the reasons :

20- Do you deal with banks :

Yes No

For what services :

Savings Loan

21- Do you deal with industrial cooperatives?

Yes No

If No, Why?

If yes, what are the services offered (including loans)?

Purchase fixed assets
Acquire working capital
No of monthly installments : ------ amount in LE ------
Interest -------- Commission ----------
Service charge ---------- Other ------------

22- Do you buy raw materials - equipment - machines on credit?

Yes No

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* What are the terms for repayment?

What is the interest charged by suppliers?

* If you purchase raw materials in cash, does the price differ?

Yes No

If yes : state % difference

23- Do you take loans from individuals?

Yes No

If no, what are the reasons :

If yes, how do you use it :

Buying fixed assets Working capital
Length of loan in month
Number of payments
Value
Guarantee
Interest % Commission
Service charge Other

24- Do you participate in gamayas?

Yes No

If yes, how do you use it?

25- Do you ask for advance payment from the clients?

Yes No

If yes, what % of order do you request? ------------%

26- Do you take loan from any member of your family or friends :

Yes No

If yes, under what circumstances do you ask for the loan?

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27- If there are other sources from which you take your loan, what are the conditions for credit?

Future Plans :

28- Do you intend to expand your business?

Yes No

If yes, what are your plans??

Cost of expansion?

If No, why not?

29- Do you have any problems marketing your products?

30- Do you need to employ new workers?

Yes No

If yes
Full time Part time

31- What are the primary difficulties in fulfilling your plans?

(External : Govt. Regulations and Policies; Raw Material Procurement; Demand for Products; Availability of Credit; Channels of Distribution; Market Organization; etc.

Internal : Availability of Labor; Quality; Financial Reporting and Taxes; Location; Other difficulties associated with the locale; Managerial Limitations; etc.)

SMALL and MICRO ENTERPRISE
DETAILED PROJECT BUDGET
[US $000]

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
1. CREDIT FUND	956	5267	4444	5333				16000
2. OPERATIONAL SUPPORT								
A. OFFICE INSTALLATION	100	5	10					115
B. OPERATING DEFICIT	245	300	320					865
SUB-TOTAL	345	305	330	0		0		990
3. AID PROJECT MANAGEMENT								
A. US-PSC	120	125						245
B. EGYPTIAN-PSC	11	12	13	14				50
SUB-TOTAL	131	137	13	14		0		295
4. TECHNICAL ASSISTANCE-US.FIRM								
A. SALARIES								
[1]PROJ ADVISOR-CAIRO 12MOS/YR FOR 2.5 YRS @ 5/MO	60	63	33					156
[2]COORDINATOR-U.S. 3MOS-1,3MOS-2,2MOS-3 @ 5.5/MO	17	17	12					46
[3]SECRETARY- US 2MOS-1,1MO-2,1MO-3 @ 2.0/MO	4	2	2					8
SUB-TOTAL	81	82	47					210
B. FRINGE BENEFITS								
20% OF SALARIES	16	16	9					42
C. SHORT TERM CONSULTANTS								
[1] ORGANIZATIONAL SPECIALIST 2MOS-1,1MOS-2 @ 4.0/MO	8	4						12
[2]COMPUTER PROGRAMER 2MOS-1,2MOS-2,@ 5.0/MO	10	11						21
[3] SMALL BUSINESS SPECIALIST 1MOS-1, 2MOS-2 @ 5.0/MO	5	11						16
[4] MIS SPECIALIST 2MOS-1, 1MOS-2, @ 4.0/MO	8	4						12
[5] SSE TRAINER 1MOS-1,1MOS-2, @ 4.0/MO	4	4						8
SUB-TOTAL	35	34						69

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
D. TRAVEL & TRANSPORTATION								
[1] PROJ ADVISOR-CAIRO RELOCATION EXPENSES (AIRFARE, SHIPMENT HHE, POV, ETC)	15		17					32
[2] COORDINATOR 2 TRIPS-1 & 2, 1 TRIP-3, @ 2.5/T	5	5	3					13
[3] PROJ ADVISOR-TRAVEL TO ALEX.	1	1						2
[4] CONSULTANTS 8 TRIPS-1, 4 TRIPS-2, @ 2.5/T	20	11						31
[5] R&R - ADVISOR		4						4
SUB-TOTAL	41	21	19					81
E. ALLOWANCES								
[1] DIFFERENTIAL (25% OF ADVISOR SALARY)	15	16	8					39
[2] EDUCATION ALLOWANCE	9	8	5					22
[3] PER DIEM - ADVISOR 90 DAYS/YR IN ALEX @ $75/D	7	7	4					18
[4] PER DIEM - COORDINATOR 60 DAYS-1, 40 DAYS-2, 20 DAYS-3 @ $90/D AVERAGE IN CAIRO & ALEX	5	4	2					11
[5] PER DIEM - CONSULTANTS 240 DAYS-1, 120 DAYS-2 @ $90/D AVERAGE IN CAIRO & ALEX	22	11						33
SUB-TOTAL	58	46	19					123
F. OTHER DIRECT COSTS [COMMUNICATIONS, PHOTOCOPYING, RESEARCH MATERIAL, OFFICE SUPPLIES]	35	32	5					72
G. OVERHEAD ON 4A-F ABOVE @ 50 %	133	115	50					298
SUB-TOTAL US T.A.	398	346	151					895
5. TECHNICAL ASSISTANCE-SUBCONTRACT WITH EGYPTIAN FIRM								
A. SALARIES @ BENEFITS								
[1] PROJECT ADVISOR [CAIRO] @ 12/YR FOR 2.5 YEARS	12	13	7					31
[2] PROJECT ADVISOR[ALEX] @ 12/YR FOR 2.5 YEARS	12	13	7					31
[3] PROJECT DIRECTOR 4MOS/YR FOR 2 YEARS @ 2.0 MO.	8	8						16
SUB-TOTAL	32	34	13					79

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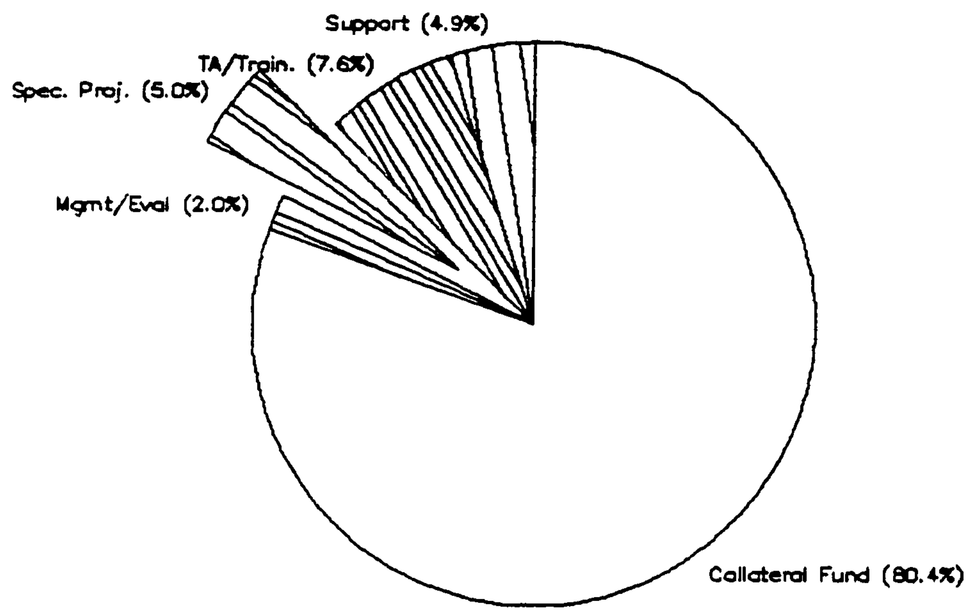
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	EXP 6	EXP 7	TOTAL
B. CONSULTANTS								
[AVERAGE SALARY 1.0 PER MO.]								
[1] INSTITUTIONAL SPECIALIST	4	4						8
4 MOS, 2 YRS, @ 1.0/MO								
[2] MARKETING/PUBLICATIONS SPECIALIS	6	6						12
6MOS, 2YRS, @ 1.0/MO								
[3] FINANCIAL/ACCOUNTING SPECIALIST	6	6						12
6MOS,2YRS @ 1.0/MO								
[4] PRODUCTION ENGINEER	12	13						25
12 MOS. 2 YRS @ 1.0/MO								
[5] MIS SPECIALIST	4	5						9
4MOS-1, 5 MOS-2								
[6] TRAINER	5	5						10
5 MOS, 2 YRS, @ 1.0/MO								
[7] CREDIT CONSULTANT	6	6						12
6 MOS, 2 YRS, @ 1.0/MO								
SUB-TOTAL	43	46						89
C. TRAVEL								
[1] DOMESTIC	5	5						10
[2] INTERNATIONAL	10	10						20
D. PER DIEM								
[1] DOMESTIC	5	5						10
[2] INTERNATIONAL	10	10						20
E. OVERHEAD								
INCLUDING OTHER DIRECT COSTS,								
COMMUNICATIONS, OFFICE SPACE...ETC	84	88	11					182
[80% OF 5A-D ABOVE]								
SUB-TOTAL, SUBCONTRACTS	189	198	24					410
6. TRAINING/EDUCATION								
A. CONSULTANTS [COSTS COVERED THROUGH TA CONTRACTS]								0
B. IN COUNTRY WORKSHOPS & SEMINARS	20	25						45
[TRAINING MATERIALS, MEETING ROOMS, PER DIEM]								
C. US & THIRD COUNTRY OBSERVATIONAL TRAVEL	25	25	25					75
[AIR FARES & PER DIEMS]								
D. PUBLICATIONS		25	30					55
E. COMMUNICATIONS [FILM/VIDEO]		25	30					55
SUB-TOTAL	45	100	85					230

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
7. SPECIAL PROJECTS								
SUB GRANTS WITH PVOS		500	500					1000
8. EVALUATIONS								
A. MID-TERM			75					75
B. END OF PROJECT							75	75
SUB-TOTAL	0	0	75	0		0	75	150
9. AUDITS								
A. MID-TERM			25					25
B. END OF PERIOD							38	38
SUB-TOTAL			25				38	63
GRAND TOTAL	2064	6653	5623	5347	0	0	113	20000

ASSUMPTIONS:
5% INFLATION PER YEAR ON ITEMS 3, 4, & 5
NOTE:
SOME FIGURES DO NOT ADD EXACTLY DUE TO ROUNDING

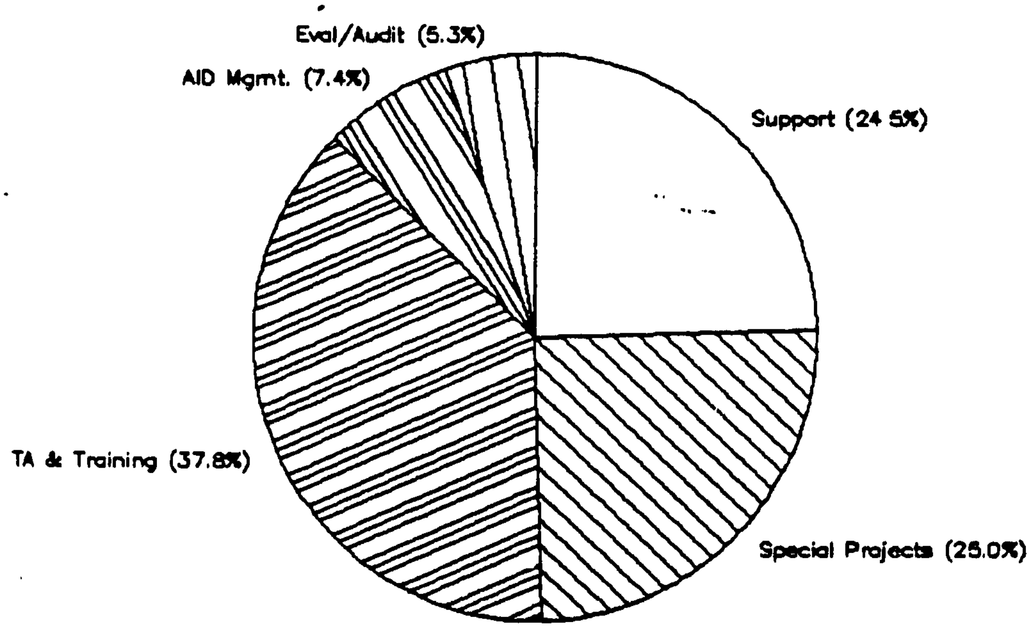
BUDGET BREAKDOWN

Projected Use



DETAILED BUDGET BREAKDOWN

Expenditures other than Collateral Fund



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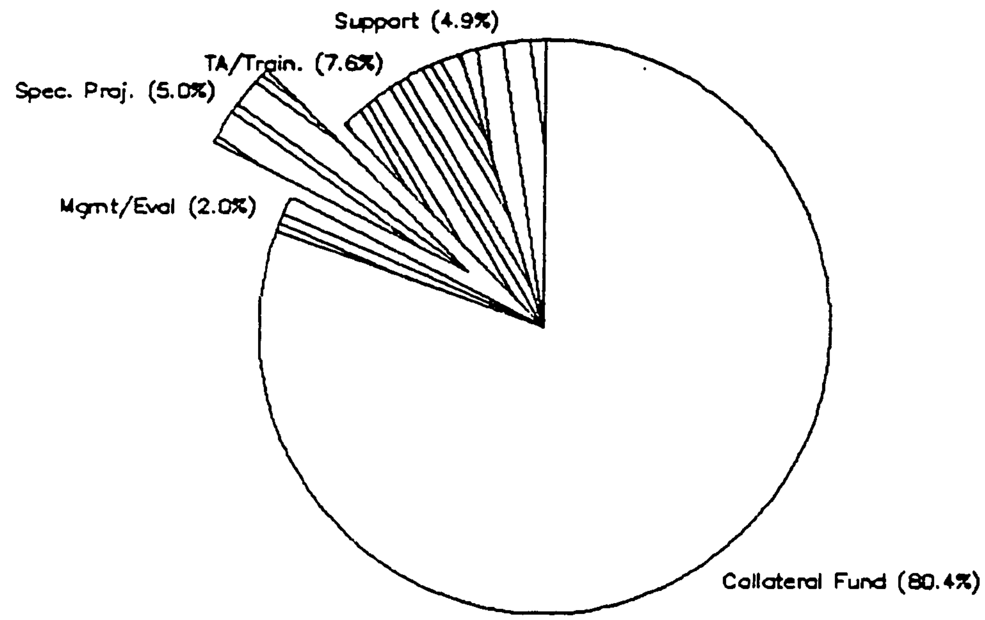
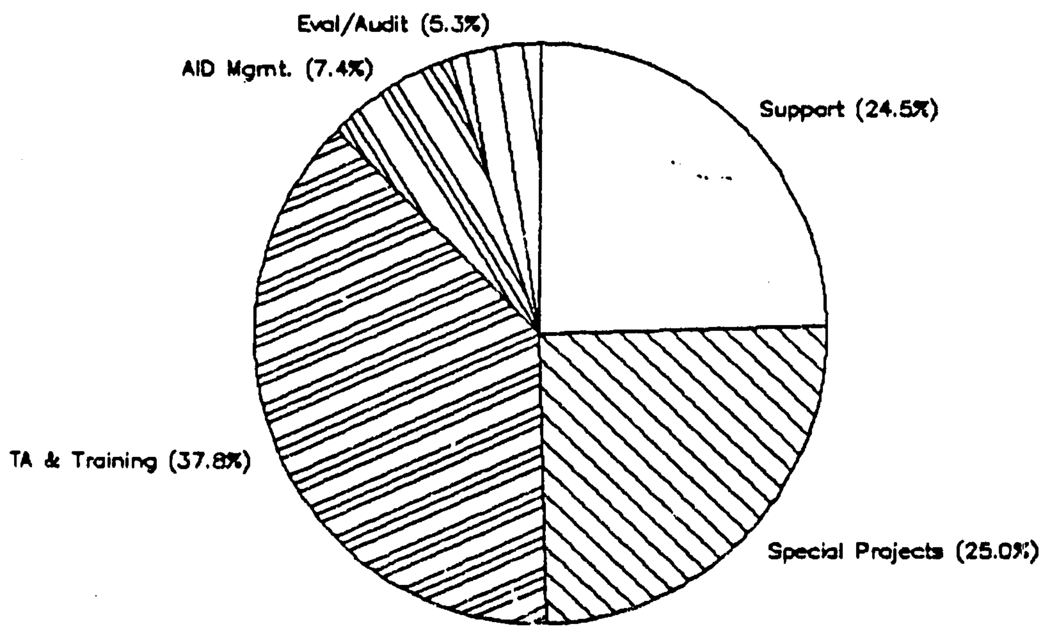
BUDGET BREAKDOWN

Projected Use



DETAILED BUDGET BREAKDOWN

Expenditures other than Collateral Fund



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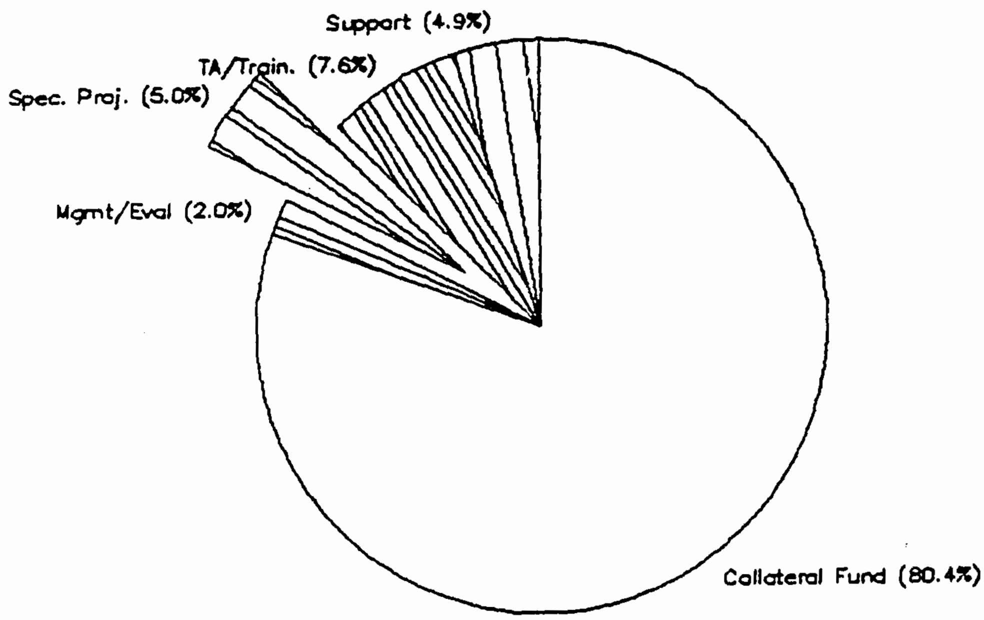
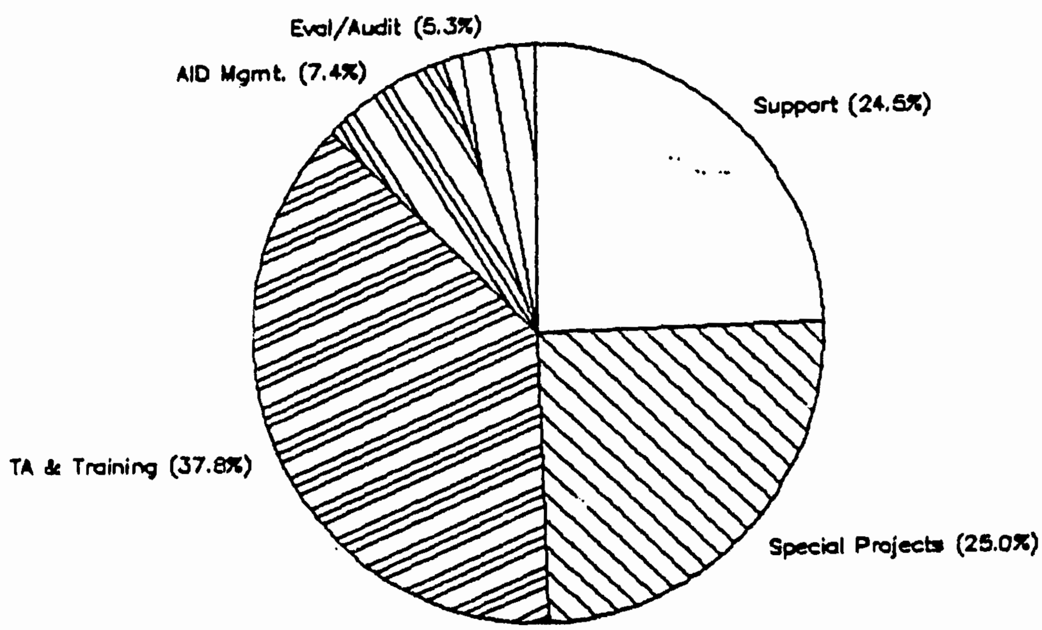
BUDGET BREAKDOWN

Projected Use



DETAILED BUDGET BREAKDOWN

Expenditures other than Collateral Fund



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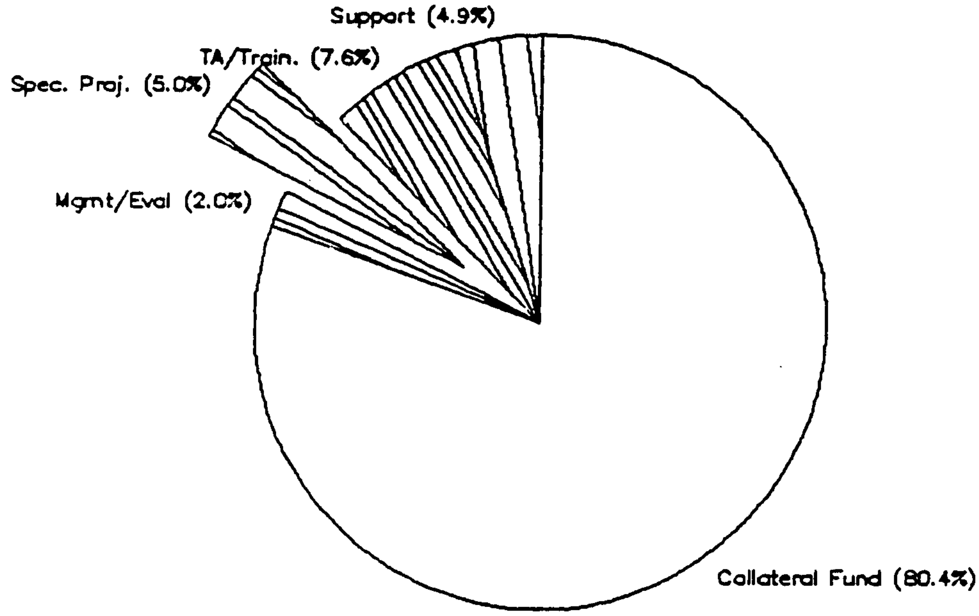
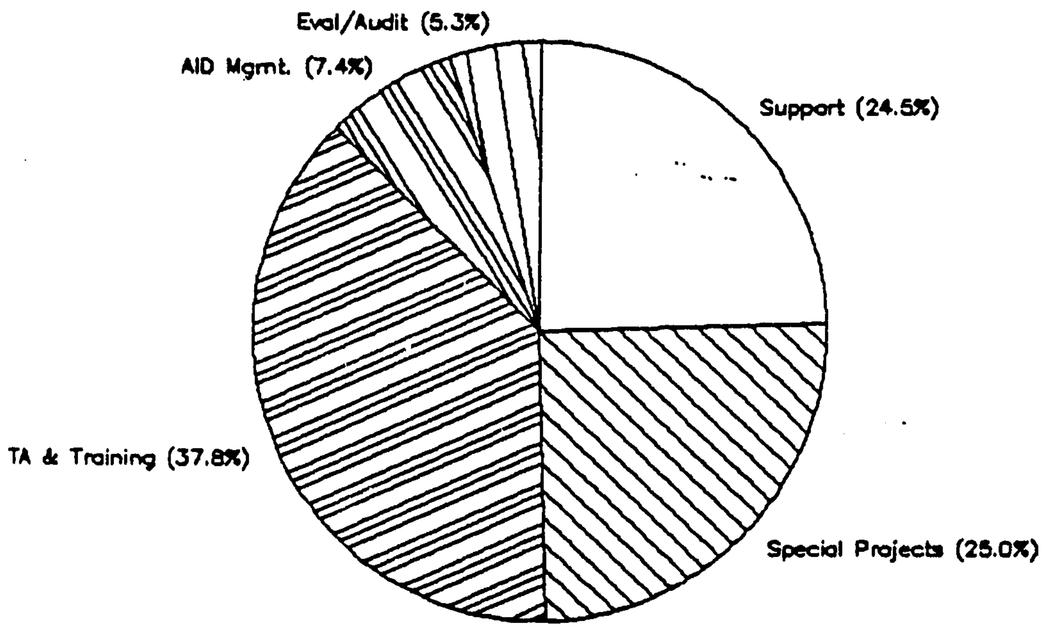
BUDGET BREAKDOWN

Projected Use



DETAILED BUDGET BREAKDOWN

Expenditures other than Collateral Fund



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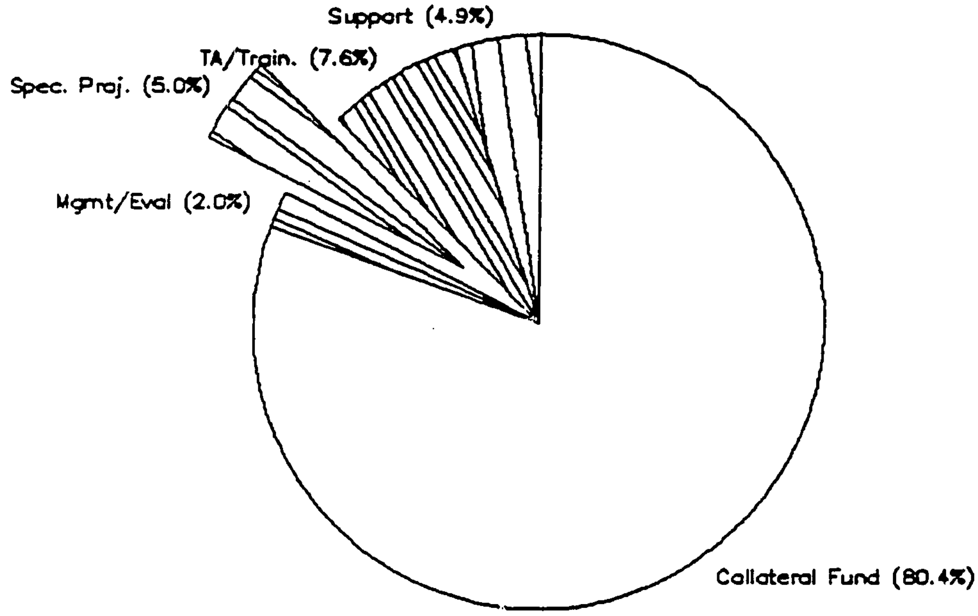
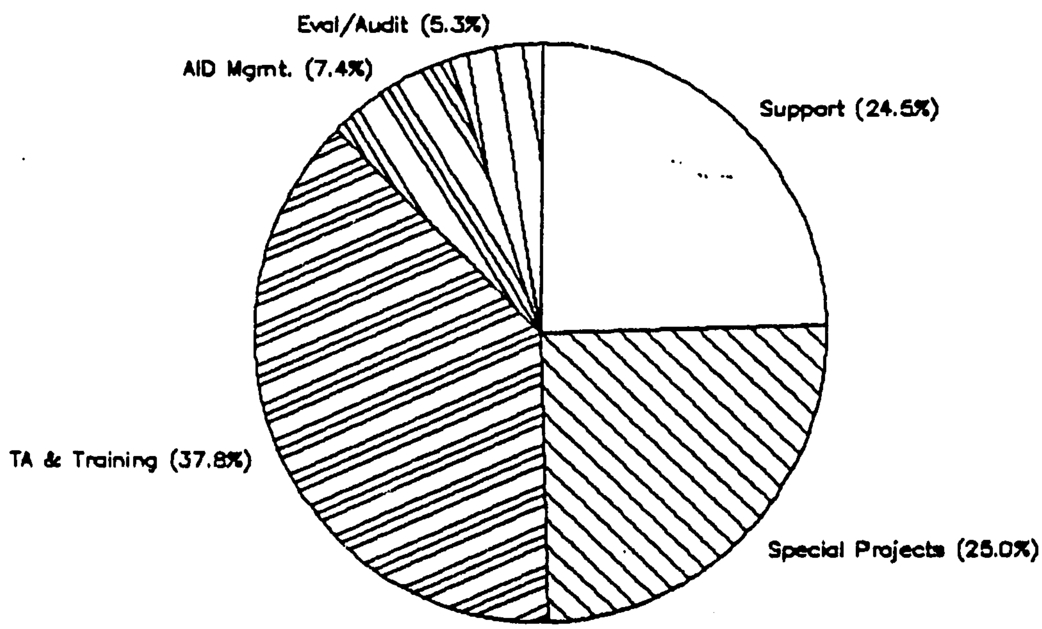
Projected Use



DETAILED BUDGET BREAKDOWN

Expenditures other than Collateral Fund



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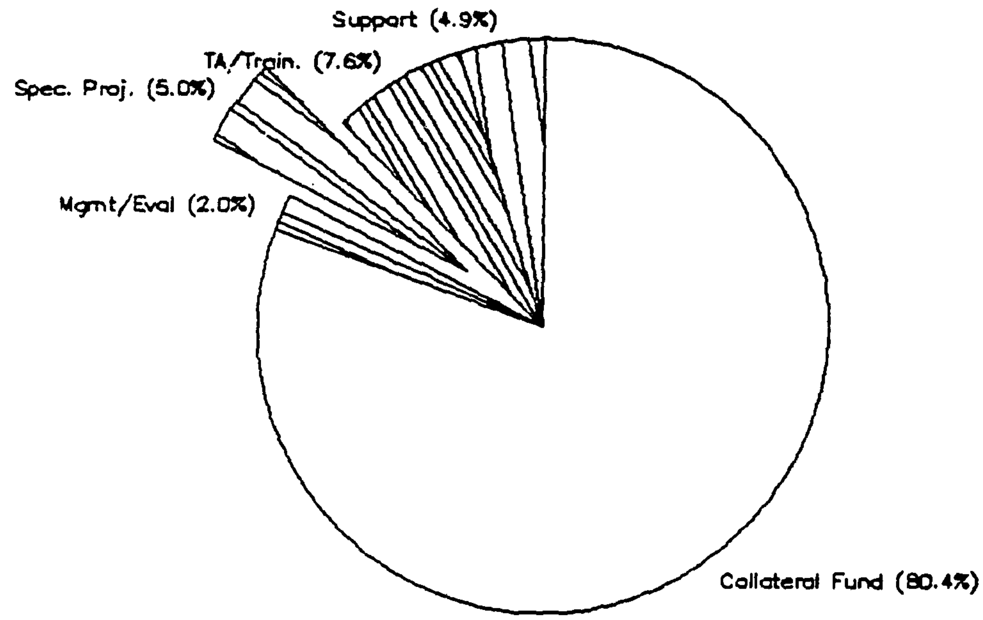
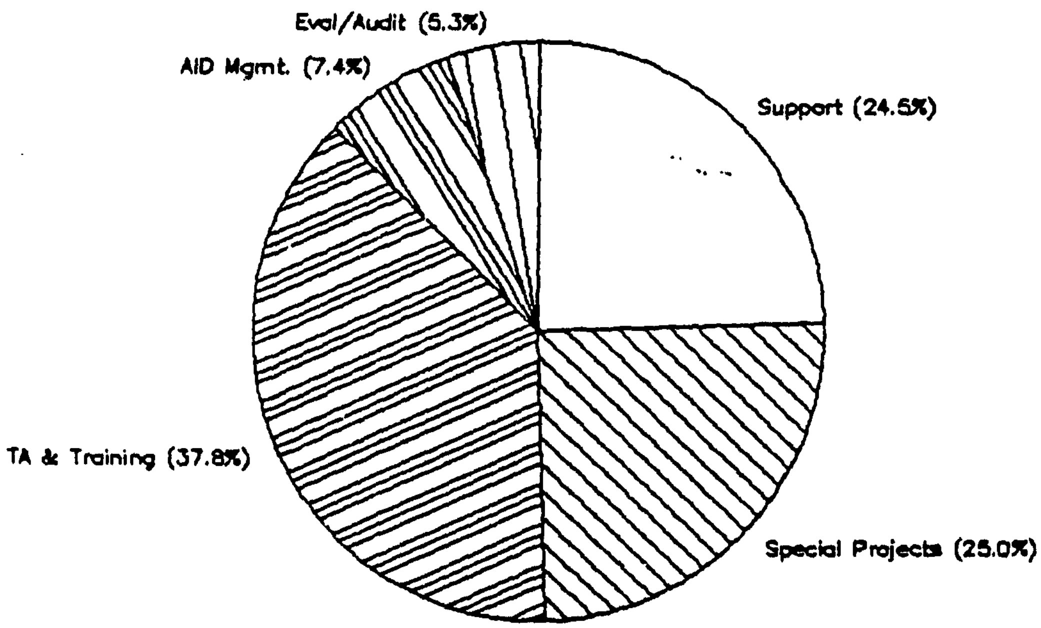
BUDGET BREAKDOWN

Projected Use



DETAILED BUDGET BREAKDOWN

Expenditures other than Collateral Fund



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