PD-ABC-690

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

SMALL ENTERPRISE CREDIT

EGYPT

263-0228

PROJECT PAPER

Dated signed: 04/18/91

UNCLASSIFIED

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: 263-0218

4. BUREAU/OFFICE: EUROPE/NEAR EAST

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

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 91 B. Quarter 3 C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 = LE 3.33)

A. FUNDING SOURCE	FIRST FY 91 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(10,000)	( )	(10,000)	(16,000)	( )	(16,000)
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country Nat. Bank for Development					3,000	3,000
TOTALS	10,000		10,000		3,000	19,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ESF	270	110		0	0	10,000	0	16,000	0
(2)									
(3)									
(4)									
TOTALS				0	0	10,000	0	16,000	0

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

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)

To increase small entrepreneurs' access to credit and other banking services.

14. SCHEDULED EVALUATIONS

Interim MM 09 YY 93 MM YY Final MM 09 YY 95

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☒ 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.

4/17/91

Nimalka Wijesooriya, Acting Controller

17. APPROVED BY

Signature

Title: Marshall D. Brown, Director, USAID/Egypt

Date Signed: MM 4 DD 16 YY 91

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

MM DD YY

AID 1330-4 (8-79)

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

May 28, 1991

Information Memorandum for the Director

Subject: Budgetary Adjustment for the Small Enterprise Credit Project

From: Robert Jordan, OD/PDS/PS

The Project Paper which you signed on April 18, 1991 justified an LOP Grant amount of $16,000,000. The PP, however, indicated that GOE counterpart from the Special Account might be utilized in lieu a portion of the Grant funding. (As you will recall we had proposed to MIC to meet local currency requirements for several projects from the Special Account in order to free up dollar funding for the Alexandria Wastewater Project Amendment). We have now received confirmation from MIC that the equivalent of $7 million will be provided from the Special Account for the Project in 1991. Therefore, the Project Authorization is for $9,000,000 rather than $16,000,000.

SMALL ENTERPRISE CREDIT PROJECT (263-0228)

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ACRONYMS

AID	Agency for International Development
ACDI	Agricultural Cooperative Development International
CDSS	Country Development Strategy Statement
CFR	Code of Federal Regulations
CA	Cooperative Agreement
USDH	U.S. Direct Hire
ENE	Bureau for Europe and the Near East (AID)
FI	Office of Finance and Investment (USAID/Cairo)
FSN	Foreign Service National
FY	Fiscal Year
GOE	Government of Egypt
IMF	International Monetary Fund
LD II	Local Development II Project
LE	Egyptian Pounds (currency)
MIC	Ministry of International Cooperation
NBD	National Bank for Development
NIB	National Investment Bank
OYB	Operational Year Budget
PC	Project Committee
PID	Project Identification Document
PIL	Project Implementation Letter
PIO/T	Project Implementation Order/Technical
PP	Project Paper
PSC	Personal Services Contractor
RSSE	Rural Small Scale Enterprise Pilot Credit Activity
SEC	Small Enterprise Credit Project
SME	Small and Micro Enterprise(s)
SOW	Statement of Work
TA	Technical Assistance
TI	Directorate for Trade and Investment (USAID/Cairo)
USAID	United States Agency for International Development
WID	Women in Development

SMALL ENTERPRISE CREDIT PROJECT

263-0228

SUMMARY AND RECOMMENDATION

INTRODUCTION

Small and micro enterprises (SMEs) play a vital role in the Egyptian economy. A significant proportion of Egypt's industrial output is produced by small and micro business. There are an estimated 250,000 manufacturing establishments which employ between one and nine employees and approximately 13,000 private firms with between ten and fifty employees. An unquantified number of small service establishments also exist in the small enterprise sector. The overwhelming majority of these businesses are located in large urban centers, with over 75 percent located in the Cairo and Alexandria metropolitan areas. The small scale business sector is important because of the large amount of employment it provides. Global experience with small scale enterprise support projects (both AID and World Bank) has shown that productive sector SMEs generate the largest increments in productivity and new employment for each dollar invested in the participating firm.

The Iraqi invasion of Kuwait in August 1990 and the ensuing Gulf War have deepened Egypt's economic problems by reducing traditional sources of foreign exchange, especially tourism revenues, Suez Canal fees, and workers' remittances, and further straining Egypt's scarce domestic resources with the unexpected repatriation of a currently estimated 350,000 workers and their families.

The proposed Small Enterprise Credit (SEC) Project would be implemented in line with the soon-to-be established World Bank-financed Social Fund for Egypt. The Social Fund will be the centerpiece of the GOE's safety net program to cushion the effects of structural adjustment on at-risk groups in Egypt. Due to the exigencies of the current crisis, the Social Fund has been delinked from approval of the IMF program and the structural adjustment loan. The GOE has determined that requirements associated with the Gulf returnees will be folded into the Social Fund rather than be treated as a separate problem. Among the activities to be supported by the Social Fund is small and micro enterprise assistance.

Small and micro entrepreneurs, herein described as those having fixed assets of less than LE 25,000, excluding land and buildings, and less than fifteen employees, have nearly no access to formal credit in Egypt. Various studies as well as USAID's experience with the Small and Micro Enterprise Development Project and the Rural Small Scale Enterprise Pilot Credit Activity confirm substantial unmet demand for SME credit on reasonable terms. Recent research indicates that small and micro entrepreneurs are predominantly dependent on credit from suppliers, and, to a lesser extent, pre-payment by customers. With the exception of two AID financed small enterprise credit projects, which are currently serving approximately 5,000 small, non-rural borrowers, no formal credit institutions are delivering small enterprise credit in urban areas. At most, two percent of the lowest estimated market is being served.

The magnitude of either the numbers of small and micro entrepreneurs or their total credit demand defies quantification. These businesses generally are not registered or taxed and are therefore "institutionally invisible." At least 375,000 such businesses (including the service sector) exist in Egypt. Small entrepreneurs can be found throughout Egypt. The metropolitan areas of Cairo and Alexandria represent approximately 25-30 percent of the entire country's population and have an even higher ratio of small entrepreneurs, given that these areas represent the largest pool of consumer capital.

PROJECT DESCRIPTION

The goal of this project is to expand the economic output of small entrepreneurs. The target beneficiaries of project services are small entrepreneurs in the greater Cairo metropolitan area with less than fifteen employees and less than LE 25,000 in fixed assets, excluding land and buildings. The project purpose is to increase small entrepreneurs' access to credit and other banking services. This project is intended to be responsive to the urgent short-term needs of the GOE's Social Fund initiative. To this end, and in order to ensure rapid start-up and implementation of this activity, the SEC project approach has been streamlined to the maximum extent feasible.

The project will provide, over its four year life, an ESF grant of $16,000,000, of which $4,850,000 will be used to finance part of the costs of administration, training, technical assistance, and other program support activities. The balance of $11,150,000 will be used to establish a loan fund within the implementing bank, the National Bank for Development (NBD). If mutually agreed upon by USAID and the Ministry of International Cooperation (MIC), some or all of the local currency costs (loan fund and/or operation costs) may be provided from the Special Account. NBD will contribute LE 10 million of its own resources to the loan fund, which will be used to make loans to small and micro enterprises in the greater Cairo area. The income generated by the program will be available to cover operating expenses. The project will be incrementally funded by USAID with an initial obligation of $10,000,000 in FY 1991.

The project will be implemented by means of a bilateral grant agreement executed by USAID and the MIC under which, among other things, MIC will agree to the following project funding mechanisms:

- USAID will enter into a project-financed Cooperative Agreement (CA) with Agricultural Cooperative Development International (ACDI) (See Section 2.2.2). Under the CA, ACDI will provide technical assistance and procure project vehicles and equipment.

- NBD will enter into a "Credit Account Acceptance Agreement" with USAID (see section 3.0) under which funds for NBD's initial operating and staff training costs under the project will be provided.

- Capitalization of the loan fund will be by means of a direct agreement between USAID and NBD setting forth understandings on the uses of the loan fund, and its disposition in the event of unforseen circumstances. The agreement will specify arrangements for the fund to be held permanently by NBD barring the occurrence of an event of default stated in the agreement.

The project will essentially replicate and expand upon key elements of the successful mechanism established under the Rural Small Scale Enterprise (RSSE) Pilot Credit Activity being implemented by NBD with financing from the Local Development II Project (263-0182). RSSE, currently nearing completion, field tested in Egypt a methodology based on highly successful experience in bank-based SME lending in Indonesia, Bangladesh and elsewhere, in which bank loan officers seek out potential borrowers in their residences and places of business and visit clients on a regular basis to collect payments, provide advice, make new loans, etc. The market rate of interest will be charged on all project loans.

Accordingly, the SEC Project will focus on the delivery and recovery of short-term credit in the small and micro enterprise sector. Project funding will contribute to the cost of technical assistance, training, initial operating costs, basic office and data processing equipment, vehicles, and loan capital. Technical assistance to NBD will be provided by Agricultural Cooperative Development International (ACDI), a Washington-based, non-profit technical and management organization. ACDI has provided technical assistance to NBD under the RSSE since the inception of that activity.

At the end of the four year life of project the following accomplishments are expected:

- Approximately 20,000 small entrepreneurs will be active borrowers and approximately 10,000 jobs will be created or expanded from part time to full time employment.

- Over $20 million (equivalent) in loan capital will be in circulation with the SME sector.

- The SME lending program will be replicable to virtually any geographic area of Egypt.

- NBD will have established an efficient and effective small and micro enterprise lending program which is capable of sustaining or expanding its activities based on reflows of principal and interest into the fund.

Although this project focuses on the delivery of credit to SMEs in the greater Cairo area, NBD has expressed interest in expanding the program into several rural governorates. The feasibility of this action will be examined in the course of the mid-term evaluation of the SEC. If there are clear indications that a similar project approach would be successful on a large scale in one or more rural areas, then USAID will consider a project modification to expand the SEC accordingly. Such an expansion would be predicated on NBD covering the operating costs of the expanded program from the beginning.

IMPLEMENTATION ARRANGEMENTS

The successful implementation of this project demands close interaction among USAID, the National Bank for Development, and ACDI. The Mission's Office of Finance and Investment (TI/FI) will have primary responsibility for monitoring the project. With the assistance of the various support offices, TI/FI will, among other things, review, approve, and forward for processing all of NBD's requests for loan fund disbursements; monitor project activity, ensuring compliance with conditions and covenants of the Project Agreement; and take management action as necessary.

The NBD has the primary responsibility for implementation of the project. It will identify, recruit, contract, and train project loan officers along with supervisory and support staff; identify potential clients, produce and process their loan applications, and supervise the clients in a manner that will ensure timely repayment; produce timely and complete data on loans extended, loans outstanding, a description of the borrowers' fund utilization, and savings performance; and submit loan projections through the period in which AID-sourced loan funds are required.

ACDI is expected to work closely with NBD to assist in all aspects of the bank's responsibilities described above. In addition to this role, ACDI will provide at least two long term consultants with international experience in implementation of small enterprise credit projects; provide short term technical assistance with development and implementation of computerized management information systems, and other short term specialized services as identified and required; provide policy guidance and suggestions for improved implementation of the project to AID and NBD; and, provide timely and accurate reports on project implementation and ACDI activity.

SUMMARY FINANCIAL PLAN

Table 1 below presents the summary cost estimate and financial plan. Project funds will be disbursed by means of four mechanisms. Capitalization of a loan fund to be used by NBD to finance SME loans will be by means of a direct agreement between USAID and NBD setting forth understandings on the uses of the loan fund, and its disposition in the event of unforseen circumstances. The agreement will specify arrangements for the fund to be held permanently by NBD barring the occurrence of an event of default stated in the agreement. The Project Agreement executed by USAID and MIC will include a covenant pursuant to which the GOE agrees that USAID will enter into the above described agreement with NBD. Loan funds will be disbursed quarterly based on NBD's projected loan volume. Subsequent releases will take the previous quarter's performance as well as projected requirements into account and be adjusted accordingly.

Technical assistance for NBD will be provided through a Cooperative Agreement (CA) between USAID and ACDI, as discussed in Sections 2.2.2, 4.1.4, and Annex L. Under the CA, ACDI will procure project vehicles as well as office and data processing equipment.

Funds for NBD's initial operating expenses and training will be provided by USAID as per the terms of the "Protocol for Cash Advances" signed by USAID and MIC on September 30, 1990. Under this agreement, a project credit account will be established for NBD within the AID Project Cash Advance Account managed by the National Investment Bank (NIB). NBD will draw on this account for operating and training costs and will periodically submit vouchers to USAID for liquidation of advances from the project credit account.

Finally, separate contracts will be executed as appropriate to perform annual audits, mid-term and final systems reviews, and mid-term and final evaluations. Table 2 presents a projection of project expenditures by fiscal year.

As reflected in the tables below, NBD will provide at least L.E. 10 million ($3 million equivalent) for additional capitalization of the loan fund when the project breaks even, when USAID-sourced loan capital is fully in circulation, or eighteen months from the date upon which end-use lending begins, whichever comes first.

RECOMMENDATION

The Project Committee recommends that a grant of $16 million be authorized for the Small Enterprise Credit Project. The grant will be for a four year period, and obligations will be made in two increments - $10 million in FY 91 and $6 million in FY 92.

1.0 BACKGROUND AND RATIONALE

1.1 BACKGROUND

Egypt faces a formidable challenge over the next few years as it seeks to undertake economic restructuring while containing the negative impact of such a program on the lower and more vulnerable income groups. Egypt has both high levels of unemployment and widespread poverty, which may be exacerbated during the short term by the implementation of economic restructuring measures. Although precise measures of unemployment are difficult to obtain, statistics from the 1986 census showed total unemployment at two million out of a work force of 13.7 million, a rate of 14.6 percent. This figure does not take into account the probably equally serious problem of underemployment. Currently, the unemployment situation has been exacerbated by the return of Egyptians who had been working in neighboring countries in the Arabian Gulf region.

Small and micro enterprises (SMEs) play a vital role in the Egyptian economy. A significant proportion of Egypt's industrial output is produced by small and micro business. There are an estimated 250,000 manufacturing establishments which employ between one and nine employees and approximately 13,000 private firms with between ten and fifty employees. At least several hundred thousand small service and commercial establishments also exist in the small enterprise sector. The overwhelming majority of these businesses are located in large urban centers, with over 75 percent located in the Cairo and Alexandria metropolitan areas. The small scale business sector is important because of the large amount of employment it provides. Global experience with small scale enterprise support projects (both AID and World Bank) has shown that productive sector SMEs generate the largest increments in productivity and new employment for each dollar invested in the participating firm.

1.2 PERCEIVED PROBLEM

The Iraqi invasion of Kuwait in August 1990 and the ensuing Gulf War have deepened Egypt's economic problems by reducing traditional sources of foreign exchange, especially tourism revenues, Suez Canal fees, and workers' remittances, and further straining Egypt's scarce domestic resources with the unexpected repatriation of a currently estimated 350,000 workers and their families.

The proposed Small Enterprise Credit (SEC) Project would be implemented in line with the soon-to-be established World Bank-financed Social Fund for Egypt. The Social Fund will be the centerpiece of the GOE's safety net program to cushion the effects of structural adjustment on at-risk groups in Egypt. Due to the exigencies of the current crisis, the Social Fund has been delinked from approval of the IMF program and the structural adjustment loan. The GOE has determined that requirements associated with the Gulf returnees will be folded into the Social Fund rather than be treated as a separate problem. Among the activities to be supported by the Social Fund is small and micro enterprise assistance.

The small business sector faces several severe constraints to its growth, including inadequate sources of financing. While there are other significant problems, such as marketing and promotion deficiencies, managerial inexperience, the lack of necessary accounting and other financial management skills, cumbersome government procedures, onerous taxation, out-of-date techniques, and lack of up-to-date information on machinery and equipment, lack of access to financing is considered the most crucial problem.

Small and micro entrepreneurs, herein described as those having fixed assets of less than LE 25,000, excluding land and buildings, and less than ten employees ("micro") or between ten and 15 employees ("small"), have nearly no access to formal credit in Egypt. Various studies as well as USAID's experience with the Small and Micro Enterprise Development Project and the Rural Small Scale Enterprise Pilot Credit Activity confirm substantial unmet demand for SME credit on reasonable terms. Recent research indicates that small and micro entrepreneurs are predominantly dependent on credit from suppliers, and, to a lesser extent, pre-payment by customers. With the exception of two AID financed small enterprise credit projects, which are currently serving approximately 5,000 small, non-rural borrowers, no formal credit institutions are delivering small enterprise credit in urban areas. At most, two percent of the lowest estimated market is being served.

The magnitude of either the numbers of small and micro entrepreneurs or their total credit demand defies quantification. These businesses generally are not registered or taxed and are therefore "institutionally invisible." The Match Report on Small Enterprises, 1985, extrapolated that at least 375,000 such businesses exist in Egypt. Small entrepreneurs can be found throughout Egypt. The metropolitan areas of Cairo and Alexandria represent approximately 25-30 percent of the entire country's population and have an even higher ratio of small entrepreneurs, given that these areas represent the largest pool of consumer capital.

Experience with the Rural Small Scale Enterprise Pilot Credit activity (see section 1.4.3) indicates that there are literally thousands of small businesses willing to pay market rate interest for loans in the areas that are considered "rural" in

Egypt. It should be noted that small enterprises are more prevalent in urban areas. However, given the high population density of habitable Egypt, even the farming areas in the Nile and Delta regions surround densely populated small cities that generate demand for products produced by small entrepreneurs.

Although a number of Egyptian banks have had excess liquidity in recent years, they have not channelled resources into existing credit demand in the small scale business sector. In general, there is a lack of incentives for banks to lend to SMEs: the cost of evaluation, appraisal and follow-up is high in terms of the per transaction benefit to the bank given the banks' existing methodologies for loan analysis. SMEs can not offer sizeable guarantees or collateral. The preference for lending larger amounts to a small number of borrowers is primarily the result of the banks' perceptions (unsubstantiated by actual experience) that small borrowers present higher risk. The majority of small entrepreneurs have little or no prior experience in dealing with banks, owing to the lengthy loan processing time and the restrictive collateral requirements. As access to sources of finance from formal banking institutions is extremely limited for SMEs, they must resort to non-banking financial entities for their capital. These include money lenders, relatives, "gamayas" (informal savings and credit groups), supplier credit, and advance pay from clients.

Small scale businesses also face a macroeconomic policy and administrative environment that currently contains serious market access and entry barriers. This environment encourages financial institutions to ration credit towards favored large clients, discriminate against apparently riskier small and micro enterprises, and discourage savings mobilization. In addition, there are restrictive regulatory and legal systems that create considerable obstacles for small firms, thereby encouraging informality and discouraging access to benefits afforded to legally constituted firms. However, as part of the proposed IMF Stand-by/World Bank structural adjustment programs, many financial policy and regulatory constraints which adversely impact SMEs should be removed. Potential improvements include: reduced collateral requirements for small loans; improved access to government services by SMEs; and increases in interest rates for both borrowing and saving. The GOE has recently removed the ceilings on interest rates, but due to a variety of broad economic constraints, the banking sector has not yet responded to the new freedom to set interest rates on a market basis.

1.3 CONFORMITY WITH RECIPIENT COUNTRY STRATEGY

The proposed project would address three of the four major goals of the GOE's 5-year (1987-1992) development plan, namely:

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

The project would also help address the GOE's short-term strategic objective of providing a "safety net" for the segment of Egyptian society which will be most affected by implementation of an economic structural adjustment program. The project is intended, through provision of short-term credit, to strengthen the role of the private sector, improve productivity levels of small businesses, and expand employment. In order to respond to the short-term "safety net" objectives of the GOE with regard to the Gulf crisis returnees, the project will be designed to be operational very soon after obligation and will be quick-disbursing.

1.4 RELATIONSHIP TO THE CDSS, AID POLICY, AND SIMILAR PROJECTS

1.4.1 Country Development Strategy Statement

The FY 1989 USAID/Egypt Country Development Strategy Statement (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. One of the critical areas addressed in the CDSS is increased productivity in the private sector.

The proposed project fits within one of the specific areas of support to the private sector presented in the FY 1989 CDSS Update, i.e., continued support for efforts to provide access to credit for small, micro, and medium-sized private industries. 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. By improving access to credit, the project would support the broad economic reforms outlined in the CDSS dealing with productivity and a freer market economy, and would effectively complement implementation of the structural adjustment program. In making credit more accessible to small and micro enterprises, the project will contribute significantly to the ENE Bureau's open markets/open societies initiative through the fostering of market forces and the expansion of the private sector's role in the economic growth of Egypt. It will expand the range of economic opportunities in a significant segment of the Egyptian population, offsetting Egypt's longstanding emphasis on state enterprise. The project is also expected to interact synergistically with the banking reform elements of the structural adjustment program to foster savings mobilization.

1.4.2 AID Policy

The SEC project as designed is in broad conformance with the policies set forth in the AID Policy Paper on Private Enterprise Development (March 1985); AID Microenterprise Development Guidelines (PD-17); and the AID Policy Paper on Financial Markets Development (August 1988).

AID's policy on private enterprise development states that AID resources used to provide financial capital to a financial institution so that it can increase its current on-lending to a specific AID target group should be channelled to activities which are consistent with the CDSS and which are unable to attract the full amount of required financial capital from commercial sources. As discussed in Section 1.4.1 above, the SEC project fits within one of the specific areas of support to private industry presented in the FY 1989 CDSS Update. Regarding access to capital, it is clear from the foregoing discussion (section 1.2) that Egyptian small and micro enterprises are currently largely unable to obtain credit from formal sources.

The SEC project will meet the overall program objective of AID's Microenterprise Development Guidelines, i.e., "to help people with limited or no access to capital achieve a level and quality of business activity that will permit increased access to formal financing and technical services and expand productive employment and incomes." In line with the specific guidance on microenterprise credit activities, the project design ensures that the interest rates and associated fees charged to borrowers will reflect the full cost of the credit provided. USAID/Egypt's selection of a commercial for-profit bank to implement the project is in compliance with the guideline to maximize the use of private sector institutions as financial intermediaries in SME credit programs.

The microenterprise development guideline on loan size states that the average loan size should not exceed $300 (equivalent) unless there are indications that larger-sized loans are needed to achieve the objectives of the program. Under the Rural Small Scale Enterprise Credit Activity (RSSE - see Section 1.4.3) the current average loan size of LE 1,000 approximates the recommended upper limit of $300. However, experience with the Small and Micro Enterprise Development Project, which is being implemented in the Cairo and Alexandria areas, shows an average loan size of over LE 2,000, a reflection of the higher costs of labor, materials, and other inputs in these highly urbanized areas. Similarly, the SEC project anticipates an average loan size in the range of LE 1,000 to 2,000, which is higher than the $300 guideline.

The $300 loan size was originally proposed by Congress as a mechanism for directing AID's assistance towards new enterprises. The guidance states that Missions may exceed this limit on programmatic grounds. In the case of SEC, conforming to the $300 limit would deny project resources to viable microenterprise program candidates, in that the SEC project is targeted to existing (as opposed to new) small and micro businesses, whose average credit requirements exceed the guideline, especially in an urban area such as Cairo. The decision to focus resources on existing enterprises is based on a number of factors. Given the 85 percent worldwide average failure rate for new small and micro enterprises, and the fact that the SEC is seeking to institutionalize small enterprise lending in the National Bank for Development, lending to new enterprises (at least initially) is not a realistic objective. The SEC project is thus designed to assist the large base of existing small businesses in Cairo that are severely underserved by any form of credit.

1.4.3 Relationship to Similar USAID/Egypt Projects and Other Donor Activities

USAID/Egypt has significant experience in designing and implementing projects to deliver credit to small and micro enterprises. The Small and Micro Enterprise Development (SMED) Project (263-0212), initiated in October 1988, is assisting small (6 - 15 employees) and micro (1 - 5 employees) businesses in the major urban areas of Egypt by creating and supporting the initial operations of two private foundations that manage the delivery of credit, technical assistance, and training to small entrepreneurs in Cairo and Alexandria. Credit is provided by means of a project-financed collateral fund established in the Export Development Bank against which the bank extends overdraft privileges to the foundations, which in turn make loans in the range between LE 500 and LE 10,000 to eligible small and micro enterprises. The Alexandria foundation was established (legally and physically, including main and branch offices) by January 1990, and began lending in the same month. The Cairo foundation began operations in November 1990, and both foundations are now carrying out active lending and technical assistance programs, with approximately LE 4.5 million extended in formal loans to date.

The Rural Small Scale Enterprise (RSSE) Pilot Credit Activity, financed under the Local Development II Project (263-0182) is currently nearing completion. The RSSE activity field tested in Egypt a methodology based on highly successful experience in bank-based SME lending in Indonesia, Bangladesh and elsewhere, in which bank loan officers seek out potential borrowers in their residences and places of business and visit clients on a regular basis to collect payments, provide advice, make new loans, etc. The RSSE also conducted a number of "credit experiments" in the areas of client attitudes, marketing, and lending techniques, which are described in detail in Annex F.

The RSSE is being implemented by the National Bank for Development (NBD) in the Governorates of Damietta and Sharkia, with technical assistance provided by Agricultural Cooperative Development International (ACDI) under an AID-financed cooperative agreement. The NBD was selected as the project implementing agency based on its extensive network of affiliate banks in the rural areas, its interest in the RSSE concept, and its prior experience in SME lending under a Ford Foundation program in Minia. The target borrower group consists of off-farm enterprises with fewer than ten employees and less than LE 25,000 in business assets including land and buildings. The RSSE activity capitalized a loan fund within NBD which then extends loans to qualified beneficiaries in a range between LE 250 and LE 2,500. The approach is very straightforward. Specially trained loan officers working out of NBD's existing branches and affiliates in Damietta and Sharkia visit their assigned communities on a regular basis to identify new borrowers, prepare (simplified) loan applications, collect payments, and assist clients with simple business and cash flow plans for use of loan funds.

Prior to the lifting of GOE interest rate ceilings in February 1991, NBD charged an interest rate approximating the maximum rate permissible by the Central Bank of Egypt, i.e., a base rate of 16 percent p.a., to which the Bank added another 3 percent p.a. on the principal to be borrowed, as a transportation fee, and 0.25 percent of the total interest and transportation charge (equal to 4.75 percent) on the total principal as a flat fee for insurance. Therefore, the nominal rate paid by the small scale entrepreneur is a minimum of 23.5 percent. In addition to these charges, the borrower also pays a penalty fee of 1/2 percent per month (6 percent p.a.), likewise calculated on the principal to be borrowed and allocated over the term of the loan payments. If the client pays all installments on time, this fee is returned to him when the loan is canceled, and thereby has no effect on the total rate paid. Interest rates and fees are set by NBD at a level which will cover all program expenses and return a real profit for reinvestment and expansion of services. NBD charges the equivalent of the maximum allowable market rate of interest on all project loans, which currently equals 16 percent to 18 percent per annum for project clients. Total loan cost (i.e., "effective" interest rate to the client) thus includes every allowable fee under the Banker's Tariff (transportation, penalty, and insurance), and typically amounts to approximately 35 percent.

The project began lending in October 1989 and high demand resulted in full utilization of the loan fund within the first twelve months, with twice the target number of loans being made.

The clear and substantive success of the RSSE pilot activity led to the concept of expanding this model into greater Cairo by means of the SEC Project.

A review of other donor activities in Egypt in the field of small enterprise development was performed in the course of project design. Ford Foundation has extensive experience with credit delivery and recovery in two governorates, Minia (with NBD) and Damietta (with the Principal Bank for Agricultural Development and Cooperatives), but is now shifting its emphasis to research on the marketing problems of SMEs. The Dutch have carried out targeted small enterprise assistance in Fayoum. CARE has a targeted credit assistance program for fishermen in South Sinai. CARE is also delivering credit to low income families through Community Development Associations in four rural governorates. Most donor funded credit projects utilize market interest rates for small enterprise lending; the remainder are absorbing the expense of enterprise creation as a "sunk cost" but still attempting to deliver the credit on a cost recoverable basis.

A key rationale for the rapid development and implementation of the SEC project is the intention for this project to serve as a model for a World Bank sponsored effort contributing to the GOE's Social Fund (see Section 1.2). The Social Fund will have as a major component credit for small enterprises. Given USAID's recognized leadership role in the Egyptian small enterprise credit field, the World Bank is coordinating closely with USAID/Cairo in this regard.

2.0 PROJECT DESCRIPTION

2.1 GOAL, PURPOSE, AND END OF PROJECT STATUS

The goal of this project is to expand the economic output of small entrepreneurs. The target beneficiaries of project services are small entrepreneurs in the greater Cairo metropolitan area with less than fifteen employees and less than LE 25,000 in fixed assets, excluding land and buildings. Goal achievement among enterprises assisted by the project will be indicated by increased employment, increased net earnings by program participants; increased wages or earned income to employees, increased levels of production; and increased investments in plant and equipment. The project purpose is to increase small entrepreneurs' access to credit and other banking services. Indications of purpose achievement and end of project status are: approximately 20,000 small entrepreneurs as active borrowers, and over $20 million (equivalent) in loan capital in circulation with the SME sector. The project is intended to be responsive to the urgent short-term needs of the GOE's Social Fund initiative (see Section 1.2). To this end, and in order to ensure rapid start-up and implementation of this activity, the SEC project approach has been streamlined to the maximum extent feasible.

2.2 PROJECT STRUCTURE AND APPROACH

2.2.1 Project Structure

The project will provide, over its four year life, an ESF grant of $16,000,000, of which $4,850,000 will be used to finance part of the costs of administration, training, technical assistance, and other program support activities. The balance of $11,150,000 will be used to establish a loan fund within the implementing bank, the National Bank for Development (NBD). If mutually agreed upon by USAID and the Ministry of International Cooperation (MIC), some or all of the local currency costs (loan fund and/or operation costs) may be provided from the Special Account. NBD will contribute LE 10 million of its own resources to the loan fund, which will be used to make loans to small and micro enterprises in the greater Cairo area. The income generated by the program will be available to cover operating expenses. The project will be incrementally funded by USAID with an initial obligation of $10,000,000 in FY 1991.

Although this project focuses on the delivery of credit to SMEs in the greater Cairo area, NBD has expressed interest in expanding the program into several rural governorates. The feasibility of this action will be examined in the course of the mid-term evaluation of the SEC. If there are clear indications that a similar project approach would be successful on a large scale in one or more rural areas, then USAID will consider a project modification to expand the SEC accordingly. Such an expansion would be predicated on NBD covering the operating costs of the expanded program from the beginning.

The project will be implemented by means of a bilateral grant agreement executed by USAID and the Ministry for International Cooperation (MIC) under which, among other things, MIC will agree to the following project funding mechanisms:

- USAID will enter into a project-financed Cooperative Agreement (CA) with Agricultural Cooperative Development International (ACDI) (See Section 2.2.2). Under the CA, ACDI will provide technical assistance and procure project vehicles and equipment.

- NBD will enter into a "Credit Account Acceptance Agreement" with USAID (see section 3.0) under which funds for NBD's initial operating and staff training costs under the project will be provided.

- Capitalization of the loan fund will be by means of a direct agreement between USAID and NBD setting forth understandings on the uses of the loan fund, and its disposition in the event of unforseen circumstances. The agreement will specify arrangements for the fund to be held permanently by NBD barring the occurrence of an event of default stated in the agreement.

2.2.2 Project Approach

The project will essentially replicate and expand upon key elements of the successful mechanism established under the RSSE. The method's strength is in its simplicity, which largely follows what has been defined as "minimalist."[1] Accordingly, the project focuses on the delivery and recovery of short-term credit in the small and micro enterprise sector. Project funding will contribute to the cost of technical assistance, training, initial operating costs, basic office and data processing equipment, project vehicles, and loan capital. Technical assistance to NBD will be provided by Agricultural

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[1] There is an extensive body of literature on the subject of delivering credit to small scale enterprises. A good summary is presented in A.I.D. Microenterprise Stocktaking: Synthesis Report (A.I.D. Evaluation Special Study No. 65, James J. Boomgard, December 1989). See also other recent materials produced under the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, financed by the AID Bureau for Asia and Private Enterprise.

Cooperative Development International (ACDI), a Washington-based, non-profit technical and management organization, through a project-financed cooperative agreement. ACDI has provided technical assistance to NBD under the RSSE since the inception of that activity. ACDI will provide two long-term small enterprise credit advisors (total 72 person-months) to serve as technical counterparts to NBD management in the day-to-day operation of the program, and up to 24 person-months of short-term technical assistance for management information systems, training, and other requirements. Annex L presents a draft statement of work for these services.

The project will finance the start-up costs of the lending program, i.e., fixed costs of office equipment and staff training, and initial operating costs (primarily staff salaries). USAID support for operating and training costs ceases when the project breaks even, when USAID-sourced loan capital is fully in circulation, or 18 months from the date upon which end-use lending begins, whichever comes first. NBD's need for initial operational support is based on the fact that the SEC represents the first attempt by an Egyptian commercial bank to undertake a major program of small enterprise lending. This effort, which is staff intensive and involves high transaction costs, is a significant departure from existing Egyptian banking practices based on a small number of large, highly collateralized borrowers. At this juncture, when small enterprise lending in Egypt is just emerging from the pilot stage, no bank board of directors would be inclined to assume the full risk associated with such a significant change in lending programs and policies. Once the operational details of the SME lending program are optimized and proven in Cairo, and prior to any expansion of the program into other geographical areas, NBD will make efforts to reduce overall operating costs to a reasonable minimum.

Approximately 250 young Egyptian professionals will be contracted to fill the positions of loan officers, management information system operators, and supervisory and support personnel for the SEC project, which will operate as a separate and distinct activity within the bank. Training will be performed by NBD, with the assistance of ACDI. Training methodologies employed under the RSSE project will be refined and adapted to the SEC project. Appropriate materials will be produced. Approximately two weeks of classroom training on selection of potential clients, constructing cash flow projections, loan application development, and reporting will be delivered. This phase will be followed by one to two weeks of direct observation of ongoing RSSE project implementation. Follow-up training of a few days duration may be undertaken following the completion of six months to one year of end-use lending. It is also anticipated that brief, seminar type training will be provided to NBD branch managers or other relevant personnel to explain the methods of operation of the SEC project.

Sixteen existing branch offices of the NBD in metropolitan Cairo have been identified at this time to accommodate the SEC loan officers and supervision and support personnel. Space will be furnished by NBD and no new office facilities will be required. The new employees will be assigned to these branches. Figure 1 depicts the approximate locations of the 16 branch offices which will participate in the project.

The lending program will operate as follows. Loan officers will visit neighborhoods on a rotating basis within their respective assignments. The loan officers will seek out potential clients, assist them in calculating their loan requirements, and establish their eligibility to participate in the project. Completed loan applications will then be delivered to the branch offices for processing. Before receiving an approved loan, the borrower must place a minimum of ten percent of the requested loan amount in an NBD interest bearing savings account. This account provides a nominal form of collateral to the bank, since the borrower must maintain in his savings account at a minimum the ten percent amount until the loan is fully repaid.[2] Perhaps more importantly, opening a savings account begins the client's education in the process of managing funds and saving. The loan officers will return to successful loan applicants at their place of business to deliver the loan documents and funds. Loans will be extended in the range of LE 250 to LE 5,000. The upper limit is twice that used in the RSSE, but is justified on the basis of the higher costs of doing business in Cairo. It is possible that the upper limit may be raised to LE 10,000 once the program is fully operational. Nonetheless, loans in the upper range will be granted only in cases where the credit history of the borrower in the project is exemplary, and the cash flow clearly supports the client's ability to repay on time.

The loan officers will visit delineated neighborhoods at least once per week. Actions during the periodic visits will include promotion of the project and client identification, processing of loan applications, borrower supervision, and delivery and recovery of loan funds and accompanying interest. The project design does not envision a formal technical assistance program

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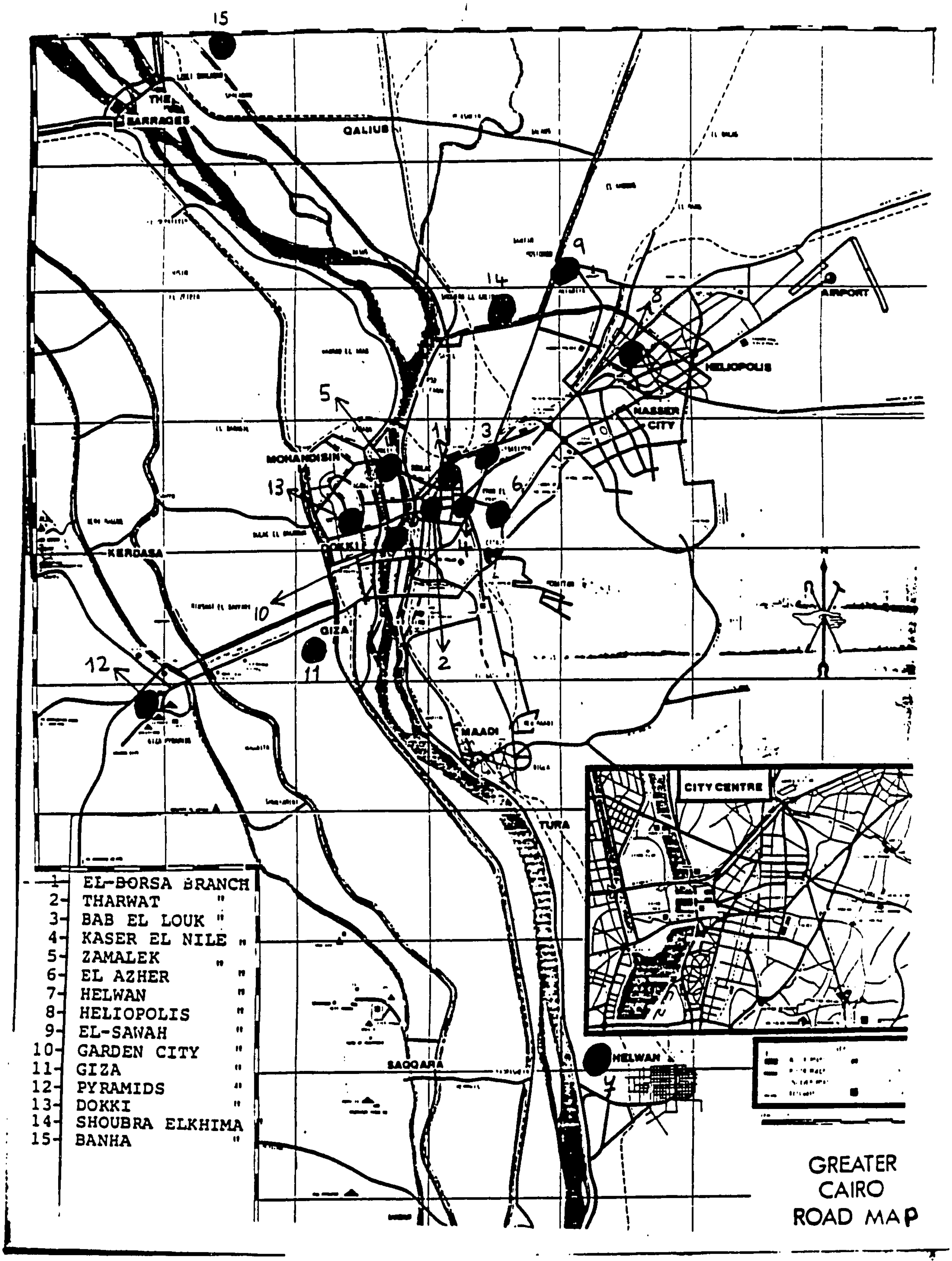
[2] This method has proven quite effective under the ongoing RSSE project. Some savings in excess of the required ten percent have been collected, even with the low interest rates currently being paid. With the recent increase in savings interest rates that Egyptian banks are allowed to pay, and if the NBD adopts higher rates, it is likely that some borrowers will elect to exceed the 10 percent minimum.


15
THE BARRAGES
QALIUB
9
14
AIRPORT
8
HELIOPOLIS
5
NASSER CITY
1
3
MOHANDISIN
13
6
DOKKI
KERDASA
10
GIZA
11
2
12
GIZA PYRAMIDS
MAADI
TURA
CITY CENTRE
HELWAN
7
SAQQARA
1- EL-BORSA BRANCH
2- THARWAT "
3- BAB EL LOUK "
4- KASER EL NILE "
5- ZAMALEK "
6- EL AZHER "
7- HELWAN "
8- HELIOPOLIS "
9- EL-SAWAH "
10- GARDEN CITY "
11- GIZA "
12- PYRAMIDS "
13- DOKKI "
14- SHOUBRA ELKHIMA "
15- BANHA "
GREATER CAIRO ROAD MAP

for borrowers. Loan officers will be trained, however, to assist small entrepreneurs in gaining basic financial skills needed to make cash flow projections. This will enhance borrowers' ability to identify their own loan requirements and obtain formal financial assistance. The project approach is labor intensive, but the NBD is charging sufficiently high effective interest rates to be able to cover transaction costs and earn a reasonable profit if the program is managed effectively. The financial analysis (Annex G) discusses the magnitude of inputs and expected results from the lending program.[3]

A computerized management information system will be utilized from the outset. Stand alone workstations will be installed in each of the branch offices along with a fax machine that will allow information from the entire project to be readily available at the central project office of NBD, as well as facilitating information flow back to the branch offices. The system will provide regular reports to project management on loan amounts made and outstanding, delinquencies, borrower gender, savings generated, as well as operational costs and project income (leading to a break-even analysis). Personnel to operate the system will be contracted and trained under the project.

2.3 PROJECT OUTPUTS

At the end of the four year life of project the following accomplishments are expected:

- NBD will have established an efficient and effective small and micro enterprise lending program which is capable of sustaining or expanding its activities based on reflows of principal and interest into the fund.

- The SME lending program will be replicable to virtually any geographic area of Egypt.

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[3] The financial analysis of this project utilizes representative effective interest rates. The nominal interest rate is the announced interest rate plus other open fees and charges. The effective interest rate is the actual cost to the borrower, or the actual gross income of the bank from the loan. This project offers an array of loan period lengths. Interest is charged on the full amount of the original principal for the duration of the loan. As a result, there is a range of effective rates given the precise terms of any individual loan. The effective rates used for projections are representative, rather than fixed.

2.4 PROJECT INPUTS

AID's contribution to the SEC project will provide funding for training of project personnel, initial salaries of project personnel, required office and data processing equipment, part of the loan capital to be on-lent under the project, 72 person-months of long term and up to 24 person-months of short-term technical assistance, and overall supervision for the project. The NBD will take over project salaries after approximately eighteen months, provide office space and management, and will make a minimum of L.E. 10 million available for additional loan capital during the second and third year of the project.

3.0 COST ESTIMATES AND FINANCIAL PLAN

Table 1 below presents the summary cost estimate and financial plan. Project funds will be disbursed by means of four mechanisms. Capitalization of a loan fund to be used by NBD to finance SME loans will be by means of a direct agreement ("Agreement") between USAID and NBD setting forth understandings on the uses of the loan fund, and its disposition in the event of unforseen circumstances. The Agreement will specify arrangements for the fund to be held permanently by NBD barring the occurrence of an event of default stated in the Agreement. The Project Agreement executed by USAID and MIC will include a covenant pursuant to which the GOE agrees that USAID will enter into the Agreement with NBD. Loan funds will be disbursed quarterly based on NBD's projected loan volume. Subsequent releases will take the previous quarter's performance as well as projected requirements into account and be adjusted accordingly.

Technical assistance for NBD will be provided through a Cooperative Agreement (CA) between USAID and ACDI, as discussed in Sections 2.2.2, 4.1.4, and Annex L. Under the CA, ACDI will procure project vehicles as well as office and data processing equipment.

Funds for NBD's initial operating expenses and training will be provided by USAID as per the terms of the "Protocol for Cash Advances" signed by USAID and MIC on September 30, 1990. Under this agreement, a project credit account will be established for NBD within the AID Project Cash Advance Account managed by the National Investment Bank (NIB). NBD will draw on this account for operating and training costs and will periodically submit vouchers to USAID for liquidation of advances from the project credit account. Operating costs eligible for USAID financing include salaries and incentive payments to staff contracted specifically to implement the project; and all other direct costs which can be isolated and clearly billed to the project, such as office space renovation, extra telephone lines, local transportation and vehicle operating expenses, equipment maintenance, printing, and supplies. Eligible training costs include: preparation of facilities, transportation and per diem for trainees, speaker fees, training materials; and equipment. USAID support for operating and training costs ceases when the project breaks even, when USAID-sourced loan capital is fully in circulation, or 18 months from the date upon which end-use lending begins, whichever comes first.

Finally, separate contracts will be executed as appropriate to perform annual audits, mid-term and final systems reviews, and mid-term and final evaluations. Table 2 presents a projection of project expenditures by fiscal year.

As reflected in the tables below, NBD will provide at least L.E. 10 million ($3 million equivalent) for additional capitalization of the loan fund when the project breaks even, when USAID-sourced loan capital is fully in circulation, or eighteen months from the date upon which end-use lending begins, whichever comes first. Re-paid loan principal will reflow to the loan fund and interest earnings on SEC loans will be deposited into the loan fund, until such time as NBD makes its LE 10 million contribution. After that, NBD will have the discretion to use the interest earnings for project purposes, including funding project-related operating expenses, increasing the loan fund capital, and retaining up to 20 percent of the interest earnings from the total loan fund, including NBD's contribution, as a fee for administering the loan fund. It should be noted that NBD will make various in-kind contributions to the project effort, such as office space, utilities, etc. In addition, the financial analysis (Annex G) shows a minimum of L.E. 44 million reflowing into the project in the form of interest paid by borrowers.

The funding level of the project was developed taking several factors into consideration. During the conceptual stage, it was agreed that the critical geographical area most in need of rapid assistance was metropolitan Cairo. Metropolitan Cairo contains a minimum of twenty five percent of the nation's population, and is the predominant center in Egypt for small enterprises, considering demand, supplies, and market outlets.

In order to serve the metropolitan Cairo area in a relatively short time frame, it was agreed with the NBD that a minimum of 16 branch offices would be required to serve as the home base from which the loan officers will operate. This will allow broad-based coverage and still give the officers a base that will not demand the large time investment that would be required if all of the officers were based in one or two sites. The 16 branches to be utilized by this project are already in existence, so time would not have to be allocated for the construction or renovation of new offices. These 16 branches are physically located in three governorates, (Cairo, Giza, and Kalyubia) which will enhance the NBD's drive to make small enterprise credit available nationwide at some point in the future.

The actual staffing pattern per branch was developed based on both experience from the RSSE pilot project and an updated analysis of how many management and support personnel would be required. On that basis, including an analysis of personnel costs in the Cairo environment, combined with training, equipment, and transportation, the operational costs were determined.

The amount of loan capital required is based on a range of analyses, taking into account the maximum number of new and existing borrowers that can be served by any individual loan officer. Also considered is the range of expected loan sizes and the amount of time required for break even to be achieved. The projection assumes a rapid approach to the operational break even point, a quick deployment of the operational staff, and fast disbursement of the loan funds.

The NBD contribution is considered critical for two reasons; it indicates a commitment on the part of NBD to use its own funds for loan capital and it gives a broader capability of the lending system to have sufficient capital to respond to demand.

4.0 IMPLEMENTATION ARRANGEMENTS

4.1 MANAGEMENT AND ADMINISTRATIVE RESPONSIBILITIES

The successful implementation of this project demands close interaction among USAID, the National Bank for Development, and ACDI. Implementation responsibilities of each of the parties is described below.

4.1.1 Role of the GOE

The Project Agreement (PROAG) will be signed by USAID and the Ministry of International Cooperation. NBD may sign the Grant Agreement as the implementing agency. Among other things, the PROAG will include authority for USAID to issue a PIO/T and negotiate a Cooperative Agreement with ACDI for technical assistance. MIC will approve, in a timely manner, all other PIO/Ts as necessary.

4.1.2 Role of USAID

The Mission's Office of Finance and Investment (TI/FI) will have primary responsibility for monitoring the project. With the assistance of the various support offices, TI/FI will:

- review, approve, and forward for processing all of NBD's requests for loan fund disbursements;
- review NBD and ACDI 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 NBD project headquarters, branch offices, as well as periodic visits to a sample of end-use borrowers; and,
- report to Mission management as appropriate.

4.1.3 Role of the National Bank for Development

The NBD has the primary responsibility for implementation of the project. It is expected to:

- identify, recruit, contract, and train project loan officers along with supervisory and support staff;

- maintain adequate internal control structures and policies for the use of project funds and project-financed vehicles and equipment, including the development of a management information system (MIS), and standard operating procedures and manuals;

- identify potential clients, produce and process their loan applications, and supervise the clients in a manner that will ensure timely repayment;

- use the MIS to produce timely and complete data on loans extended, loans outstanding, a description of the borrowers' fund utilization; and savings performance; and

- submit loan projections through the period in which A.I.D.-sourced loan funds are required.

4.1.4 Role of ACDI

ACDI is expected to work closely with NBD to assist in all aspects of the bank's responsibilities described above. A draft outline of ACDI's statement of work is presented in Annex L. In addition to this role, ACDI will:

- provide at least two long term consultants with international experience in implementation of small enterprise credit projects (the full SOW which will be included in the Cooperative Agreement between USAID and ACDI will specify the duties and responsibilities of these credit advisors);

- provide short term technical assistance with development and implementation of computerized management information systems, and other short term specialized services as identified and required;

- advise NBD on development of a management information system (MIS), and standard operating procedures and manuals to assure that there are adequate internal controls, i.e., that clear policies and procedures on lending and funds management are in place and followed;

- provide policy guidance and suggestions for improved implementation of the project to USAID and NBD; and,

- provide timely and accurate reports on project implementation and ACDI activity to USAID.

4.2 PROCUREMENT

TABLE 1
SMALL ENTERPRISE CREDIT PROJECT
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
($000)

SOURCE	AID FX	AID LC *	NBD FX	NBD LC	TOTAL FX	TOTAL LC
Bank Capitalization	-	11,150	-	3,000	-	14,450
Technical Assistance	1,700	-	-	-	1,700	-
Training	-	310	-	-	-	310
NBD Operations	-	1,890	-	-	-	1,890
Equipment and Vehicles	340	410	-	-	340	410
Audit/Evaluation	200	-	-	-	200	-
TOTAL	$2,240	$13,760	-	$ 3,000	$ 2,240	$16,760

TABLE 2
SMALL ENTERPRISE CREDIT PROJECT
PROJECTION OF EXPENDITURES BY FISCAL YEAR
($000)

FISCAL YEAR	AID FX	AID LC *	NBD FX	NBD LC	TOTAL FX	TOTAL LC
1991	940	8,220	-	-	940	8,220
1992	700	5,540	-	3,000	700	8,540
1993	500	-	-	-	500	-
1994	100	-	-	-	100	-
TOTAL	$2,240	$13,760		$3,000	$2,240	$16,760

* Some or all may be provided from the Special Account upon mutual agreement of MIC and USAID.

The procurement requirements for this project are relatively limited. The primary items are technical assistance, basic office and data processing equipment, and vehicles. The authorized geographic code is 000.

Technical assistance will be provided under a Cooperative Agreement with ACDI. Appended to Annex L is a justification for non-competitive award of a Cooperative Agreement to ACDI. A copy of such justification will be attached to the PIO/T prepared for the Cooperative Agreement. It is expected that the Cooperative Agreement will be negotiated upon obligation of project funds.

Personal computers and related peripherals will be procured by ACDI in Egypt, along with photocopiers, typewriters, hand and desktop calculators. Office furnishings will also be purchased locally. Project vehicles will be procured from the United States by ACDI. These procurements will be carried out by ACDI under the Cooperative Agreement, as NBD does not have the requisite capability. There is no Procurement Services Agent in place that could carry out this task. The Mission concurs with this approach because these procurements must be completed rapidly. The equipment needs to be in place and/or installed and operational within three months of project start-up, at which time end-use lending is scheduled to begin.

Small business and minority firms will be encouraged to participate in this project in accordance with AID regulations. Every effort will be made to identify appropriate opportunities for minority firms involvement in project implementation if applicable. For example, evaluation activities that are anticipated to be carried out during project implementation could be performed by minority firms. Further, other subactivities would be considered for these entities if applicable.

4.2.1 Office and Data Processing Equipment

Funds will be provided by the SEC project to purchase basic equipment for the 16 NBD branch offices that will be used in the project. Under the cooperative agreement, ACDI will procure locally the items in the preliminary list below, including eighteen months of service and supplies. The NBD will take over all the equipment and service requirements after approximately eighteen months as a part of the institutionalization of the project. These items are primarily for expansion of the management information system (MIS) developed under the RSSE, and will be compatible with the existing equipment being utilized by the NBD.

Item Description	Number of Units
80286 based or better CPU with 40 Mb Hard Disk	16
EGA or better monitor	16
Arabic/English keyboards	16
Wide-carriage dot matrix printer	16
Stand Alone Fax Machine	16

Justification for Local Procurement of Office and Data Processing Equipment

Procurement of up to the local currency equivalent of $400,000 of computer and other office equipment is planned. The computer equipment will be of U.S. origin, such as Dell, Compaq, or IBM, but will be procured on the Egyptian market, and therefore, of either Egyptian or other free world source. The office equipment will include photocopiers, typewriters, handheld and tabletop calculators, as well as furnishings such as desks, chairs, filing cabinets, and tables; and will be of either Egyptian and/or other free world source and origin.

The principal justification for local procurement of this equipment is as follows:

> Implementation of the project is intended to begin very quickly after execution of the Project Grant Agreement. The design calls for end-use lending to begin approximately three months following project initiation. Loans will be extended from up to 16 branch offices and it is critical that the offices be fully equipped and operational prior to the start of end-use lending. It is therefore essential that the office and MIS equipment be purchased, installed, and operational within a short time frame that will not allow procurement and delivery from the U.S. The related furnishings are also required to be purchased and in place.
>
> All of the necessary equipment is available for sale in Egypt at reasonable prices. USAID will not pay for any identifiable taxes and duties on the equipment, and a covenant to this effect will be included in the Grant Agreement.
>
> The justification for local procurement of up to the local currency equivalent of $400,000 in office and data processing equipment is based on the criterion set forth in AID Handbook 1B, Section 5B.4.a(7), "[s]uch other circumstances as are determined to be critical to the success of project activities." This criterion is met due to the time constraints and the need to equip and begin operating 16 branch offices as quickly as possible to initiate end-use lending within three months of signing the

Grant Agreement.

On this basis it is recommended that the procurement of up to the equivalent of $400,000 in office equipment, furnishings, computers, and peripherals be performed on a local basis.

4.2.2 Vehicles

Sixteen mini-vans will be procured from the United States to provide transportation to loan officers for their daily visits to the locations where the clients reside and/or have their place(s) of business. The vans will not only provide transportation, but will afford a measure of security for funds delivered and collected, as well as providing visibility to banking services being delivered directly to the poorer areas of Cairo. These vans will meet all requirements for importation into Egypt. NBD will be required to certify in the Agreement that it has a plan as well as the resources to utilize project vehicles in accordance with AID regulations and Mission policies before ACDI is authorized to begin procurement of project vehicles. A covenant will be included in the Grant Agreement pursuant to which the GOE will agree to provide a letter of guarantee to allow the duty-free entry of the vehicles into Egypt.

ACDI has experience in importation of vehicles and NBD will agree, in writing, to provide any clearances or bonds required by the GOE concerning customs and taxes. USAID will require the GOE, by virtue of a grant agreement covenant, to take any other necessary actions regarding customs and taxes.

A covenant will be included in the Project Agreement pursuant to which the GOE will agree that it will allow NBD to use all project financed equipment, throughout the useful life of the equipment, for project purposes.

Two alternatives to purchase and importation of these vans have been explored: payment of daily transportation expenses of the loan officers, and opening of neighborhood banking "windows" that would provide limited services. Daily transportation would be nominally cheaper, but would force the loan officers to spend time in seeking public conveyance and would not lend itself to security of cash and documents being handled. Opening of small windows for banking services would be more expensive than van purchase by a factor of eight and would not lend itself to serving a clientele that is periodically forced to relocate due to intermittent enforcement of zoning laws. Opening of banking services windows is also severely restricted by the Central Bank of Egypt, and it would be time consuming to identify, rent or purchase suitable space and prepare it for use. The project therefore includes provisions for purchasing the 16 mini-vans.

4.3 IMPLEMENTATION SCHEDULE

The following figure presents an illustrative time line of activities to be undertaken to complete implementation of the overall project. It is followed by a "pre-implementation" plan which presents a detailed schedule of the steps leading to the commencement of end use lending during the first year of the project.

IMPLEMENTATION PLAN
SMALL ENTERPRISE CREDIT (263-0228)

ACTIVITY	Year 1 Month 1	Year 1 Month 2	Year 1 Month 3	Year 1 2nd Qtr	Year 1 3rd Qtr	Year 1 4th Qtr	Year 2 1st Qtr	Year 2 2nd Qtr	Year 2 3rd Qtr	Year 2 4th Qtr	Year 3 1st Qtr	Year 3 2nd Qtr	Year 3 3rd Qtr	Year 3 4th Qtr	Year 4 1st Qtr	Year 4 2nd Qtr	Year 4 3rd Qtr	Year 4 4th Qtr
1. Project Agreement (MIC)	Develop	Sign																
2. Grant Agreement (NBD)		Develop	Sign															
3. Cooperative Agreement (TA)		Develop	Sign															
4. Equipment Procurement			XXXXXXX	XXXXXXX														
5. MIS Development				XXXXXXX														
6. Employee:																		
6.a Recruitment		XXXXXXX																
6.b Training			XXXXXXX															
6.c Hiring			XX															
6.d Mobilization				XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX
7. End Use Lending				XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX
8.a Reporting (NBD)				X X	X X	X X	X X	X X	X X	X X	X X	X X	X X	X X	X X	X X	X X	X X
8.b Reporting (TA)				X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Phase II																		
1. Area Identification							XXXXXXX											
2. Employee:																		
2.a Recruitment							XX											
2.b Training							XX											
2.c Hiring							XXX											
2.d Mobilization								XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX
3. End Use Lending								XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX

KEY: M=Milestone

X=Ongoing Action

>=Start

DETAILED PRE-IMPLEMENTATION PLAN

Small Enterprise Credit (263-0228)

Start-Up

	ACTIVITY	Office	Month 1 Week 1	Month 1 Week 2	Month 1 Week 3	Month 1 Week 4	Month 2 Week 1	Month 2 Week 2	Month 2 Week 3	Month 2 Week 4	Month 3 Week 1	Month 3 Week 2	Month 3 Week 3	Month 3 Week 4
1.	Congressional Notification													
1.a.	Request	PDS/P	M											
1.b.	AID/W Processing	AID/W	XXXXXXX	XXXXXXX	XXXXXXX									
1.c.	Congressional Review	Congress				XXXXXXX								
1.d.	Budget Allowance Request	PDS/P					M							
1.e.	B A Processing	Desk						XXXXXXX						
1.f.	B A Processing	PPC							XXXXXXX					
1.g.	B A Processing	OMB								XXXXXXX	XXXXXXX	XXXXXXX		
1.h.	Budget Allowance Receipt	PDS/P											M	
2.	PP Finalization	PDS/PS	XXXXXXX											
2.a.	Action Memorandum	PDS/PS	XXXXXXX											
2.b.	PP Signing	DIR		M										
3.c.	Authorization Drafting	LEG	XXXX											
3.	Summary Project Description													
3.a.	Writing	PDS/PS	XX											
3.b.	Delivery to MIC	PDS/P		M										
3.c.	Request Letter from NBD	FI			XXX									
3.d.	Discussion with MIC	PDS/P			XXXXXXX	XXX								
3.e.	Letter of Request from MIC	PDS/PS				M								
4.	Project Agreement Process													
4.a.	Drafting (Annex 1)	PDS/PS	XX											
4.b.	Drafting (Body)	LEG		XXXXXXX										
4.c.	Mission Review	AID/Cairo				>								
4.d.	Discussion with MIC	PDS/P, FI					XX	XX						
4.e.	Pro Ag Finalization	AID/Cairo								XXXXXXX				
4.f.	Pro Ag Signing	AID, MIC											M	
NOTE:	(4.f. Dependent on 1.h)													
5.	USAID-NBD Subsidiary Agreement													
5.a.	Preparation	LEG			XXXXXXX	XXXXXXX								
5.b.	Negotiation	LEG, FI					XXXXXXX	XXXXXXX	XXXXXXX					
5.c.	Signing	LEG												
NOTE:	(5.c. Dependent on 4.f)												M	
6.	Cooperative Agreement (ACDI)													
6.a.	PIO/T Preparation	FI, DIR/CS							XXXXXXX					
6.b.	PIO/T Clearance	AID/Cairo								XXXXXXX				
6.c.	C A Preparation	DIR/CS									XXXXXXX	XXXXXXX		
6.d.	C A Signing	DIR/CS											M	
NOTE:	(6.d. Dependent on 4.f)													

KEY: M=Milestone
X=Ongoing Action
>=Start

DETAILED IMPLEMENTATION PLAN

Small Enterprise Credit (263-0228)

	ACTIVITY	Office	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
1.	ACDI Mobilization										
1.a.	Team Leader On Site	ACDI	M								
1.b.	MIS Consultant Work	ACDI	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX			
1.c.	Credit Advisor On Site	ACDI			M						
2.	Goods Procurement										
2.a.	Furnishings List and Bid	ACDI	XXXXXXXX								
2.b.	Computer Hardware List and Bid	ACDI	XXXXXXXX								
2.c.	Office Equipment List and Bid	ACDI	XXXXXXXX								
2.d.	Bid Reviews/Purchase (2.a.-2.c)	ACDI		XXXXXXXX							
2.e.	Receive/Install Goods	ACDI			XXXXXXXX						
2.f.	Bid for Vehicles	ACDI	XX								
2.g.	Purchase Vehicles	ACDI		XX							
2.h.	Vehicles Arrive	ACDI				X					
2.i.	Vehicles Cleared	ACDI						M			
3.	NBD Project Employees										
3.a.	Recruitment/Selection	NBD	XXXXXXXX								
3.b.	Training	NBD/ACDI		XXXXXXXX							
3.c.	Hiring/Mobilization	NBD			XXXXXXXX						
3.d.	Loan Extension/Collection	NBD				XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX
4.	Loan Uptake Projection										
4.a.	9/Loans/Officer/Month					1,296	2,592	3,888	5,184	6,480	7,776
4.b.	12/Loans/Officer/Month					1,728	3,456	5,184	6,912	8,640	10,368

5.0 MONITORING PLAN

The SEC will be monitored at several levels on an ongoing basis in addition to the mid-term and final evaluations described in Section 8.0 below.

NBD Client Level

The methodology of the SEC project calls for intense monitoring of the borrowers by the loan officers of the NBD. Although the frequency of loan officer-borrower visits may be reduced over time, initial project implementation will include borrower visits at least once per week. These visitations will include not only extension and collection of loans, but will provide an opportunity for the officers to review overall business activity of the clients. Socioeconomic information will be gathered and recorded each time a loan is extended. Reviewing this information with each repeat borrower will yield measures of overall economic output, as well as changes in borrower income and employment.

NBD Branch Level

The project design calls for both management personnel and management information specialists to be assigned full time to each branch office. These individuals are responsible for assembling information on the borrowers, as well as for general supervision of the loan officers. The following data will be available at the branch level, including at a minimum:

- the number of borrowers with loans outstanding, with a breakdown of new and repeat borrowers;
- the gender of borrowers with loans outstanding;
- the amount of savings by each borrower;
- the schedule of repayments and the actual repayments made, yielding a true past due ratio;
- past due accounts with aging; and,
- cumulative information on all the above.

Central Project Management Level

The central NBD office for the SEC project is responsible for accumulating project-wide information based on branch level data described above. Each branch office will be supplied a computer and fax machine or modem that will allow reports to be updated on a daily and weekly basis and summaries of that information to be sent to the central office. That information will be compiled at the central office using a customized data base. Information on project costs and returns, as well as loan uptake and savings generation, will be submitted to USAID yielding readily available information on project progress. The Office of Finance and Investment will meet regularly with NBD project management to help guide overall implementation and to be fully informed of project progress. There will also be stand-alone reports, submitted on a quarterly basis at minimum, from the technical assistance team.

6.0 SUMMARY OF ANALYSES

6.1 SUMMARY OF TECHNICAL AND ADMINISTRATIVE ANALYSES

Small and micro entrepreneurs, herein described as those having fixed assets of less than US$ 10,000, excluding land and buildings, and less than fifteen employees, have nearly no access to formal credit in Egypt. There are relatively small amounts of formal credit being delivered through agribusiness loans from the Principal Bank for Development and Agricultural Credit (PBDAC), a state-owned agricultural bank that is involved in lending for desert land development, distribution of agricultural inputs, and short term agricultural production lending throughout rural Egypt. Initial work in SME credit is also being carried out by various donors. In the absence of formal finance or a vibrant moneylender sector, one must assume unmet demand. Recent research indicates that small and micro entrepreneurs are predominantly dependent on credit from suppliers, and, to a lesser extent, pre-payment by customers.

The technical analysis presented in Annex F is primarily based on a pilot project. The approach appears to be basically sound, although it is acknowledged that procedures such as borrower visitation frequency by loan officers may need to be modified during the course of project implementation. The basic approach taken within the project design, although unique to Egypt when taken in its entirety, is actually based both on recent experience in Egypt and on lessons learned from other successful small enterprise projects worldwide. Successful implementation of this project will require input by the National Bank for Development, the technical assistance team, and AID project and financial management. However, the basic methodology has been tested successfully and the Mission can be reasonably confident of project success.

Project methodology is summarized in Section 2.2.2, "Project Approach." The key elements of the basis for the methodology are as follows.

- The small-scale entrepreneur is much less concerned with interest rates than with the accessibility, speed and reliability of the credit delivery system.
- Most SMEs have a very high return on investment as evidenced by the high interest rates, often in excess of 100 percent, which SMEs pay to informal moneylenders.
- The credit program can be financially viable if the interest rates are competitive with the local market.
- The most pressing need for SMEs is for working capital to

increase retail inventory of raw material stocks, purchase spare parts, or repair existing equipment.

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

- Traditional social and religious values in Egypt compel a borrower to repay. The traditional Egyptian takes pride in honoring his commitments and loses face if he is delinquent in repaying his debts.

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

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

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

The proposed organizational structure for project implementation and monitoring is based on the one currently being utilized under the RSSE pilot activity, and is described in detail in Annex J. Principal components of the structure are:

- NBD Follow-Up and Monitoring Steering Committee

The NBD Follow Up and Monitoring Steering Committee will be composed of the Chairman of the NBD, the Chairmen of all regional NBD banks involved, the General Secretary for Regional Banks, the SEC National Project Manager, and the ACDI Technical Advisor. The Steering Committee is responsible for project oversight and rapid resolution of implementation problems.

- USAID/Egypt Office of Finance and Investment

USAID's Office of Finance and Investment is responsible for technical design of the project, modifications when necessary, overall monitoring of project implementation, and general project direction. The responsible personnel currently consist of one USDH, one FSN, and one personal services contractor.

- SEC National Office - NBD Cairo

The SEC National Office at the NBD in Cairo will be responsible for overall management of the project, including staffing, procurement, reporting, receiving and transferring credit funds, management of the operational budget, staff identification, hiring, training, and management.

- NBD Branch Offices
  Sixteen NBD Branch offices have been tentatively identified to serve as the "home base" for loan officers and for supervisory and support personnel that will implement the project. Each branch office will have a project manager, assistant manager, nine loan officers, up to two MIS personnel, an internal control officer, and a secretary. Branch managers will be primarily responsible for monitoring overall performance and reporting back to the SEC National Office.

- ACDI Management
  ACDI will provide at least two long term small enterprise advisors to serve concurrently for approximately three years. They will also provide a range of short term advisors, as required. One of those short term advisors will be a management information systems specialist, although other specific needs may arise over the period of project implementation. It is also assumed that a limited number of local support personnel will be required under the project.

Successful project implementation will require close coordination among all of the above parties.

6.2 SUMMARY OF ECONOMIC AND FINANCIAL ANALYSES

Since it is not feasible to quantify the costs and benefits of a project such as SEC, the economic analysis examines two issues, the economic rationale of the project and its sustainability.

The project is expected to solve the problem of low credit access faced by these small entrepreneurs by providing them with the required finance. Once they prove to be efficient, repay their loans on time and manage to expand their businesses, other financial institutions presumably would be eager to have them as customers. In other words, the establishment of the project will act as a model and induce a change in the institutional framework of the financial sector.

Providing credit to small businesses is also justified on the grounds that it creates positive externalities in addition to the direct economic impact on its beneficiaries. The direct benefits enjoyed by the small enterprises served by the project lie in improved performance in terms of sustained higher income and profitability as well as increased wage levels for labor. Experiences in other developing countries (e.g., Peru and Bangladesh) support this conclusion.

In addition to the economic benefits of the project, there are two other points to consider: additionality and sustainability. Additionality implies that the project would make funds available to small enterprises and allow for business expansion that could not have been possible without the project. Sustainability means that the project's activities will continue after the completion of external (AID) finance. To achieve this goal and to make sure that loan revenues are directed to the highest valued sources, the pricing of the loan should be such that revenues cover recurrent operating costs (cost of funds, inflation and provision for bad debts) and earn a profit for reinvestment and expansion. An efficient management system to ensure adequate screening of loan applicants is also an essential pre-requisite for sustainability.

The results of a financial analysis testing a range of possible scenarios presented in Annex G indicate that the project is financially sound. All of the analysis performed indicates strong reason to believe that project objectives can be reached. Even in scenarios wherein the loan size is smaller than one can expect based on recent experience in other urban settings, the project can still expect to break even in a reasonable period of time, i.e., less than two years.

The financial analysis assumes two major phases of project implementation. The first phase emphasizes hiring, training and mobilizing the loan officers until available loan funds are fully extended. The second phase begins when additional funds are no longer being supplied by USAID, and project management focuses on maximizing loans to borrowers from principal and income reflows. The range of scenarios analyzed in Annex G indicate that the project is financially sound even in a high cost, low loan uptake situation.

6.3 SUMMARY OF SOCIAL SOUNDNESS/WID ANALYSIS

The definition of micro-scale enterprise includes those private firms that employ ten or less people, while small-scale enterprises are the private firms that employ 15 or less. Under this project, SMEs are further defined as existing businesses with fixed, movable assets (machinery and equipment) of LE 5,000 to 30,000, exclusive of land and buildings. There is a consensus that the sector is growing very rapidly in the urban areas, especially in Cairo and Alexandria. SMEs produce a wide range of products including: food products, leather goods, cosmetics, wooden furniture, and fabricated metal products. Available studies on SMEs in Egypt reveal problems endemic to the sector. SMEs experience poor access to financing for working capital and investments, due primarily to a lack of collateral and little contact with established financial institutions. Low income results from limited inventories and products, yielding a low return on labor. In addition, there exist certain legal impediments, accompanied by an absence of incentives, to formalize businesses and the workers employed there.

Unless credit programs are specifically designed to account for social and economic differences within the communities served, they will very likely reinforce inequality by promoting additional opportunities for the more privileged. Including the issues of equity, empowerment, and community development as integral concerns of credit projects can add to opportunities for both growth and equality among individuals and within the communities served. The most effective mechanisms for promoting equality of opportunity among potential borrowers are the following:

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

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

- Owners and employees of existing, small scale enterprises, in the geographical areas designated to be served;
- Primarily involved in the productive value added private sector of the economy, for example: light manufacturing and assembly operations; maintenance transport, storage and distribution services; and agricultural product processing and marketing;
- Going concern, with a minimum number of one year of operation;
- Creditworthy, as determined through personal references or a credit history in the project;
- Employ less than 15 people and have fixed assets generally not exceeding LE 25,000, not including buildings and land; and
- Request the loans for specific purposes, such as short term working capital needs to purchase inventory, acquisition of small capital equipment and tools, etc.

In addition, care will be taken by the NBD to avoid any concentration of loans to any one group or specific sector of the economy. This has been successfully managed under the RSSE. Other criteria include:

- Actively promoting the participation of women and women's groups in the project, both in terms of beneficiaries of project loan monies, as well as in staff, trainee, or policy advisory capacities within the implementing organization. Loans to women under the RSSE Pilot Project were approximately 10 - 20 percent; NBD will target the employment of women for at least 20 percent of the loan officer positions under the project, in an attempt to increase this percentage.

- Extend loans to qualified beneficiaries in a range not less than LE 250 nor more than LE 5,000. This is raised from LE 2,500 in the RSSE Pilot Project. This upper limit, however, will be granted only in cases where (1) the past credit history of the borrower in the project has been exemplary and (2) the cash flow analysis supports this decision.

As a result of the expansion of the SEC Project, it is expected that the following number of beneficiaries will be reached in the first eighteen months of project life:

- 20,000 new direct beneficiaries, i.e., loan recipients;

- 40,000 non-family member employees benefitting from improved earnings;

- 90,000 new indirect beneficiaries, i.e., members of households who benefit from improved earning, quality of life, and greater freedom of choice in the market place; and

- 18,000 jobs strengthened or created.

The overall population in the project areas will benefit from a more efficient local economy, greater liquidity, greater employment opportunity, and higher income.

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

Dissemination of the program within the SME sector can be expected to be relatively rapid, with the resulting use of the credit program enhancing SME's productivity and the level of value added. Experience under RSSE has shown that many businesses learn of the program through neighboring enterprises which are participating in the program. However, additional efforts such as marketing, technical assistance to indigenous and alternate sources of inputs, research, and lobbying must be undertaken to strengthen forward and backward linkages, as well as to deal with such broader issues as policy and the level of economic integration. Activities in these areas will be included in the planned expansion of the Small and Micro Enterprise Development Project (263-0212).

Women's limited access to capital in the face of their creditworthiness and their willingness to respond to economic opportunities underscores the importance of addressing women's financial needs -- not just for reasons of equity but even more importantly for economic reasons. Egypt's formal financial system, for the most part, has been unable to respond to women's financial needs. Some of the major factors that limit their participation are related to institutional requirements, others to cultural and social norms, and still others to the type of productive activities in which women predominate.

The experience of the last decade in implementing micro enterprise credit programs demonstrated the capacity of these programs to integrate women as program clients. The aspects of the RSSE/SEC methodology which facilitate the program reaching women include flexibility in loan application and review; flexible loan terms; and built-in repayment incentives. The above features of the RSSE/SEC program seek to resolve those factors existing in the formal financial sector that have become the major constraints to providing financial services to women. To date, women's participation in the program constitutes approximately 10 percent. Efforts to increase this percentage will be undertaken as part of project implementation. Specifically, NBD will attempt to contract a minimum of 20 percent women loan officers, who will often be better able to interact with potential female clients within Egyptian societal norms.

7.0 CONDITIONS AND COVENANTS

7.1 GOVERNMENT OF EGYPT

The following conditions precedent to disbursement and covenants are expected to be negotiated with MIC and included in the Project Agreement in the form and substance agreed to by the parties.

7.1.1 Project Agreement Conditions Precedent to Initial Disbursement

Prior to the first disbursement under the grant, or the issuance by AID of any documentation pursuant to which disbursement will be made under the Project Agreement, the Grantee shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

(i) A statement of the names and titles, of the persons who will act as the representatives of the Cooperating Country, together with a specimen signature of each person specified in such statement; and

(ii) Such other information and documentation as AID may reasonably request.

7.1.2 Project Agreement Covenants

The GOE covenants that:

(i) the Grantee shall provide letters of guarantee as needed to the GOE Customs Administration for:

- all commodities, including vehicles, financed under the Grant;
- all materials, equipment, supplies, and vehicles imported by any firm or organization financed under tho Grant which are to be used for project purposes; and
- all household effects and personal vehicles imported by non-Egyptian individuals financed under the Grant.

All such letters of guarantee will provide for payment of customs duties and all other taxes in the event that the commodities imported are not exempted from customs duties or re-exported.

(ii) it will to take any other necessary actions regarding customs and taxes to ensure that any assessed customs duties and taxes are either paid from other than project funds or an exemption therefrom is provided.

(iii) it hereby authorizes AID to enter into an agreement with NBD, financed under the grant, pursuant to which NBD will carry out its responsibilities as a lending institution to SME borrowers, based on the terms set forth in the Agreement and Annex 1 to the Grant Agreement.

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

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

7.2 NATIONAL BANK FOR DEVELOPMENT

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

7.2.1 <u>Conditions Precedent to Disbursement to NBD to Finance Lending Activities</u>

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

(i) an agreement executed by both MIC and NBD governing disbursement to, and use of the loan fund by, NBD;

(ii) a credit operations and training manual (in English and Arabic) detailing program policies, internal procedures, lending criteria, management information processing and analysis, and all of the administrative forms required for the smooth and efficient day-to-day management of the project;

(iii) evidence that a full time project manager has been appointed;

(iv) a time-phased plan for loan extension, including the number of personnel, and their job titles, that will implement the project; and

(v) evidence that all regional affiliates of NBD agree to administer the loan program in accordance with the terms of the Agreement.

7.2.2 Covenants Made by NBD

The NBD covenants that it shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

(i) evidence that NBD is complying with the credit operations manual and related standard operating procedures;

(ii) within three months of the close of NBD's fiscal year during each fiscal year of the project, annual audited financial statements of the Small Enterprise Credit profit center within NBD;

(iii) prior to NBD's next fiscal year, an annual implementation and financial plans for each branch office of the Small Enterprise Credit program within NBD; and

(iv) upon completion of 18 months of lending or all AID-funded loan capital in circulation or attainment of financial break even, whichever occurs first, LE 10 million contribution to the project loan fund.

8.0 EVALUATION AND AUDIT ARRANGEMENTS

8.1 MID-TERM EVALUATION

A mid-term evaluation will be carried out approximately two years after initial implementation, and is currently planned for the third quarter of FY 93. The purpose of this evaluation will be to review the performance of the NBD and ACDI, provide quantified information on progress in meeting project objectives, as well as provide guidance to NBD and USAID management on changes that may have to be undertaken. By mid-term of the project, it should be possible to compare this project with similar approaches to credit delivery and collection in other countries. In addition, the mid-term evaluation should also provide guidance on the longer term NBD reforms that are required to deliver small enterprise credit on a nationwide basis. The mid-term evaluation will also review information collected on constraints on small and micro business and assess progress made in addressing these constraints.

8.2 FINAL EVALUATION

A final evaluation is currently planned for the third or fourth quarter of FY 95 to document "lessons learned" in the project and to provide USAID/Cairo as well as other Missions and donors insight on the expectations versus the actual outcome of the SEC project. This evaluation should also help guide the NBD in their long-term planning for assistance to small enterprise credit delivery and collection.

Both the mid-term and final evaluations of the project will be conducted by outside consultant teams under direct AID contracts. Each evaluation will require approximately 10 person-weeks of services. Together, the two evaluations will cost approximately $100,000 and will be financed with project funds.

8.3 AUDITS

Audits will be required through the duration of the project. Annual audits of financial reports and loan activity will be conducted. These audits will be conducted in compliance with generally accepted auditing principles as applied in the U.S. In addition, two "systems reviews" will be performed. The first will occur after approximately two years of implementation and should be carried out prior to the mid-term evaluation described in 8.1 above. The second and final systems review will be conducted at the end of the project prior to the PACD. Given the critical importance of audits to activities such as the SEC project, up to $100,000 in project funds will be available to pay for these services.

Overall budgeting should allocate $200,000 for both audits and evaluations, with the exact line items for either or both activities to be delineated as the project progresses.

ANNEX A

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE DIRECTOR

DATE : January 14, 1991

FROM : Robert Jordan, OD/PDS/PS

THROUGH : Christopher Crowley, AD/PDS

SUBJECT : Approval of the Small Enterprise Credit Project Identification Document (PID)

PROBLEM : Your signature is required to approve the Small Enterprise Credit PID (263-0228) for $16 million.

DISCUSSION : The subject PID has been reviewed by the Project and Executive Committees. In accordance with the decisions made at the Executive Committee review held on December 5, 1990, the PID has been modified as indicated below. Please note that recent decisions regarding the National Bank for Development's contribution to the project are not reflected in the PID, but will be incorporated into the project paper.

A. Under section I.A, "Perceived Problem," paragraph 1 has been revised and a new paragraph 2 has been added to emphasize the SEC project's intended operational role in assisting lower income Egyptians who will be adversely affected in the short-term by the GOE's planned economic reform program.

B. Section III.F, "Estimated Costs and Methods of Financing," has been revised to show an approximated cash contribution to the project by NBD. The actual figure resulting from negotiations with NBD during the course of detailed project design may differ from this estimated minimum.

C. Section III.I, "AID Project Design Issues," has been revised to delete the items identified by the Executive Committee as not applicable to the current project development effort, and to emphasize aspects of the project design which, in the view of the Executive Committee, deserve special attention. Examples of the latter include: magnitude and modality of the National Bank for Development's (NBD) contribution to the project and operational issues associated with MIC serving as the GOE counterpart.

All necessary clearances have been obtained.

RECOMMENDATION : That you approve the subject PID by signing in block No. 18 of the Project Identification Document facesheet.

APPROVAL [signature]

DISAPPROVAL__________

DATE 1/22/91

Clearances:

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LEG, M. Ward [initials]

Drafted:GRutanen-Whaley:PDS/PS:DocID:TI\SECPIDAP.191

UNITED STATES GOVERNMENT

memorandum

DATE: April 10, 1991

REPLY TO ATTN OF: OD/PDS/PS, Robert Jordan RJ

SUBJECT: Small Enterprise Credit Project Paper (263-0228)

TO: See Distribution

The Executive Committee (ExCom) reviewed the subject PP on March 21, 1991. The principal issues and/or ExCom guidance decisions along with required actions are presented below. Other modifications required prior to PP approval are also recorded.

ISSUES/DECISIONS

1. Source of Project Funds. All local currency costs will be financed from the Special Account provided that MIC concurs. AID grant funds will be obligated to cover foreign exchange costs of technical assistance and U.S. source/origin procurements (vehicles) only, approximately $3 million.

   Action. For the purposes of completing the PP, the body of the document will reflect LOP AID funding of $16 million in appropriated U.S. dollars, but the final Project Authorization will specify any Special Account funding agreed to by MIC. A draft Authorization will be included as an annex to the PP. The final Authorization will reflect the agreed-to sources of funding.

2. Capitalization of the Loan Fund

   Action. The PP will be revised to show that an agreement to capitalize the loan fund will be executed between USAID and NBD. LEG will include a covenant in the Project Agreement with MIC to this effect. The PP will indicate that provisions will be included in the USAID-NBD agreement to ensure that re-paid loan principal will reflow to the loan fund and that interest earnings on SEC loans will be deposited into the loan fund, until such time as NBD makes its LE 10 million contribution. After that, NBD will have the discretion to use the interest earnings for project purposes, including funding project-related operating expenses, increasing the loan fund capital, and retaining up to a specific percentage of the interest earnings from the total loan fund, including NBD's contribution, as a fee for administering the loan fund.

3. <u>NBD Lending Program Operating Costs</u>. The project approach is labor and resource intensive and thus results in high operating costs which will make it more difficult for NBD to expand the program using its own resources and/or for other banks to undertake similar programs.

   <u>Action</u>. A stronger justification for providing NBD's initial operating costs will be included in the PP, and the PP narrative will emphasize the need to reduce operating costs over time once the operational details of the lending program have been optimized and proven in Cairo. USAID support for any expansion of the program will be contingent on success in Cairo and would provide loan capital only. NBD would be required to cover all operating costs of any expansion.

4. <u>Role of NBD Branches</u>.

   <u>Action</u>. The Administrative Analysis will be expanded to describe management arrangements between the central NBD project office and the NBD branches, especially the five branches controlled by regional NBD affiliates, under the project. The PP will indicate that a CP will be included in the USAID-NBD loan capitalization agreement requiring evidence that the boards of directors of the two regional banks have formally agreed to participate in a cooperative fashion in the project prior to the disbursement of loan funds to NBD.

OTHER MODIFICATIONS

1. The PP will note that the ACDI SOW in Annex L is an outline only, and that it will be expanded (at the PIO/T stage) to show the scope of the two expatriate credit advisors.

2. The analysis of credit demand will be expanded in both the body of the PP and the executive summary.

3. A stronger rationale for the level of the AID grant ($16 million equivalent as opposed to a greater or lesser amount) will be included in the PP.

4. EA will provide modifications to strengthen the discussion of external benefits and alter language on support of private markets.

5. The log frame will be revised to reflect a more specific project purpose, and the verifiable indicators will be revised to measure achievement accordingly - these changes will be translated into the body and executive summary of the PP as well.

6. The first year of the implementation plan will be expanded to show in more detail the steps which will precede the commencement of end use lending.

7. The use of market interest rates will be highlighted in the text of the PP and executive summary.

8. A map of greater Cairo showing the locations of the 16 NBD and affiliate branches will be included in the PP.

Clearance:

C. Crowley, AD/PDS ____
G. Huger, AD/TI ____

Distribution:

1. Executive Committee

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4. PDS/PS, Aziza Helmy

Draft:GRutanen-Whaley:PDS/PS:04/09/91:DocID:SEC\SECXCDEC.491

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: 4 Years
From: FY 91 to FY 95
Total US Funding: $16 million
Date Prepared: 4/91

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

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
PROGRAM OR SECTOR GOAL: THE BROADER OBJECTIVE TO WHICH THIS PROJECT CONTRIBUTES: To expand the economic output of small and micro entrepreneurs.	MEASURES OF GOAL ACHIEVEMENT: - Increased employment by firms. - Increased net earnings by firms. - Increased wages or earned income to employees. - Increased levels of production. - Increased investments in plant and equipment.	- Baseline study. - NBD MIS reports. - Surveys of beneficiary firms. - Midterm and final evaluations.	ASSUMPTIONS FOR ACHIEVING GOAL TARGETS: - Demand exists for expanded SME production. - SME demand for additional credit is high. - Jobs created will represent a net increase in employment. - New employment will decrease magnitude and incidence of poverty.
PROJECT PURPOSE: To increase small entrepreneurs access to credit and other banking services.	CONDITIONS THAT WILL INDICATE PURPOSE HAS BEEN ACHIEVED (END OF PROJECT STATUS): - Approximately 20,000 SMEs assisted. - Total loan portfolio approximately $20 million.	- Baseline study. - NBD MIS reports. - Surveys of beneficiary firms. - Midterm and final evaluations.	ASSUMPTIONS FOR ACHIEVING PURPOSE: - SME's apply credit to enterprise improvement and expansion.
PROJECT OUTPUTS: Establish a functioning program within the NBD to provide credit to small and micro enterprises in greater Cairo which is capable of sustaining or expanding its activities based on reflows of principal and interest into the fund.	MAGNITUDE OF OUTPUTS: - Loan program financially self-sufficient within 24 months. - Loan default rate of less than 1.5 percent. - 16 functioning branch offices.	- NBD MIS reports, financial statements, and other reports. - Surveys of beneficiary firms. - Midterm and final evaluations.	ASSUMPTIONS FOR ACHIEVING OUTPUTS: - NBD is able to charge full cost of capital to borrowers through fees or interest. - Procedures for providing credit are acceptable to SMEs.
INPUTS: AID funding for the following: - Bank capitalization - Operational support - Technical assistance - Evaluation/audit - Training - Equip & vehicles	IMPLEMENTATION TARGET (TYPE AND QUANTITY) USAID ($000) 11,150 1,890 1,700 200 310 750 TOTAL 16,000	- Grant and subsidiary agreements. - USAID disbursement records - NBD reports and records.	ASSUMPTIONS FOR PROVIDING INPUTS - Availability of AID funding. - All CP's and covenants are met.

ANNEX C

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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 1991 Appropriations Act Sec. 559(b). 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); FY 1991 Appropriations Act Sec. 559(b). (These provisions apply 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, narcotics education and awareness, 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 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): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control

NA

Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving 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 (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 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 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 — NA

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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 indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? NO

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? NO

6. FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545. Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security 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, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria,? Will assistance be provided to Afghanistan NO

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without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

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

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — NO

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (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 b) NA

10. FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment). (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? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1991 Appropriations Act appropriates funds? — a) Not at present 4/3/91 b) NO

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Buget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) — Yes, taken into account by the Administrator at time of approval of Agency OYB.

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12. <u>FAA Sec. 620(t)</u>. 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. <u>FAA Sec. 620(u)</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. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) — NO ARREARS

14. <u>FAA Sec. 620A.</u> 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. <u>FY 1991 Appropriation Act Sec. 556</u>. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise supports international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? — a) NO b) NO

16. <u>ISDCA of 1985 Sec. 552 (b)</u>. 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 the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? — NO

17. <u>FAA SEC. 666(b)</u>. 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

18. 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? 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

19. 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

20. 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 26th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) NO

21. FY 1991 Appropriations Act 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 1991 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to YES

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refugee situations, including resettlement without respect to race, sex, religion, or national origin?

23. FY 1991 Appropriations Act Sec. 586. Is the recipient country in compliance with the United-Nations sponsored economic sanctions against Iraq? If not, has the President determined and so certified to Congress that it is in the national interest of the U.S. to provide such assistance, that such assistance would directly benefit the needy people in that country or would provide humanitarian assistance to refugees in that country, or that the government of that country is making a good faith effort to comply with those economic sanctions? YES

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. 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? NA

b. FY 1991 Appropriations Act Sec. 535. 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? NA

2. Economic Support Fund Country Criteria

a. 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

The Country Checklist for FY 1991 is contained in the Project Paper for the International Executive Service Corp Project No. 263-0229.

5C(2) - ASSISTANCE CHECKLIST

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

CROSS REFERENCES:	IS COUNTRY CHECKLIST UP TO DATE?

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

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

2.	U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	Yes. The Project provides financing to ACDI, a private U.S. non-profit organization, which will provide technical and management assistance to NBD.
3.	Congressional Notification	
	(a) General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?	Standard Congressional Notification procedures will be satisfied prior to obligation of funds.
	(b) Notice of new account Obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?	N/A.

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(c) Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promc d?	N/A.
4. Engineering and Financial Plans (FAA Sec. 611( )): Prior to an obligat in excess of $500,0 will there be: (a) engin ring, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes.
5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country, with respect to an obligation in excess of $500,000, what is the basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	No such action is required.
6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act 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, standards, and	N/A.

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procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

   N/A.

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

   Not such a Project.

9. Local Currencies

   (a) Recipient Contributions (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509.) Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

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

(b) U.S.-owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.

(c) Separate Account (FY 1991 Appropriations Act Sec. 521). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies N/A.

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

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

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(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?	N/A.
(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?	N/A.

10. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	No.
b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies or project profiles of potential investment in, or to assist the establishment of facilities	No. Loans will be made to micro entrepreneurs who do not manufacture goods for export.

specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

11. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? — No.

12. Sahel Accounting (FAA Sec. 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 thereform)? — N/A.

13. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? — Yes.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?	N/A. The requirement does not apply to PVOs receiving ESF funded grants. All A.I.D. funding provided under this Project is from ESF funds.
14. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	Case-Zablocki Act reporting procedures will be followed with respect to this Project.
15. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development") Will assistance be designed so that the percentage of women participants will be demonstrably increased?	The Project will encourage more active participation by women in private sector activities.Disaggregated data on participation of women in Project activities will be collected.
16. Regional and Multilateral Assistance (FAA Sec. 209). Is assistance more efficiently and effectively provided through regional or	No. The purpose of the Project is to increase micro entrepreneurs' access to credit and other banking services,

multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.	and is appropriate for country-specific assistance.
17. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525): (a) Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? (b) Will any funds be used to lobby for abortion?	No.
18. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?	N/A.
19. Procurement	
a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?	Yes.

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c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Egypt does not so discriminate.
d. Non-U.S. agricultural procurement (FAA Sec. 604(e)) If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A.
e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	N/A.

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f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	50/50 Shipping rules will apply to this Project.
g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes.
h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): if air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such services is available?	Yes.

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i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act 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.
j. Consulting services (FY 1991 Appropriations Act 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.
k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements grants and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when	Yes.

economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

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

20. Construction

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

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

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

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21. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	N/A.
22. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes.
23. Narcotics	
a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?	Yes.
b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, and such controlled substance?	

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

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

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

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

28. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? — Yes.

29. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? — Yes.

30. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?	Yes.
31. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?	Yes.
32. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country to contrary to the Universal Declaration of Human Rights?	Yes.
33. Publicity or Propaganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?	No.
34. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract include a clause	Yes.

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

35. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569) Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? — No.

C. CRITERIA APPLICABLE TO Economic SUPPORT FUNDS ONLY

1. Economic and Political Stability (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — Yes.

2. Military Purposes (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? — No.

3. Commodity Grants/Separate Accounts (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the — N/A.

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recipient country, have Special Account (counterpart) arrangements been made?

4. Generation and Use of Local Currencies (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? N/A.

5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer: a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A.
b. Local currencies: will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?
c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with

FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate the economic policy reforms that will be promoted by the cash transfer assistance?

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ANNEX E

SMALL ENTERPRISE CREDIT PROJECT
263-0228

Determination Pursuant to Section 611(a)
of the Foreign Assistance Act of 1961, as Amended

Project activities include capitalization of a loan fund in the National Bank for Development (NBD), technical assistance, training, and data processing/transmission equipment for the bank staff assigned to the project, and project operations in the central and pertinent branch offices of NBD.

Technical Assistance

$1,700,000 will be allocated to meet the dollar and local currency costs for long- and short-term technical assistance over the four year life of project. The project contemplates entering into a cooperative agreement with a U.S. organization to provide two advisors stationed in Egypt for a total of 72 person-months, and up to 12 person-months of short-term technical assistance, for a total of $600,000 in year 1, $600,000 in year 2, and $500,000 in year 3.

Training

Training will be carried out by the NBD with the assistance of the U.S. advisors during year 1. $310,000 will be allocated to cover NBD's initial training expenses.

Operational Support

$1,890,000 will be allocated to support NBD's lending program operating expenses until financial break even is reached, for a total of $1,500,000 in year 1 and $390,000 in year 2.

Commodities and Equipment

$750,000 will allocated to procure project vehicles, data processing equipment, and other office/communication equipment (see Section 4.3 of this project paper). All procurement will take place during year 1.

Bank Capitalization

A loan fund within the NBD will be capitalized in the amount of $11,150,000 over two years. Capitalization will be in stages (quarterly), with the magnitude of each disbursement dependent on NBD's loan projection and performance. The lending mechanism is detailed in the Technical Analysis (Annex F) of this project paper.

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

Audit/Evaluation

$200,000 is allocated to contract for annual audits of financial reports and loan activity, mid-term and final systems reviews, and mid-term and final evaluations.

ANNEX F

SMALL ENTERPRISE CREDIT PROJECT
263-0228

Technical Analysis

I. BASIS OF PROJECT METHODOLOGY

The SEC Project's methodology is predicated on the assumption that SME lending in major urban areas will take place in a similar environment as rural SME lending and is essentially the same that has been undertaken under the RSSE Pilot Project. It departs from the traditional lending structure in Egypt, both in terms of types of borrowers targeted, (small scale enterprises in the informal sector) and the amounts involved, (up to LE 5,000). The methodology of the RSSE Pilot Project was predicated on the following hypotheses, which have been validated by the RSSE experience to date.

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

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

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

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

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

- Traditional social and religious values in Egypt compel a borrower to repay. The traditional Egyptian takes pride in honoring his commitments and loses face if he is delinquent in repaying his debts.

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

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

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

II. PROJECT METHODOLOGY

The following is a detailed description of the methodology which will be employed in this project.

A. Client Selection

The targets of the SEC Project are urban small and micro private sector entrepreneurs in the governorates of Cairo, Giza, and Kalubiya (Greater Cairo). Additional "rural" governorates (to be named) may be considered for inclusion at a later date.

The loan staff will visit each location on a predetermined day and time each week, so that the clients become accustomed to the pattern. The loan program will be publicized in these areas, and applications are taken and screened. If the business meets the minimum socio-economic criteria, has three personal references from upstanding citizens of the community to verify its creditworthiness, and completes the credit application, it will qualify for the program. The loan officer reviews all of this information and, if everything is in order, proceeds to negotiate the terms and conditions of the loan.

B. Loan Negotiation

Following the initial selection process, the loan officer meets with the client to specifically explain all of the parameters of the program and negotiate preliminary terms and conditions of the proposed loan. The cash flow of the small business is discussed and a plan is mutually formulated that recognizes the key elements of the client's income cycle. The repayment schedule is then set, based on this information and not on any arbitrarily determined standard. In other words, the Bank adjusts the loan to fit the customer's ability to repay (cash flow). Furthermore, the project will not require any collateral (debenture or mortgage on the personal assets of the borrower) that may expose him or her to loss of property in the event of default on the loan. One main reason for this is the fact that, to perfect a security interest in any asset as collateral for a loan, the bank must gather all of the documentation (invoices, notes, etc. pertaining to the transaction), take them to a government office, and pay the required taxes and duties (which are high) on the value of the assets. In the traditional banking system, these costs are passed on the borrowers. For the project clients, this

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would be a cost they could not easily bear. The project also will not impose any unnecessary conditions on the borrower that may create any unwarranted fear of loss.

C. Savings Accounts, Interest and Fees

These matters are fully discussed and agreed upon between the loan officer and the client prior to loan approval. Interest is charged at market rates and total loan cost includes every allowable fee under the Banker's Tariff (transportation, penalty, and insurance).

Ten Percent Savings Accounts. Before a customer receives an approved loan, he/she must deposit an amount equivalent to 10 percent of the value of the loan request in an NBD interest bearing savings account. This not only demonstrates the seriousness of the relationship, but also begins the borrower's education process of managing funds and saving. The account currently pays interest at 10 percent p.a. (rates are set by the Central Bank of Egypt). Once the loan is fully paid out, the borrower may withdraw these monies if he so chooses. However, while the loan is still outstanding, this account may not be withdrawn. It also provides a nominal form of collateral to the bank.

Interest Rate. The NBD will charges the equivalent of the maximum allowable market rate of interest on all project loans, which currently equals 16 percent to 18 percent per annum for project clients. These limits are also set by the Central Bank of Egypt in the Bankers Tariff. The rates are charged on the total principal borrowed, for the time the funds will be outstanding. The total interest that would be charged on the loan to maturity is then divided equally over the number of installments, to be included with the portion of principal and other fees. The effective interest rate is the actual cost to the borrower, i.e., interest plus fees. The repayment is based on the cash flow that the customer anticipates. The NBD is of the opinion that most customers prefer a weekly payment of fees even if they may have a different schedule for principal repayment.

Transportation Fee. The project will charge a 3 percent p.a. fee on the principal borrowed, for the time the loan will be outstanding. The total amount to be charged is also divided equally among the scheduled number of installments and collected with the portion of principal, interest and other fees. This fee is charged to cover some of the costs of the project lending staff in visiting each neighborhood. It is a form of revenue to the Project. The NBD and ACDI are now studying an increase in this fee to raise profitability.

<u>Penalty Fee</u>. A penalty fee will be charged on the amount of principal to be borrowed. It is charged at a rate of 0.5 percent per month (6 percent p.a.), spread out over the life of the loan and collected as part of the regular installment, along with the other fees, interest, and principal. When the borrower makes the last payment, he/she may receive a refund of the total penalty fees paid to date, provided all payments have been made on time. The refund can be in cash, or it can be applied to the last installment payment. Of course, if there have been any late payments, the penalty fees are deducted from the total penalty fee paid and the balance refunded to the client after the final payment. The Bankers Tariff allows only a 1 percent p.a. charge to be booked as income from this source. The project charge is higher in order to deter risk and also serve as a forced reserve toward the final installment that is perceived as a bonus for completing the loan cycle. For the project, any excess beyond 1 percent cannot be retained as income, but can reflow to the loan fund.

<u>Insurance Fee</u>. The insurance fee is a form of contingency fund, to be used to pay off a borrower's outstanding balance in the event of death. An additional amount is paid to the surviving family members to help defray the burial expenses. It is charged at a rate of 0.25 percent of the sum of the interest rate and the transportation fee. It is a flat fee charged on the principal amount borrowed, and is divided equally over the total number of installments of the loan. Since this fee is not revenue to the Project, but rather a form of credit (and personal) life insurance, any amounts collected are booked in a liability (contingency) account. This is a popular feature of the RSSE that customers wish to continue even after the loan is repaid, indicating that there is a need for this service in the market place. However, the project is not in this business and the purpose of this feature is risk avoidance for force majeure. The rate will likely be lowered when a sufficient amount is in this account to cover this eventuality for a large group of borrowers.

<u>Effect of Prepayments</u>. Should any borrower prepay any installment or the total loan, there is no recalculation and refund of overpaid interest, transportation or insurance fees. The reason is that the amounts (differential) are so small that the cost to do the calculations, adjust the books, and disburse the cash would not be justified.

D. <u>Loan Approval</u>

Once the loan officer and client agree on the structure of the proposed credit, including interest rates, fees, and savings requirement, the documentation is packaged and sent to the branch supervisor/manager for approval, and then to the regional office for final review and approval. The bank's established credit

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committee, composed of the project manager and NBD senior executives of the branch or regional bank, will make the final decision. If the decision is favorable, the loan officer contacts the client and arranges to collect the required 10 percent savings deposit and disburse the loan. Given the target market criteria, screening process, formal bank credit committee discussion, and 10 percent cash deposit, risk is hopefully averted. A key element in the loan decision is the long credit experience of the senior NBD bankers heading the loan approval process. These individuals will not be paid by the project and thus are key behind the scene decision makers in loan fund operations.

E. <u>Loan Monitoring and Collection</u>

Once the loan funds have been disbursed, the loan officer begins the process of monitoring the loans and collecting the periodic installments. It should be noted that many of the SEC Project's target market are illiterate. The average loan size to date under RSSE is about LE 850, and the average loan period between four to six months. Since the inception of the RSSE Project, NBD's internal policy has been to visit all borrowers at least weekly, whether to collect a complete installment, or just the interest and fees on loans with principal due less frequently than weekly. These visits also foster the relationship between the client and the loan officer and build mutual knowledge. The client learns about banking and saving, and can obtain free business advice on how to make a change in his or her operation. The loan officer learns about the client's market, industry, and cash flow potential. It is hoped that, as the industry knowledge of the project staff grows, they can link clients in mutual business relationships.

Finally, an important objective is to keep the good clients as repeat borrowers. As news of Project's methodology grows, so will its popularity.

F. <u>Reporting</u>

The markaz or branch project staff gather, tabulate and consolidate daily activity data and report it to the manager. The manager consolidates all loan officer data for transmittal to the regional office. From there, each unit is combined into a governorate-wide report for the National Office. Under the RSSE, the Project Manager and Advisor have designed initial forms to capture the financial and socio-economic data from the field offices, such as: numbers of new borrowers, amounts lent, purpose (activity), client gender and age, etc. The computerization of this system is now underway and shall improve reporting performance.

G. NBD Lending Staff Incentives

The NBD project lending procedures will feature an incentive program, based on individual performance, to keep productivity and morale high. The general parameters of this "reward" system will consist of paying the lending staff a fixed bonus for each month that they individually meet three specific criteria:

- Book 11 loans to new borrowers during the month;
- Show a repayment rate at least equal to the project average for that period; and
- Keep their books and reports in proper format, as outlined by the NBD.

Each lending officer's monthly performance against the above mentioned targets will be reviewed by the branch supervisor/manager and regional supervisors, to determine which individuals qualify for the rewards. It has been proposed that this bonus be set at LE 100 by the NBD.

H. Staff Training

The entire project staff trained intensively in the techniques of lending to the small scale entrepreneur. Areas covered will include all of the operational aspects of the program. Monthly training in the field will continue to be held as a matter of course, until all of the staff is fully conversant with their roles and responsibilities. Training will be conducted by the Project Manager, with assistance from the regional supervisors.

The SEC Project will create a Cairo training center in the NBD Headquarters branch to repeat the classroom lecture and case study sessions originally conducted under the RSSE Project. Groups will be larger and tightly scheduled to complete the goal of getting people into the field as soon as possible. Two weeks of field training with experienced loan personnel in the five existing units and one week of marketing and data gathering in the branch area assigned will also be carried out.

III. FEASIBILITY OF TECHNICAL APPROACH

Following is a summary of pertinent experience gained through implementation of the RSSE Pilot Project. Many of the "lessons learned" in that activity are applicable to the technical feasibility of the SEC project.

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A. Demand Sensitivity

The project is currently charging an equivalent market rate of interest on all loans. It approximates the maximum rate permissible by the Central Bank of Egypt. The base rate of interest is 16 percent p.a., to which the Bank adds another 3 percent p.a. on the principal to be borrowed, as a transportation fee, and 0.25 percent of the total interest and transportation charge (equal to 4.75 percent) on the total principal as a flat fee for insurance. Therefore, the nominal rate paid by the small scale entrepreneur is a minimum of 23.5 percent. In addition to these charges, the borrower also pays a penalty fee of 1/2 percent per month (6 percent p.a.), likewise calculated on the principal to be borrowed and allocated over the term of the loan payments. If the client pays all installments on time, this fee is returned to him when the loan is canceled, and thereby has no effect on the total rate paid. (The amounts involved per borrower for the penalty fee are small enough that the opportunity cost is insignificant.)

Project loan experience has shown that small entrepreneurs can and will pay the costs described above. This is illustrated by the number of repeat loans, low delinquency ratio, the lack of loan losses, and the fact there are no reported complaints concerning the interest rate. Over 7,000 SMEs (greatly over the pilot project goal) are able to borrow at 25.5 percent (market rate) and show a past due installment rate of less that 1 percent, with no write-offs. Moreover, there are no known cases where a potential client refused to accept a loan because the rate was too high.

B. Accessibility Sensitivity

No detailed experience has been gained under RSSE regarding whether SMEs would seek loans and make the required installments on time if the Bank did not go to them. The SEC project should examine the possibility of giving repeat borrowers the option of making payments at a project office with the understanding that the transportation fee will be refunded if all of the payments are made at the office.

C. Portfolio Size

The RSSE has given an indication of the portfolio size management capacity of credit staff, i.e., the optimum number of active loans which a loan officer can effectively service.

Unfortunately, there is no sophisticated mechanism for arriving at the peak loan portfolio per loan officer. The markaz and regional supervisors and managers have to monitor each individual and recognize when they can not effectively handle any more clients. This upper level, by nature, will vary somewhat from officer to officer. However, by taking an average from at least 10 loan officers, the Project National Office can approximate that limit. Initially, 36 markaz junior staff were performing the roles as loan officers on a trial basis. Although the initial plans called for the three who showed the most promise to be elevated to the position of loan officers (3 per markaz), with the others occupying the bookkeeping and cashier functions, the plans do not fit the present operating mode of the Project. Under the existing system, the loan officers average approximately 110 borrowers each in Sharkia, and 94 in Damietta, which started later. Currently, there are loan officers with 200 loans at the upper limit. Reports indicated that the break-even point for the Ford Foundation project in Minya is around 90 borrowers per loan officer. The goal for the SEC Project shall be set at 150 loans per loan officer.

D. Reward System

The RSSE employs a profitability-linked reward system to optimize staff performance. A bonus system is in place whereby the lending staff can get an extra LE 50 in any month for meeting all three criteria established by the National Office:

- Book 11 loans to new borrowers during the month,
- Have a repayment rate at least equal to the project average for that period (currently 99 percent), and
- Keep their books and reports in proper format, as outlined by the NBD.

These criteria are strictly monitored by the branch managers and regional supervisors, who are responsible for evaluation of the lending staff for the rewards. To date, most of the staff are able to meet the criteria and receive the bonus. The branch manager also qualifies for the bonus if the branch as a whole achieves the targets.

E. Petty Traders

Petty traders are subsistence vendors who buy their goods from local merchants. By borrowing from the Project, the petty traders are able to pay cash to the local merchants for their goods as opposed to taking credit from them at exorbitant rates or less favorable terms.

As of February 1990, the RSSE Project branches had made numerous loans to petty traders. Their loan requirements normally fall in the LE 250 to LE 500 range. The petty traders have been good project clients whose credit requirements are for frequent short term loans. Their repayment record has been good and they are now considered to be as good a credit risk as any other industry segment in the project target group.

As of November 1990, the project branches continued to make numerous loans to these petty traders. None of these clients has been delinquent on loan repayments. So far, the NBD feels that this is a good source of business, with high velocity and no more risk than any other industry segment in the project target group. However, more time will be needed to more precisely determine the potential of this customer, i.e., at least 4 to 6 months. A mechanism for formally reporting this information by the branches has been designed by the project management staff and advisor.

F. Itinerant Traders

Itinerant traders are very similar to the petty traders, in that they buy goods from merchants (cloth, vegetables, ceramic items, etc.) and sell them in the neighboring villages and towns. Their inventory is usually very small, i.e., a few days up to a maximum of one month.

The Project's experience with the itinerant traders has been similar to that of the petty traders. The repayment performance of the itinerant traders is perfect, with no past due installments as of November 1990.

G. Population Density

The RSSE project has not . und a discernable pattern of repayment rates between borrowers based on population density. Again, it should be pointed out that 7,000 loans have been made thus far, with only 0.01 percent delinquent in paying one installment. These delinquencies are all in the Kafr Sakr Markaz, which has the second lowest number of borrowers and average number of borrowers per village. No information was received from the markaz to verify if the delinquencies were all in one village or dispersed among several. Once the computerized MIS system has been installed and implemented, the project will be able to analyze whether the transaction costs per borrower are lower in the more densely populated villages.

H. Portfolio Performance

RSSE implementation experience has yielded information on the desired level of client investigation and follow up on portfolio performance, i.e., the optimum frequency for loan officer visits to borrowers.

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The Bank has extended all project loans to date on a cash flow basis. From the standpoint of sound banking principles, this is the preferable form of lending, whether to large corporations or to micro entrepreneurs. In other words, the repayment plan for the individual borrower is based on his expected flow of income (revenues or sales). In most cases, this frequency is weekly in the rural villages. Therefore, the loan officer visits these clients each week to collect the installment due (principal, interest and fees), in addition to conducting other banking business such as extending new credits, taking new applications, receiving deposits, or merely checking on the businesses to observe how they are operating and if they are encountering any problems.

There have been a significant number of loans approved by the NBD project branches whose principal repayment frequency was less than weekly. Nevertheless, as weekly payments of loan costs are mandatory on all project loans, the loan officers continue to call on them during their regular weekly visits to the villages. The added time to do this is considered nominal by the NBD because of the small size of these communities.

There is no clear pattern at this time which demonstrates that borrowers with a principal repayment schedule less frequently than weekly are more likely to be delinquent on loan installments. This aspect of the methodology will be observed in the SEC project, and possibly adjusted over time.

IV. ADDITIONAL ISSUES

There are a number of other pertinent issues that merit discussion. These include the following:

A. Technical Assistance to SMEs

Lack of technical and management skills has been identified as one of the constraints on the growth of SMEs. Under the RSSE Pilot Project, technical assistance is provided to the NBD only, not to borrowers. The SEC Project will continue to provide technical assistance to the lending institution only. Trained loan officers will, however, provide direct and indirect technical assistance to the borrowers. For example, the project loan officers assist the borrowers in the development of simple business plans through the preparation of the "Clients Expected Income Form" and the "Clients Expected Expense Form."

B. Latent Credit Demand

Small and micro entrepreneurs, herein described as those having fixed assets of less than US$ 10,000, excluding land and buildings, and less than fifteen employees, have nearly no access to formal credit in Egypt. There are relatively small amounts of formal credit being delivered through agribusiness loans from the Principal Bank for Development and Agricultural Credit (PBDAC), a state-owned agricultural bank that is involved in lending for desert land development, distribution of agricultural inputs, and short term agricultural production lending throughout rural Egypt. Initial work in SME credit is also being carried out by various donors. In the absence of formal finance or a vibrant moneylender sector, one must assume unmet demand. Recent research indicates that small and micro entrepreneurs are predominantly dependent on credit from suppliers, and, to a lesser extent, pre-payment by customers.

The magnitude of either the numbers of small and micro entrepreneurs or their total credit demand defies quantification. These businesses generally are not registered or taxed and are therefore "institutionally invisible." The Match Report on Small Enterprises, 1985, extrapolated that there are at least 375,000 such businesses exist in Egypt but are not counted.

Small entrepreneurs can be found throughout Egypt. For example, many government employees, lacking remunerative wages in their formal employment, act as private businesses when not on official duty. The metropolitan areas of Cairo and Alexandria represent approximately 25-30 percent of the entire country's population and appear to have an even higher ratio of small entrepreneurs, given that these areas represent the largest pool of consumer capital.

Experience with the Rural Small Scale Credit project indicates, however, that there are literally thousands of small businesses willing to pay market rate interest for loans in the areas that are considered "rural" in Egypt. It should be noted that small enterprises are more prevalent in urban areas. However, given the high population density of habitable Egypt, even the farming areas in the Nile and Delta regions surround densely populated small cities that generate demand for products produced by small entrepreneurs.

Small scale manufacturers have recently received greater attention from the donor community because of their tendency to generate the most employment per dollar invested. Expanded employment based on credit availability generally follows the pattern of "strengthening" jobs first by providing full-time employment to people that were only part-time employees previously. Job "creation" is generally the next phase.

Construction, aside from large infrastructure, is performed almost entirely by small businesses. Although there are a lot of building starts, in the absence of real estate finance, there is high demand for renovation or expansion of existing facilities. Most of these small construction companies hire their labor on an as-needed basis. Construction workers desiring employment wait at agreed upon places and construction company (probably informal) owners then select men for the day's work. These individuals are more highly paid than government construction workers, but have a highly variable employment pattern. It appears that if real estate finance were available on a wider scale, companies would have a more even employment pattern.

Services, including trade, among small scale entrepreneurs follows the pattern of many other countries. Bookkeeping is informal, but most of the entrepreneurs in this sector have an innate sense of mark-up and judgement as to who should receive credit and from whom credit can be expected. There is no formal financial institution serving this sector.

SMALL ENTERPRISE CREDIT PROJECT
263-0228

Financial Analysis

The results of a financial analysis testing a range of possible scenarios as presented below indicate that the project is financially sound. Charts 1, 2, and 3 present the results of modeling the rate at which loan funds are extended. The model was created and run on Lotus 1-2-3, Version 2.2, and was designed to show time and amounts required to reach full AID loan fund extension.

The following factors remained constant across all three model runs:

- Sixteen branch offices will be utilized as the home base for loan officers.
- Each branch will have nine loan officers.
- Average Annual Effective Interest rate is 35 percent.
- Average Annual Default Rate is 2 percent.
- Branch salaries cover nine loan officers and seven supervisory and support personnel.
- The Fixed Cost line items are estimates but are not counted as a cost to project implementation; that amount will be contributed by AID.

The Cumulative Profit (Loss) line indicates overall project profitability. This is a key indicator for a commercial bank that desires to market a new product. These assumptions are reasonable given the current operational status of the RSSE project.

The key variables modeled were the number of loans extended per month per loan officer and average loan size.

- Chart 1 utilizes an average loan of LE 2,600 and 12 new loans per month per loan officer. This model yields USAID loan funds being fully extended within approximately 12 months of project implementation. Break even would be achieved after 7 months of implementation (Figure 1).
- Chart 2 utilizes an average loan of LE 2,200 with 9 new loans per month per loan officer. This model yields USAID

loan funds being fully extended within approximately 18 months of project implementation. Break even would be achieved after nine months of implementation.

- Chart 3 utilizes an average loan of LE 1,000 with 9 new loans per month per loan officer. It indicates that loan funds would not be fully utilized within two years of project implementation, although the break even point would be reached after approximately 16 months of project implementation (Figure 2).

Loan fund uptake in the foregoing three scenarios is illustrated in Figure 3.

Charts 4, 5, and 6 present the results of adding NBD funds to the loan fund once AID-contributed funds are fully in circulation. The model assumes that NBD contributes LE 1 million per month over a period of 10 months. Given the relatively short duration of this project, only three years of full implementation were modeled.

Key Assumptions are:

- 16 branches are utilized with 9 loan officers and 7 supervisory and support personnel.
- Total Recurrent Expense is subtracted from Gross Loan Funds Available.

There are three main variables tested within Charts 4 and 5:

- Chart 4 assumes 32 percent effective interest per annum, 2 percent average annual default, and 15 percent per annum increase in operational expense. This model indicates over 30,000 active borrowers at PACD if loan size averages LE 3,000. If average loan size is LE 4,000, nearly 23,000 borrowers would be active at PACD; a LE 5,000 loan size would yield over 18,000 active borrowers at PACD.
- Chart 5 assumes 30 percent effective interest per annum, 5 percent average annual default, and a 40 percent per annum increase in operational expense. This model indicates about 24,600 active borrowers at PACD if loan size averages LE 3,000. An average loan size of LE 4,000 would yield about 18,500 active borrowers at PACD; a LE 5,000 loan size would yield about 15,000 active borrowers at PACD.
- Chart 6 is a combination of various factors and is intended to be indicative of an additional scenario that might actually occur during project implementation. The key assumptions to be noted are that average loan size is

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LE 3,000 in Year 2, LE 4,000 in Year 3, and LE 5,000 in Year 5. Recurrent costs increase at 20 percent per annum. The value of the Egyptian Pound is devalued at 20 percent per annum. Default rate is maintained at 2 percent per annum. The line items expressed in US Dollars are divisions by that year's expected exchange rate of the Egyptian Pounds in circulation or costs. The US Dollar lines are only meant to show a reflection of magnitude; all the costs and returns are calculated in Egyptian Pounds.

All of the analysis performed indicates strong reason to believe that project objectives can be reached. Even in scenarios wherein the loan size is smaller than one can expect based on recent experience in other urban settings, the project can still expect to break even in a reasonable period of time, i.e., less than two years.

The financial analysis assumes two major phases of project implementation. The first phase emphasizes hiring, training and mobilizing the loan officers until available loan funds are fully extended. The second phase begins when additional funds are no longer being supplied by USAID, and project management focuses on maximizing loans to borrowers from principal and income reflows. The range of scenarios analyzed in the foregoing presentation indicate that the project is financially sound even in a high cost, low loan uptake situation. In all cases, the project is profitable from a banking perspective and shows a positive growth in dollar terms, even when considering steep devaluation of the Pound and continuing inflation of recurrent costs.

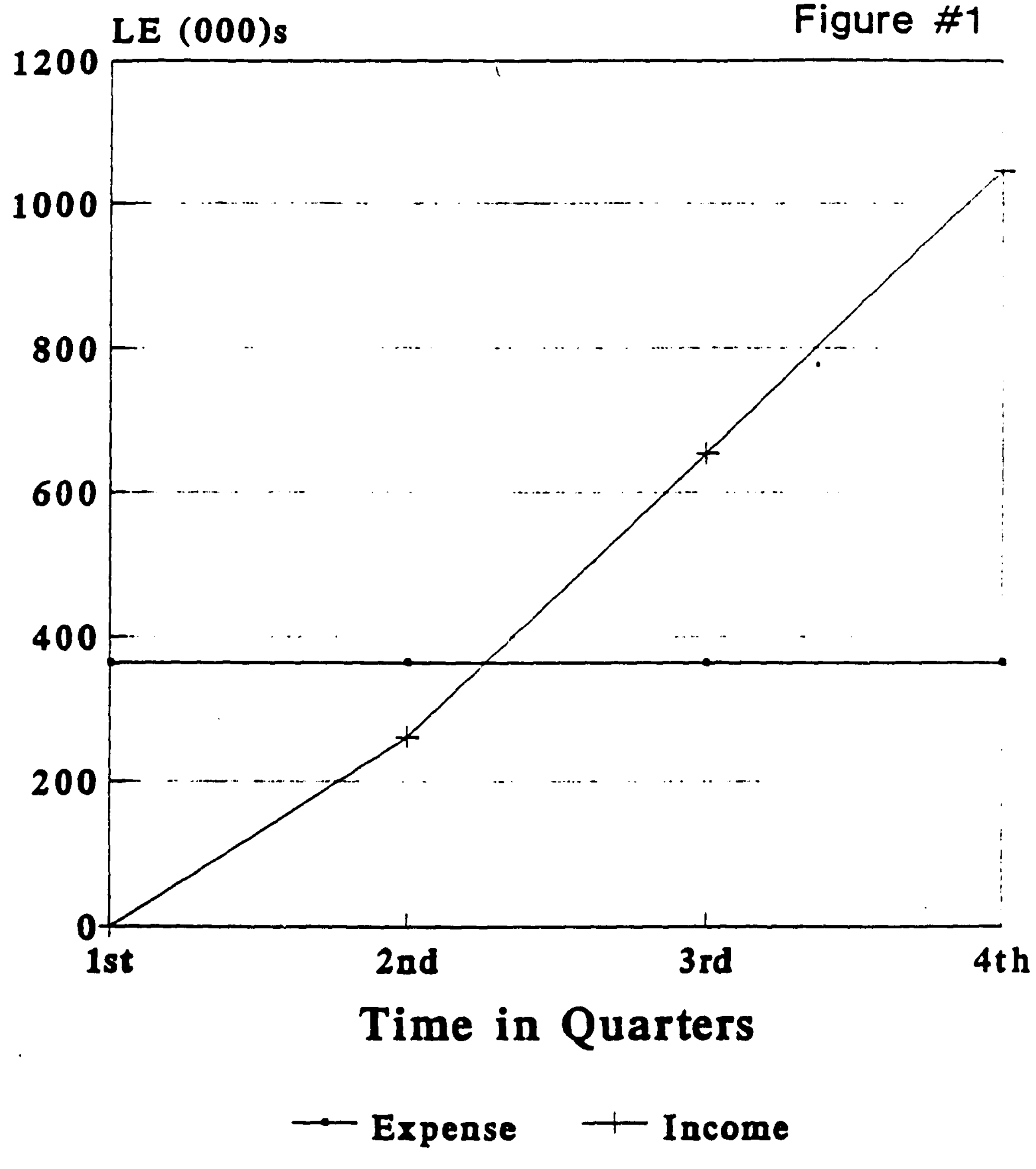
BASE ASSUMPTIONS

Recurring Costs (Per Unit)	LE/Year	Number of Persons	Amount Per Year
Manager	26,000	1	26,000
Ass't. Manager	20,000	1	20,000
MIS Coordinator	16,200	1	16,200
MIS Clerk	12,000	1	12,000
Loan Officer	16,200	9	145,800
Internal Control	16,200	1	16,200
Secretary	12,000	1	12,000
		Total	248,200

Fixed Costs (Per Unit)	LE	Number of Units	Amount LE
Computers	12,000	1	12,000
Peripherals	2,000	1	2,000
Office Equipment	9,000	1	9,000
Supplies	2,000	1	2,000
		Total	25,000

Fixed Cost (Per Unit)	LE/Person	Number of Persons	Cost per Unit
Training	3,500	16	56,000

SMALL ENTERPRISE CREDIT
Break Even (Best Case)



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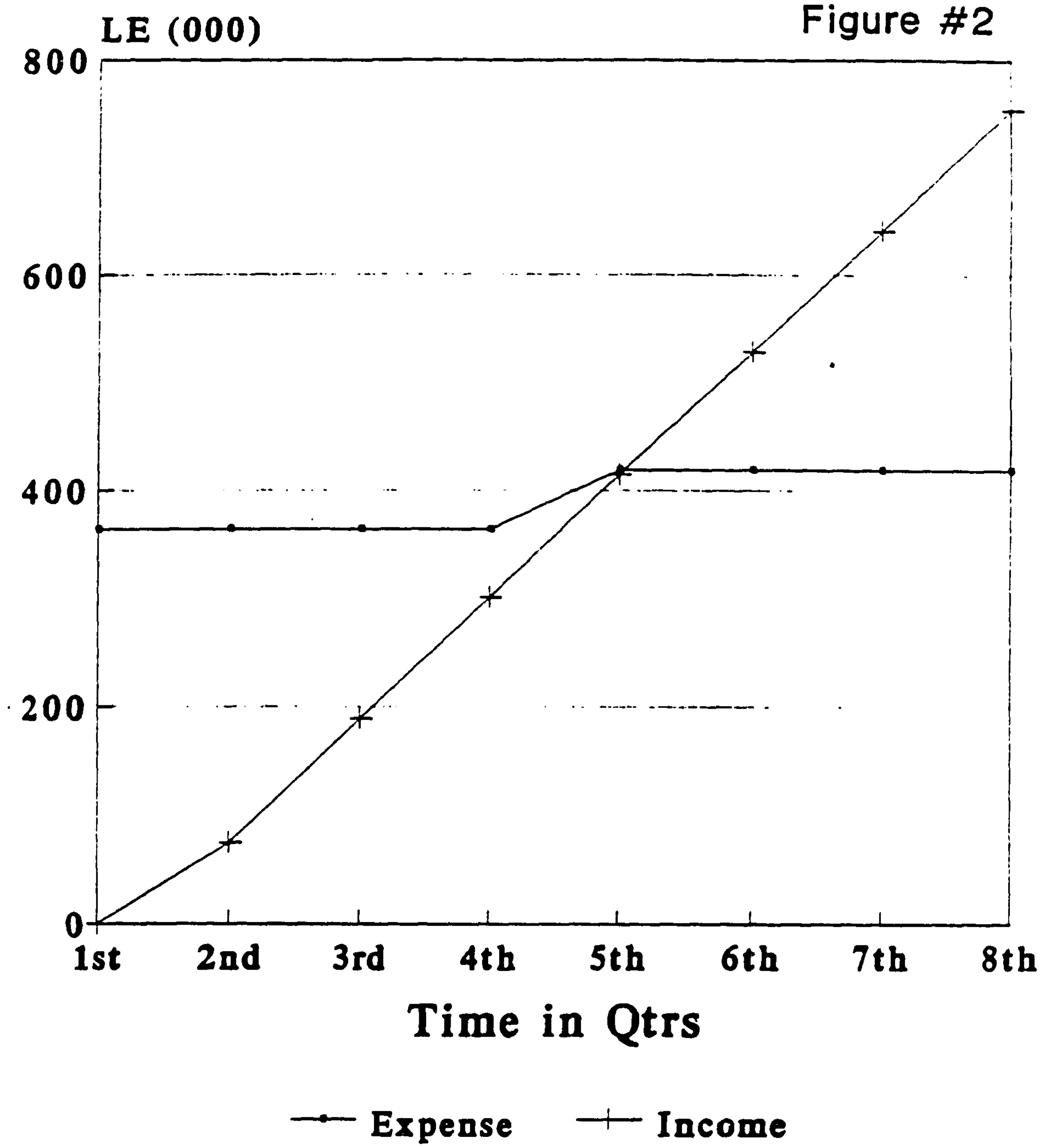
SMALL ENTERPRISE CREDIT
Break Even (Worst Case)

Figure #2



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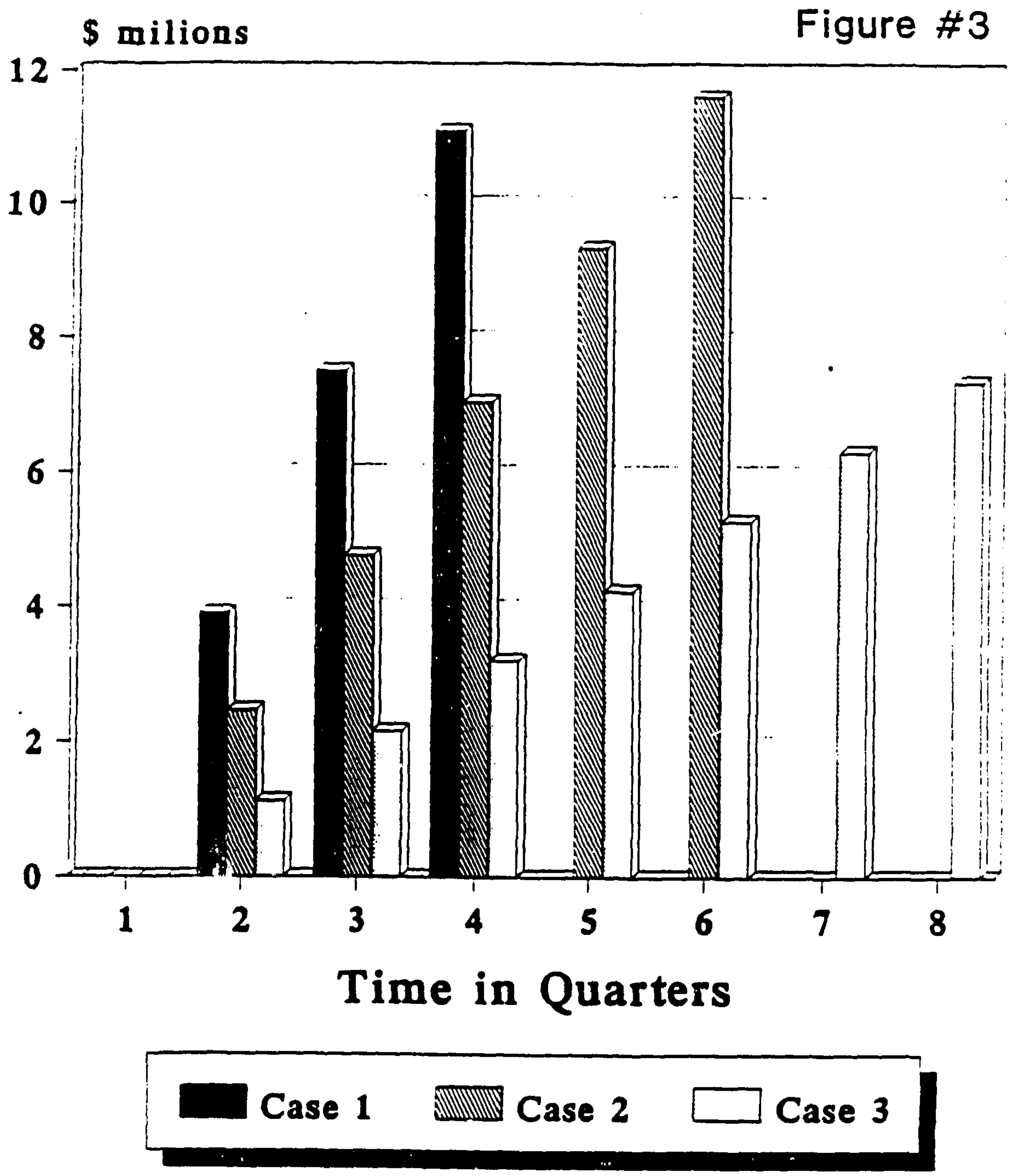
SMALL ENTERPRISE CREDIT
Loan Uptake Scenarios



Based on Charts 1-3

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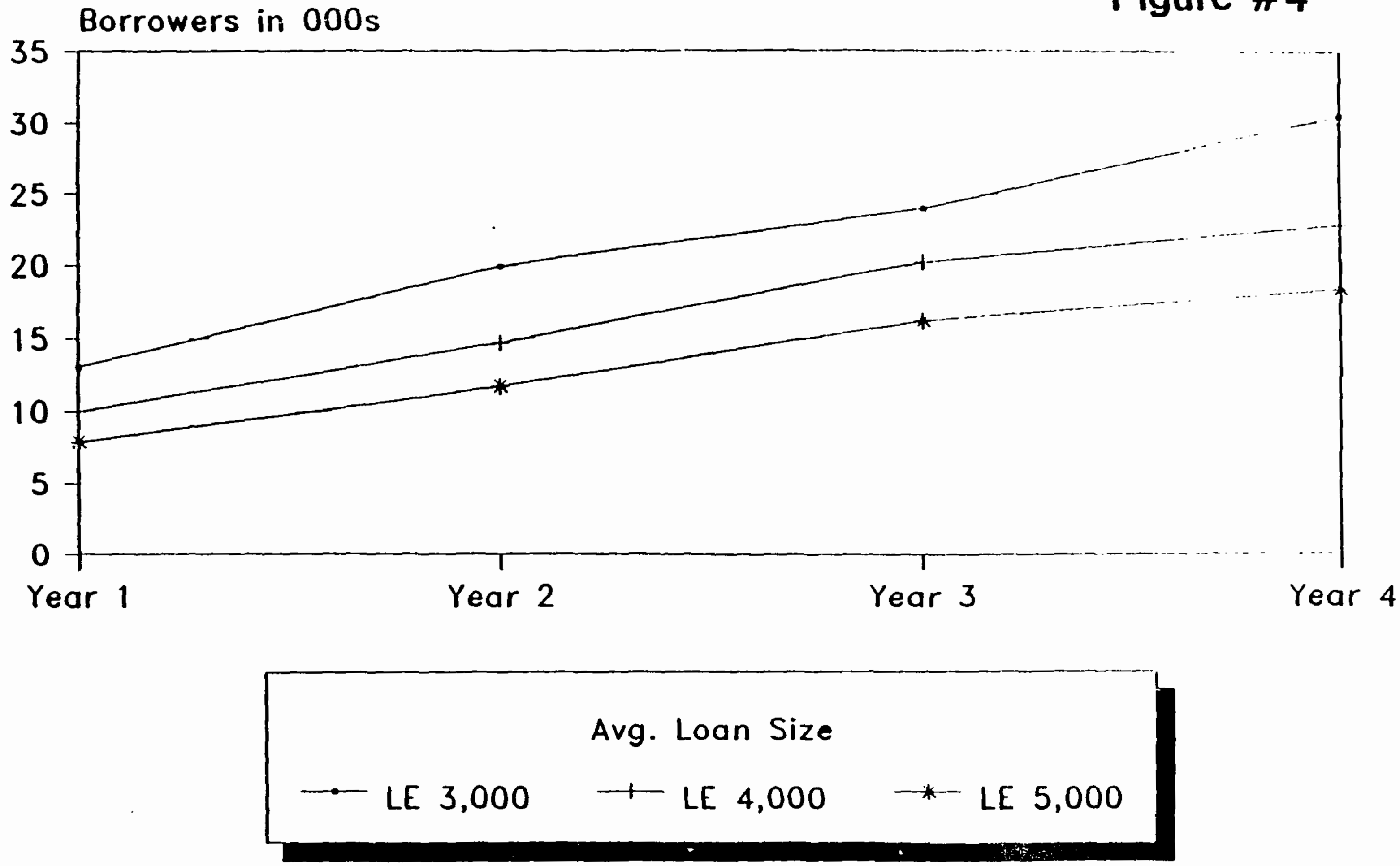
SMALL ENTERPRISE CREDIT

Borrower Growth (Full Implementation)

Figure #4



Data from Chart 4

CASE 1

CHART 1

Updated Model
16 Units
Interest Reflows for Loans
Operating Expense Born by Project

New Loans/ Month/ Officer Year I	Avg. Loan Amount (LE) Year I	# of Loan Officers/ Unit Year I	# of Units Year I	Average Annual Effective Interest	Average Default	Five Month Loan Length
12	2,600	9	16	36.00%	2.00%	

PROJECT IMPLEMENTATION

	Year I Month 1	Year I Month 2	Year I Month 3	Year I Month 4	Year I Month 5	Year I Month 6	Year I Month 7	Year I Month 8	Year I Month 9	Year I Month 10	Year I Month 11	Year I Month 12
Loans Extended				1,728	3,456	5,184	6,912	8,640	10,368	12,096	13,824	15,552
Amount LE				4,492,800	8,985,600	13,478,400	17,971,200	22,464,000	26,956,800	31,449,600	35,942,400	40,435,200
Gross Principal Repaid					898,560	1,797,120	2,695,680	3,594,240	4,492,800	5,391,360	6,289,920	7,188,480
Allowance for Default					1,498	2,995	4,493	5,990	7,488	8,986	10,483	11,981
Net Principal Repaid					897,062	1,794,125	2,691,187	3,588,250	4,485,312	5,382,374	6,279,437	7,176,499
Gross Int. Income LE					131,040	262,080	393,120	524,160	655,200	786,240	917,280	1,048,320
Allowance for Default					218	437	655	874	1,092	1,310	1,529	1,747
Net Interest Repaid					130,822	261,643	392,465	523,286	654,108	784,930	915,751	1,046,573
Total Fund Reflow					1,027,884	2,055,768	3,083,652	4,111,536	5,139,420	6,167,304	7,195,188	8,223,072
New Loan Funds Required (LE)				891,000	8,066,536	11,684,276	15,290,813	18,676,760	22,471,488	26,087,226	29,662,963	33,258,701
Cumulative Loan Funds Required ($)				297,000	2,898,179	3,894,759	5,093,338	6,291,917	7,490,496	8,689,075	9,887,654	11,086,234

		Year I Month 1	Year I Month 2	Year I Month 3	Year I Month 4	Year I Month 5	Year I Month 6	Year I Month 7	Year I Month 8	Year I Month 9	Year I Month 10	Year I Month 11	Year I Month 12
RECURRENT COSTS													
Project Salaries		330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933
Contingency	10.00%	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093
Monthly Total		364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027
Cumulative Cost LE		364,027	728,053	1,092,080	1,456,107	1,820,133	2,184,160	2,548,187	2,912,213	3,276,240	3,640,267	4,004,293	4,368,320
Cumulative Cost $		121,342	242,684	364,027	485,369	606,711	728,053	849,396	970,738	1,092,080	1,213,422	1,334,764	1,456,107
Net Interest Income		0	0	0	0	130,822	261,643	392,465	523,286	654,108	784,930	915,751	1,046,573
Recurrent Costs		364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027
Net Profit		(364,027)	(364,027)	(364,027)	(364,027)	(233,206)	(102,383)	28,438	159,260	290,081	420,903	551,725	682,546
Cumulative Profit (Loss)		(364,027)	(728,053)	(1,092,080)	(1,456,107)	(1,689,312)	(1,791,696)	(1,763,257)	(1,603,997)	(1,313,916)	(893,013)	(341,289)	341,258
FIXED COSTS													
Equipment (LE)		400,000											
Training (LE)		898,000											

Updated Model
16 Units
Interest Reflows for Loans
Operating Expense Born by Project

New Loans/ Month/ Officer Year I	Avg. Loan Amount (LE) Year I	# of Loan Officers/ Unit Year I	# of Units Year I	Average Annual Effective Interest	Average Default	Five Month Loan Length
9	2,200	9	16	36.00%	2.00%	

PROJECT IMPLEMENTATION

		Year I Month 1	Year I Month 2	Year I Month 3	Year I Month 4	Year I Month 5	Year I Month 6	Year I Month 7	Year I Month 8	Year I Month 9	Year I Month 10	Year I Month 11	Year I Month 12
Loans Extended					1,296	2,592	3,888	5,184	6,480	7,776	9,072	10,368	11,664
Amount LE					2,851,200	5,702,400	8,553,600	11,404,800	14,256,000	17,107,200	19,958,400	22,809,600	25,660,800
Gross Principal Repaid						570,240	1,140,480	1,710,720	2,280,960	2,851,200	3,421,440	3,991,680	4,561,920
Allowance for Default						950	1,901	2,851	3,802	4,752	5,702	6,653	7,603
Net Principal Repaid						569,290	1,138,579	1,707,869	2,277,158	2,846,448	3,415,738	3,985,027	4,554,317
Gross Int. Income LE						83,160	166,320	249,480	332,640	415,800	498,960	582,120	665,280
Allowance for Default						139	277	416	554	693	832	970	1,109
Net Interest Repaid						83,021	166,043	249,064	332,086	415,107	498,128	581,150	664,171
Total Fund Reflow						652,311	1,304,622	1,956,933	2,609,244	3,261,555	3,913,866	4,566,177	5,218,488
New Loan Funds Required (LE)					891,000	5,133,110	7,415,021	9,696,931	11,978,842	14,260,752	16,542,662	18,824,573	21,106,483
Cumulative Loan Funds Required ($)					297,000	1,711,037	2,471,674	3,232,310	3,992,947	4,753,584	5,514,221	6,274,858	7,035,494
RECURRENT COSTS													
Project Salaries		330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933
Contingency	10.00%	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093
Monthly Total		364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027
Cumulative Cost LE		364,027	728,053	1,092,080	1,456,107	1,820,133	2,184,160	2,548,187	2,912,213	3,276,240	3,640,267	4,004,293	4,368,320
Cumulative Cost $		121,342	242,684	364,027	485,369	606,711	728,053	849,396	970,738	1,092,080	1,213,422	1,334,764	1,456,107
Net Interest Income		0	0	0	0	83,021	166,043	249,064	332,086	415,107	498,128	581,150	664,171
Recurrent Costs		364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027
Net Profit		(364,027)	(364,027)	(364,027)	(364,027)	(281,006)	(197,984)	(114,962)	(31,941)	51,080	134,102	217,123	300,145
Cumulative Profit (Loss)		(364,027)	(728,053)	(1,092,080)	(1,456,107)	(1,737,112)	(1,935,096)	(2,050,058)	(2,081,999)	(2,030,919)	(1,896,817)	(1,679,694)	(1,379,550)
FIXED COSTS													
Equipment (LE)		400,000											
Training (LE)		896,000											

Updated Model
16 Units
Interest Reflows for Loans
Operating Expense Born by Project

	Year I Month 12	Year II Month 1	Year II Month 2	Year II Month 3	Year II Month 4	Year II Month 5	Year II Month 6
Loans Extended	11,664	12,960	14,256	15,552	16,848	18,144	19,440
Amount LE	25,660,800	28,512,000	31,363,200	34,214,400	37,065,600	39,916,800	42,768,000
Gross Principal Repaid	4,561,920	5,132,160	5,702,400	6,272,640	6,842,880	7,413,120	7,983,360
Allowance for Default	7,603	8,554	9,504	10,454	11,405	12,355	13,306
Net Principal Repaid	4,554,317	5,123,606	5,692,896	6,262,186	6,831,475	7,400,765	7,970,054
Gross Int. Income LE	665,280	748,440	831,600	914,760	997,920	1,081,080	1,164,240
Allowance for Default	1,109	1,247	1,386	1,525	1,663	1,802	1,940
Net Interest Repaid	664,171	747,193	830,214	913,235	996,257	1,079,278	1,162,300
Total Fund Reflow	5,218,488	5,870,799	6,523,110	7,175,421	7,827,732	8,480,043	9,132,354
New Loan Funds Required (LE)	21,108,483	23,388,394	25,670,304	27,952,214	30,234,125	32,516,035	34,797,946
Cumulative Loan Funds Required ($)	7,036,494	7,796,131	8,556,768	9,317,405	10,078,042	10,838,678	11,599,315

RECURRENT COSTS							
Project Salaries	330,933	380,573	380,573	380,573	380,573	380,573	380,573
Contingency	33,093	38,057	38,057	38,057	38,057	38,057	38,057
Monthly Total	364,027	418,631	418,631	418,631	418,631	418,631	418,631
Cumulative Cost LE	4,368,320	4,786,951	5,205,581	5,624,212	6,042,843	6,461,473	6,880,104
Cumulative Cost $	1,456,107	1,595,650	1,735,194	1,874,737	2,014,281	2,153,824	2,293,368
Net Interest Income	664,171	747,193	830,214	913,235	996,257	1,079,278	1,162,300
Recurrent Costs	364,027	418,631	418,631	418,631	418,631	418,631	418,631
Net Profit	300,145	328,562	411,583	494,605	577,626	660,648	743,669
Cumulative Profit (Loss)	(1,379,560)	(1,050,998)	(639,404)	(144,800)	432,827	1,093,474	1,837,143

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Updated Model 16 Units Interest Reflows for Loans Operating Expense Born by Project	New Loans/ Month/ Officer Year I	Avg. Loan Amount (LE) Year I	# of Loan Officers/ Unit Year I	# of Units Year I	Average Annual Effective Interest	Average Default	Five Month Loan Length
	9	1,000	9	16	36.00%	2.00%	

PROJECT IMPLEMENTATION

		Year I Month 1	Year I Month 2	Year I Month 3	Year I Month 4	Year I Month 5	Year I Month 6	Year I Month 7	Year I Month 8	Year I Month 9	Year I Month 10	Year I Month 11	Year I Month 12
Loans Extended					1,296	2,592	3,888	5,184	6,480	7,776	9,072	10,368	11,664
Amount LE					1,296,000	2,592,000	3,888,000	5,184,000	6,480,000	7,776,000	9,072,000	10,368,000	11,664,000
Gross Principal Repaid						259,200	518,400	777,600	1,036,800	1,296,000	1,555,200	1,814,400	2,073,600
Allowance for Default						432	864	1,296	1,728	2,160	2,592	3,024	3,456
Net Principal Repaid						258,768	517,536	776,304	1,035,072	1,293,840	1,552,608	1,811,376	2,070,144
Gross Int. Income LE						37,800	75,600	113,400	151,200	189,000	226,800	264,600	302,400
Allowance for Default						63	126	189	252	315	378	441	504
Net Interest Repaid						37,737	75,474	113,211	150,948	188,685	226,422	264,159	301,896
Total Fund Reflow						296,506	593,010	889,516	1,186,020	1,482,525	1,779,030	2,075,535	2,372,040
Net Loan Funds Required (LE)					891,000	2,333,232	3,370,464	4,407,696	5,444,928	6,482,160	7,519,392	8,556,624	9,593,856
Cumulative Loan Funds Required ($)					297,000	777,744	1,123,488	1,469,232	1,814,976	2,160,720	2,506,464	2,852,208	3,197,952
RECURRENT COSTS													
Project Salaries		330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933	330,933
Contingency	10.00%	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093	33,093
Monthly Total		364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027
Cumulative Cost LE		364,027	728,053	1,092,080	1,456,107	1,820,133	2,184,160	2,548,187	2,912,213	3,276,240	3,640,267	4,004,293	4,368,320
Cumulative Cost $		121,342	242,684	364,027	485,369	606,711	728,053	849,396	970,738	1,092,080	1,213,422	1,334,764	1,456,107
Net Interest Income		0	0	0	0	37,737	75,474	113,211	150,948	188,685	226,422	264,159	301,896
Recurrent Costs		364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027	364,027
Net Profit		(364,027)	(364,027)	(364,027)	(364,027)	(326,290)	(288,553)	(250,816)	(213,079)	(175,342)	(137,605)	(99,868)	(62,131)
Cumulative Profit (Loss)		(364,027)	(728,053)	(1,092,080)	(1,456,107)	(1,782,396)	(2,070,949)	(2,321,765)	(2,534,843)	(2,710,185)	(2,847,790)	(2,947,657)	(3,009,788)

Updated Model
16 Units
Interest Reflows for Loans
Operating Expense Born by Project

	Year II Month 1	Year II Month 2	Year II Month 3	Year II Month 4	Year II Month 5	Year II Month 6	Year II Month 7	Year II Month 8	Year II Month 9	Year II Month 10	Year II Month 11	Year II Month 12
Loans Extended	12,960	14,256	15,552	16,848	18,144	19,440	20,736	22,032	23,328	24,624	25,920	27,216
Amount LE	12,960,000	14,256,000	15,552,000	16,848,000	18,144,000	19,440,000	20,736,000	22,032,000	23,328,000	24,624,000	25,920,000	27,216,000
Gross Principal Repaid	2,332,800	2,592,000	2,851,200	3,110,400	3,369,600	3,628,800	3,888,000	4,147,200	4,406,400	4,665,600	4,924,800	5,184,000
Allowance for Default	3,888	4,320	4,752	5,184	5,616	6,048	6,480	6,912	7,344	7,776	8,208	8,640
Net Principal Repaid	2,328,912	2,587,680	2,846,448	3,105,216	3,363,984	3,622,752	3,881,520	4,140,288	4,399,056	4,657,824	4,916,592	5,175,360
Gross Int. Income LE	340,200	378,000	415,800	453,600	491,400	529,200	567,000	604,800	642,600	680,400	718,200	756,000
Allowance for Default	567	630	693	756	819	882	945	1,008	1,071	1,134	1,197	1,260
Net Interest Repaid	339,633	377,370	415,107	452,844	490,581	528,318	566,055	603,792	641,529	679,266	717,003	754,740
Total Fund Reflow	2,668,545	2,965,050	3,261,555	3,558,060	3,854,565	4,151,070	4,447,575	4,744,080	5,040,585	5,337,090	5,633,595	5,930,100
New Loan Funds Required (LE)	10,631,088	11,668,320	12,705,552	13,742,784	14,780,016	15,817,248	16,854,480	17,891,712	18,928,944	19,966,176	21,003,408	22,040,640
Cumulative Loan Funds Required ($)	3,543,696	3,889,440	4,235,184	4,580,928	4,926,672	5,272,416	5,618,160	5,963,904	6,309,648	6,655,392	7,001,136	7,346,880

RECURRENT COSTS												
Project Salaries	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573
Contingency	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057
Monthly Total	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631
Cumulative Cost LE	4,786,951	5,205,581	5,624,212	6,042,843	6,461,473	6,880,104	7,298,736	7,717,366	8,135,998	8,554,627	8,973,257	9,391,888
Cumulative Cost $	1,595,650	1,735,194	1,874,737	2,014,281	2,153,824	2,293,368	2,432,912	2,572,455	2,711,999	2,851,542	2,991,086	3,130,629
Net Interest Income	339,633	377,370	415,107	452,844	490,581	528,318	566,055	603,792	641,529	679,266	717,003	754,740
Recurrent Costs	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631
Net Profit	(78,998)	(41,261)	(3,524)	34,213	71,950	109,687	147,424	185,161	222,898	260,635	298,372	336,109
Cumulative Profit (Loss)	(3,048,786)	(3,130,046)	(3,133,570)	(3,099,357)	(3,027,406)	(2,917,719)	(2,770,296)	(2,585,133)	(2,362,236)	(2,101,600)	(1,803,227)	(1,467,118)

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FULL IMPLEMENTATION

ASSUMPTIONS

32% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
15% Annual Increase in Operating Expense
NBO Adds LE 1 Million/Month for 10 Months

Average Loan Size (LE)	Units in Operation	Average Annual Effective Interest	Average Default	Loan Length Months	Inflation Recurrent Costs/Annum 15.00%	Exchange Rate $1=LE 3.2
3,000	18	32.00%	2.00%	6	1.15	3.2

	Year II Month 1	Year II Month 2	Year II Month 3	Year II Month 4	Year II Month 5	Year II Month 6	Year II Month 7	Year II Month 8	Year II Month 9	Year II Month 10	Year II Month 11	Year II Month 12
Loan Funds Available ($)	12,000,000	12,509,464	13,018,928	13,541,956	14,078,545	14,629,060	15,193,859	15,773,315	16,367,806	16,993,561	17,636,964	17,974,641
Total US Source (LE)	38,400,000	40,030,286	41,660,570	43,334,268	45,051,345	46,812,991	48,620,349	50,474,907	52,378,980	54,379,383	56,436,064	57,518,850
New NBO Loan Funds	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0	0
Gross Loan Funds Available	39,400,000	41,030,286	42,660,570	44,334,268	46,051,345	47,812,991	49,620,349	51,474,907	53,378,980	55,379,383	56,436,064	57,518,850
Gross Principal Repaid	6,333,333	6,568,667	6,838,361	7,110,096	7,389,043	7,676,224	7,984,832	8,270,058	8,579,101	8,898,163	9,229,894	9,405,842
Allowance for Default	10,556	10,944	11,397	11,850	12,315	12,792	13,281	13,783	14,299	14,827	15,383	15,676
Net Principal Repaid	6,322,778	6,556,722	6,826,964	7,098,246	7,376,728	7,662,432	7,966,550	8,256,275	8,564,803	8,881,336	9,214,511	9,390,166
Gross Int. Income LE	1,050,667	1,050,667	1,094,141	1,137,615	1,182,247	1,228,036	1,275,013	1,323,209	1,423,386	1,476,783	1,504,936	1,533,836
Allowance for Default	1,751	1,751	1,824	1,896	1,970	2,047	2,125	2,205	2,372	2,461	2,508	2,556
Net Interest Repaid	1,048,916	1,048,916	1,092,317	1,135,718	1,180,276	1,225,989	1,272,888	1,321,004	1,421,014	1,474,322	1,502,427	1,531,280
Total Fund Reflow	7,371,693	7,604,638	7,919,301	8,233,964	8,557,004	8,888,421	9,228,438	9,577,279	9,985,816	10,355,658	10,716,937	10,921,446
Gross Loan Funds Available LE	40,448,916	48,634,923	50,579,871	52,568,220	54,608,349	56,701,412	58,848,786	61,051,885	63,362,796	65,735,021	67,151,991	68,440,296
Total Recurrent Expense	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631
New Loan Funds Available Next Month	40,030,286	41,660,570	43,334,268	45,051,345	46,812,991	48,620,349	50,474,907	52,378,980	54,379,383	56,436,064	57,518,850	58,631,490
Cumulative Loan Funds Available ($)	12,509,464	13,018,928	13,541,956	14,078,545	14,629,060	15,193,859	15,773,315	16,367,806	16,993,561	17,636,964	17,974,641	18,322,343

RECURRENT COSTS

Project Salaries	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573	380,573
Contingency (10%)	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057	38,057
Monthly Total	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631	418,631
Cumulative Cost LE	418,631	837,261	1,255,892	1,674,523	2,093,153	2,511,784	2,930,415	3,349,045	3,767,676	4,186,307	4,604,937	5,023,568
Cumulative Cost $	130,822	261,644	392,466	523,288	654,110	784,933	915,755	1,046,577	1,177,399	1,308,221	1,439,043	1,569,865

Number of Borrowers	13,133	13,677	14,220	14,778	15,350	15,938	16,540	17,158	17,792	18,460	18,812	19,173

ASSUMPTIONS

32% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
15% Annual Increase In Operating Expense
NBD Adds LE 1 Million/Month for 10 Months

	Year III Month 1	Year III Month 2	Year III Month 3	Year III Month 4	Year III Month 5	Year III Month 6	Year III Month 7	Year III Month 8	Year III Month 9	Year III Month 10	Year III Month 11	Year III Month 12
Loan Funds Available ($)	18,322,343	18,660,660	19,005,998	19,361,533	19,728,534	20,101,263	20,486,848	20,880,884	21,288,334	21,702,678	22,129,904	22,568,806
Total US Source (LE)	58,631,499	59,710,874	60,819,168	61,958,906	63,124,810	64,324,010	65,555,033	66,818,828	68,118,289	69,448,250	70,815,891	72,219,637
New NBD Loan Funds	0	0	0	0	0	0	0	0	0	0	0	0
Gross Loan Funds Available	58,631,499	59,710,874	60,819,168	61,958,906	63,124,810	64,324,010	65,555,033	66,818,828	68,118,289	69,448,250	70,815,891	72,219,637
Gross Principal Repaid	9,686,476	9,771,916	9,961,829	10,136,531	10,326,151	10,520,914	10,720,898	10,926,839	11,136,471	11,352,711	11,574,708	11,802,816
Allowance for Default	15,977	16,287	16,586	16,894	17,210	17,536	17,868	18,210	18,561	18,921	19,291	19,671
Net Principal Repaid	9,670,498	9,755,630	9,906,243	10,119,637	10,308,941	10,503,284	10,702,801	10,907,629	11,117,911	11,333,790	11,555,417	11,782,944
Gross Int. Income LE	1,583,597	1,592,283	1,621,845	1,652,184	1,683,331	1,715,307	1,748,134	1,781,836	1,816,434	1,851,953	1,888,418	1,925,864
Allowance for Default	2,606	2,654	2,703	2,754	2,806	2,859	2,914	2,970	3,027	3,087	3,147	3,210
Net Interest Repaid	1,580,991	1,588,639	1,619,142	1,649,430	1,680,526	1,712,448	1,745,[illegible]	1,778,866	1,813,406	1,848,837	1,885,271	1,922,645
Total Fund Reflow	11,131,398	11,345,289	11,564,385	11,769,068	11,989,468	12,215,732	12,448,021	12,686,495	12,931,317	13,182,657	13,440,688	13,705,589
Gross Loan Funds Available LE	69,762,897	71,056,243	72,373,673	73,726,972	75,114,379	76,539,742	78,003,054	79,505,323	81,047,586	82,630,907	84,256,379	85,926,126
Total Recurrent Expense	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426
New Loan Funds Available Next Month	59,710,874	60,819,168	61,958,906	63,124,810	64,324,010	65,555,033	66,818,828	68,118,289	69,448,260	70,815,891	72,219,637	73,660,766
Cumulative Loan Funds Available ($)	18,660,660	19,005,998	19,361,533	19,728,534	20,101,263	20,486,848	20,880,884	21,288,334	21,702,578	22,129,904	22,568,805	23,018,968

RECURRENT COSTS

Project Salaries	437,659	437,659	437,659	437,659	437,659	437,659	437,659	437,659	437,659	437,659	437,659	437,659
Contingency (10%)	43,766	43,766	43,766	43,766	43,766	43,766	43,766	43,766	43,766	43,766	43,766	43,766
Monthly Total	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426	481,426
Cumulative Cost LE	5,504,993	5,986,419	6,467,844	6,949,269	7,430,694	7,912,120	8,393,545	8,874,970	9,356,395	9,837,821	10,319,246	10,800,671
Cumulative Cost $	1,720,310	1,870,756	2,021,201	2,171,647	2,322,092	2,472,537	2,622,983	2,773,428	2,923,874	3,074,319	3,224,764	3,375,210
Number of Borrowers	19,544	19,904	20,273	20,652	21,042	21,441	21,852	22,273	22,706	23,149	23,606	24,073

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ASSUMPTIONS

32% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
15% Annual Increase in Operating Expense
NBD Adds LE 1 Million/Month for 10 Months

	Year IV Month 1	Year IV Month 2	Year IV Month 3	Year IV Month 4	Year IV Month 5	Year IV Month 6	Year IV Month 7	Year IV Month 8	Year IV Month 9	Year IV Month 10	Year IV Month 11
Loan Funds Available ($)	23,018,986	23,458,791	23,910,304	24,373,837	24,849,710	25,338,253	25,839,801	26,354,702	26,883,310	27,425,992	27,983,120
Total US Source (LE)	73,980,758	75,068,130	76,612,872	77,998,278	79,519,073	81,062,400	82,687,363	84,336,046	86,028,583	87,763,173	89,545,985
New NBD Loan Funds	0	0	0	0	0	0	0	0	0	0	0
Gross Loan Funds Available	73,980,758	75,068,130	76,612,872	77,998,278	79,519,073	81,062,400	82,687,363	84,336,046	86,028,583	87,763,173	89,545,985
Gross Principal Repaid	12,038,590	12,278,793	12,511,365	12,752,162	12,999,360	13,253,179	13,513,736	13,781,227	14,055,841	14,337,768	14,627,196
Allowance for Default	20,061	20,461	20,852	21,254	21,666	22,089	22,523	22,969	23,426	23,896	24,379
Net Principal Repaid	12,018,529	12,258,331	12,490,503	12,730,908	12,977,714	13,231,090	13,491,212	13,758,259	14,032,415	14,313,869	14,602,817
Gross Int. Income LE	1,964,287	2,001,817	2,040,346	2,079,901	2,120,508	2,162,198	2,204,996	2,248,935	2,294,0K3	2,340,361	2,387,893
Allowance for Default	3,274	3,336	3,401	3,467	3,534	3,604	3,675	3,748	3,823	3,901	3,980
Net Interest Repaid	1,961,013	1,998,480	2,036,945	2,076,434	2,116,974	2,158,594	2,201,321	2,245,188	2,290,219	2,336,461	2,383,913
Total Fund Reflow	13,977,542	14,254,812	14,527,448	14,807,343	15,094,688	15,389,684	15,692,533	16,003,446	16,322,634	16,650,320	16,986,730
Gross Loan Funds Available LE	87,938,298	89,322,942	91,040,420	92,803,621	94,613,762	96,472,083	98,379,897	100,339,491	102,349,227	104,413,493	106,532,715
Total Recurrent Expense	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639
New Loan Funds Available Next Month	75,068,130	76,612,872	77,998,278	79,519,073	81,062,400	82,687,363	84,336,046	86,028,583	87,763,173	89,545,985	91,376,269
Cumulative Loan Funds Available ($)	23,458,791	23,910,304	24,373,837	24,849,710	25,338,253	25,839,801	26,354,702	26,883,310	27,425,992	27,983,120	28,556,081

RECURRENT COSTS											
Project Salaries	603,308	603,308	603,308	603,308	603,308	603,308	603,308	603,308	603,308	603,308	603,308
Contingency (10%)	60,331	60,331	60,331	60,331	60,331	60,331	60,331	60,331	60,331	60,331	60,331
Monthly Total	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639	663,639
Cumulative Cost LE	11,364,310	11,907,949	12,461,588	13,016,227	13,568,866	14,122,508	14,676,146	15,229,784	15,783,423	16,337,062	16,890,701
Cumulative Cost $	3,548,222	3,721,234	3,894,246	4,067,259	4,240,271	4,413,283	4,586,296	4,759,307	4,932,320	5,105,332	5,278,344

Number of Borrowers	24,564	25,023	25,504	25,999	26,508	27,027	27,562	28,112	28,678	29,264	29,849

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FULL IMPLEMENTATION

ASSUMPTIONS

30% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
40% Annual Increase in Operating Expense
NBD Adds LE 1 Million/Month for 10 Months

Average Loan Size (LE)	Units in Operation	Average Annual Effective Interest	Average Default	Loan Length Months	Inflation Recurrent Costs/Annum	Exchange Rate $1-LE 3.2
					40.00%	
3,000	16	30.00%	5.00%	6	1.4	3.2

	Year II Month 1	Year II Month 2	Year II Month 3	Year II Month 4	Year II Month 5	Year II Month 6	Year II Month 7	Year II Month 8	Year II Month 9	Year II Month 10	Year II Month 11	Year II Month 12
Loan Funds Available ($)	12,000,000	12,459,766	12,919,537	13,390,761	13,873,412	14,367,804	14,874,213	15,392,929	15,924,264	16,481,719	17,053,064	17,318,362
Total US Source (LE)	38,400,000	39,871,258	41,342,517	42,860,404	44,394,919	45,970,974	47,597,481	49,257,374	50,967,912	52,741,502	54,569,904	55,418,728
New NBD Loan Funds	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0	0
Gross Loan Funds Available	39,400,000	40,871,258	42,342,517	43,860,404	45,394,919	46,970,974	48,597,481	50,257,374	51,967,912	53,741,502	54,569,904	55,418,728
Gross Principal Repaid	6,333,333	6,566,667	6,811,876	7,067,068	7,308,401	7,566,820	7,829,496	8,099,580	8,376,229	8,659,602	8,956,917	9,094,967
Allowance for Default	26,389	27,361	28,383	29,405	30,452	31,524	32,623	33,748	34,901	36,082	37,320	37,896
Net Principal Repaid	6,306,944	6,539,306	6,783,494	7,027,662	7,277,949	7,534,296	7,796,873	8,065,832	8,341,328	8,623,520	8,919,597	9,057,072
Gross Int. Income LE	985,000	985,000	1,021,781	1,058,563	1,096,260	1,134,873	1,174,424	1,214,937	1,298,940	1,343,636	1,364,245	1,385,468
Allowance for Default	4,104	4,104	4,257	4,411	4,568	4,729	4,893	5,062	5,412	5,598	5,684	5,773
Net Interest Repaid	980,896	980,896	1,017,524	1,054,152	1,091,692	1,130,144	1,169,531	1,209,875	1,293,528	1,337,939	1,358,561	1,379,695
Total Fund Reflow	7,287,840	7,520,201	7,801,018	8,081,834	8,369,641	8,664,440	8,966,404	9,275,707	9,634,856	9,961,460	10,278,157	10,436,767
Gross Loan Funds Available LE	46,380,880	48,391,460	50,143,536	51,932,238	53,764,560	55,641,413	57,563,884	59,533,081	61,602,468	63,702,962	64,847,962	65,855,495
Total Recurrent Expense	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637
New Loan Funds Available Next Month	39,871,258	41,342,517	42,860,404	44,394,919	45,970,974	47,597,481	49,257,374	50,967,912	52,741,502	54,569,904	55,418,728	56,284,768
Cumulative Loan Funds Available ($)	12,459,766	12,919,537	13,390,761	13,873,412	14,367,804	14,874,213	15,392,929	15,924,264	16,481,719	17,053,064	17,318,362	17,590,246

RECURRENT COSTS												
Project Salaries	463,307	463,307	463,307	463,307	463,307	463,307	463,307	463,307	463,307	463,307	463,307	463,307
Contingency (10%)	46,331	46,331	46,331	46,331	46,331	46,331	46,331	46,331	46,331	46,331	46,331	46,331
Monthly Total	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637	509,637
Cumulative Cost LE	509,637	1,019,275	1,528,912	2,038,549	2,548,187	3,057,824	3,567,461	4,077,099	4,586,736	5,096,373	5,606,011	6,115,648
Cumulative Cost $	159,262	318,523	477,785	637,047	796,308	955,570	1,114,832	1,274,093	1,433,355	1,592,617	1,751,878	1,911,140
Number of Borrowers	13,133	13,624	14,114	14,617	15,132	15,659	16,199	16,752	17,319	17,914	18,190	18,473

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ASSUMPTIONS

30% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
40% Annual Increase in Operating Expense
NBD Adds LE 1 Million/Month for 10 Months

	Year III Month 1	Year III Month 2	Year III Month 3	Year III Month 4	Year III Month 5	Year III Month 6	Year III Month 7	Year III Month 8	Year III Month 9	Year III Month 10	Year III Month 11
Loan Funds Available ($)	17,580,248	17,806,203	18,026,612	18,251,308	18,482,721	18,710,898	18,962,079	19,212,111	19,467,447	19,729,139	19,997,348
Total US Source (LE)	56,288,798	56,978,660	57,661,639	58,404,179	59,144,798	59,903,672	60,681,532	61,478,767	62,296,829	63,133,244	63,991,506
New NBD Loan Funds	0	0	0	0	0	0	0	0	0	0	0
Gross Loan Funds Available	56,338,788	56,978,660	57,661,639	58,404,179	59,144,798	59,903,672	60,681,532	61,478,767	62,296,829	63,133,244	63,991,506
Gross Principal Repaid	9,238,456	9,381,464	9,498,108	9,613,608	9,734,030	9,857,451	9,983,946	10,113,589	10,246,489	10,382,638	10,522,207
Allowance for Default	38,466	39,060	39,567	40,067	40,568	41,073	41,600	42,140	42,694	43,261	43,843
Net Principal Repaid	9,197,989	9,342,376	9,458,541	9,573,550	9,693,471	9,816,379	9,942,346	10,071,449	10,203,798	10,339,377	10,478,366
Gross Int. Income LE	1,407,229	1,424,418	1,442,041	1,460,104	1,478,618	1,497,592	1,517,038	1,536,969	1,557,398	1,578,331	1,599,788
Allowance for Default	5,863	5,936	6,009	6,084	6,161	6,240	6,321	6,404	6,489	6,576	6,666
Net Interest Repaid	1,401,366	1,418,481	1,436,032	1,454,021	1,472,457	1,491,352	1,510,717	1,530,565	1,550,907	1,571,755	1,593,122
Total Fund Reflow	10,599,328	10,760,856	10,892,574	11,027,570	11,165,928	11,307,730	11,453,063	11,602,014	11,754,672	11,911,132	12,071,487
Gross Loan Funds Available LE	66,888,112	67,737,506	68,574,213	69,431,750	70,310,636	71,211,402	72,134,594	73,080,770	74,050,502	75,044,376	76,062,993
Total Recurrent Expense	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492
New Loan Funds Available Next Month	56,978,660	57,661,639	58,404,179	59,144,798	59,903,672	60,681,532	61,478,767	62,296,829	63,133,244	63,991,506	64,871,136
Cumulative Loan Funds Available ($)	17,806,203	18,026,612	18,251,308	18,482,721	18,710,898	18,962,079	19,212,111	19,467,447	19,729,139	19,997,348	20,272,230

RECURRENT COSTS

Project Salaries	648,629	648,629	648,629	648,629	648,629	648,629	648,629	648,629	648,629	648,629	648,629
Contingency (10%)	64,863	64,863	64,863	64,863	64,863	64,863	64,863	64,863	64,863	64,863	64,863
Monthly Total	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492	713,492
Cumulative Cost LE	6,829,140	7,542,633	8,256,125	8,969,617	9,683,109	10,396,602	11,110,094	11,823,586	12,537,078	13,250,571	13,964,063
Cumulative Cost $	2,134,106	2,357,073	2,580,039	2,803,005	3,025,972	3,248,938	3,471,904	3,694,871	3,917,837	4,140,803	4,363,770
Number of Borrowers	18,763	18,992	19,227	19,463	19,715	19,968	20,227	20,493	20,766	21,044	21,331

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ASSUMPTIONS

30% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
40% Annual Increase in Operating Expense
NBD Adds LE 1 Million/Month for 10 Months

	Year IV Month 1	Year IV Month 2	Year IV Month 3	Year IV Month 4	Year IV Month 5	Year IV Month 6	Year IV Month 7	Year IV Month 8	Year IV Month 9	Year IV Month 10	Year IV Month 11	Year IV Month 12
Loan Funds Available ($)	20,663,968	20,763,613	20,968,036	21,187,861	21,382,484	21,602,888	21,828,329	22,059,611	22,298,661	22,539,581	22,788,580	23,043,768
Total US Source (LE)	65,772,884	66,411,240	67,066,714	67,738,482	68,423,949	69,128,631	69,850,664	70,590,765	71,349,282	72,128,693	72,923,468	73,740,069
New NBD Loan Funds	0	0	0	0	0	0	0	0	0	0	0	0
Gross Loan Funds Available	65,772,884	66,411,240	67,066,714	67,738,482	68,423,949	69,128,631	69,850,664	70,590,765	71,349,282	72,128,693	72,923,468	73,740,069
Gross Principal Repaid	10,811,868	10,982,111	11,068,640	11,177,619	11,289,414	11,403,882	11,521,422	11,641,776	11,765,128	11,891,647	12,021,116	12,153,910
Allowance for Default	45,049	45,675	46,119	46,573	47,039	47,517	48,006	48,507	49,021	49,548	50,088	50,641
Net Principal Repaid	10,766,807	10,916,436	11,022,421	11,131,046	11,242,374	11,356,476	11,473,416	11,593,268	11,716,106	11,841,999	11,971,027	12,103,268
Gross Int. Income LE	1,644,317	1,660,281	1,676,643	1,693,412	1,710,598	1,728,213	1,746,266	1,764,769	1,783,732	1,803,167	1,823,086	1,843,501
Allowance for Default	6,851	6,918	6,986	7,056	7,127	7,201	7,276	7,353	7,432	7,513	7,596	7,681
Net Interest Repaid	1,637,466	1,653,363	1,669,657	1,686,356	1,703,471	1,721,012	1,738,990	1,757,416	1,776,300	1,795,654	1,815,490	1,835,820
Total Fund Reflow	12,404,272	12,569,799	12,692,078	12,817,402	12,945,846	13,077,487	13,212,406	13,350,684	13,492,404	13,637,653	13,786,518	13,939,089
Gross Loan Funds Available LE	78,176,936	78,981,039	79,757,792	80,553,884	81,368,796	82,206,018	83,063,061	83,941,439	84,841,686	85,764,346	86,709,976	87,679,147
Total Recurrent Expense	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889
New Loan Funds Available Next Month	66,411,240	67,066,714	67,738,482	68,423,949	69,128,631	69,850,664	70,590,765	71,349,282	72,128,693	72,923,468	73,740,069	74,678,990
Cumulative Loan Funds Available ($)	20,763,613	20,968,036	21,187,861	21,382,484	21,602,888	21,828,329	22,059,611	22,298,661	22,539,581	22,788,580	23,043,768	23,306,309

RECURRENT COSTS

	Year IV Month 1	Year IV Month 2	Year IV Month 3	Year IV Month 4	Year IV Month 5	Year IV Month 6	Year IV Month 7	Year IV Month 8	Year IV Month 9	Year IV Month 10	Year IV Month 11	Year IV Month 12
Project Salaries	908,081	908,081	908,081	908,081	908,081	908,081	908,081	908,081	908,081	908,081	908,081	908,081
Contingency (10%)	90,808	90,808	90,808	90,808	90,808	90,808	90,808	90,808	90,808	90,808	90,808	90,808
Monthly Total	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889	998,889
Cumulative Cost LE	15,676,444	16,675,334	17,674,223	18,673,112	19,672,001	20,670,890	21,669,779	22,668,668	23,667,558	24,666,447	25,665,336	26,664,225
Cumulative Cost $	4,898,889	5,211,042	5,523,195	5,835,347	6,147,500	6,459,653	6,771,806	7,083,959	7,396,112	7,708,265	8,020,418	8,332,570
Number of Borrowers	21,924	22,137	22,356	22,579	22,808	23,043	23,284	23,530	23,783	24,042	24,308	24,580

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ASSUMPTIONS

30% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
20% Annual Increase in Operating Expense
NBD Adds LE 1 Million/Month for 10 Months
20% Annual Devaluation in LE
Average Loan Size Increases by LE 1,000/Year

FULL IMPLEMENTATION

Average Loan Size (LE)	Units in Operation	Average Annual Effective Interest	Average Default	Loan Length Months	Inflation Recurrent Costs/Annum	Exchange Rate $1=LE 3.3
					20.00%	
3,000	18	30.00%	2.00%	6	1.2	3.3

	Year II Month 1	Year II Month 2	Year II Month 3	Year II Month 4	Year II Month 5	Year II Month 6	Year II Month 7	Year II Month 8	Year II Month 9	Year II Month 10	Year II Month 11	Year II Month 12
Loan Funds Available ($)	11,800,000	11,462,762	11,916,824	12,392,486	12,679,983	13,379,666	13,891,821	14,416,767	14,964,796	15,506,263	16,071,493	16,340,238
Total US Source (LE)	36,300,000	37,794,114	39,326,618	40,896,144	42,603,946	44,152,899	45,843,008	47,576,299	49,360,829	51,170,667	53,036,928	53,922,784
New NBD Loan Funds	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0	0
Gross Loan Funds Available	37,300,000	38,794,114	40,326,618	41,896,144	43,603,946	45,152,899	46,843,008	48,576,299	50,360,829	52,170,667	53,036,928	53,922,784
Gross Principal Repaid	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333	6,333,333
Allowance for Default	10,556	10,556	10,556	10,556	10,556	10,556	10,556	10,556	10,556	10,556	10,556	10,556
Net Principal Repaid	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778	6,322,778
Gross Int. Income LE	932,500	969,653	1,008,138	1,047,379	1,087,609	1,128,822	1,171,076	1,214,362	1,258,771	1,304,267	1,326,898	1,348,070
Allowance for Default	1,864	1,916	1,980	1,748	1,813	1,881	1,962	2,024	2,098	2,174	2,210	2,247
Net Interest Repaid	930,846	966,236	1,006,458	1,045,633	1,085,796	1,126,941	1,169,123	1,212,359	1,256,673	1,302,093	1,323,688	1,345,823
Total Fund Reflow	7,253,724	7,291,014	7,329,236	7,368,411	7,408,584	7,449,719	7,491,901	7,535,136	7,579,450	7,624,871	7,646,466	7,668,601
Gross Loan Funds Available LE	38,230,946	39,762,350	41,331,876	42,940,777	44,589,731	46,279,840	48,012,131	49,787,669	51,607,489	53,472,760	54,359,616	55,268,607
Total Recurrent Expense	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,332	436,832
New Loan Funds Available Next Month	37,794,114	39,326,618	40,896,144	42,603,946	44,152,899	45,843,008	47,576,299	49,360,829	51,170,667	53,036,928	53,922,784	54,831,775
Cumulative Loan Funds Available ($)	11,462,762	11,916,824	12,392,486	12,879,983	13,379,666	13,891,821	14,416,767	14,964,796	15,506,263	16,071,493	16,340,238	16,615,669

RECURRENT COSTS												
Project Salaries	397,120	397,120	397,120	397,120	397,120	397,120	397,120	397,120	397,120	397,120	397,120	397,120
Contingency (10%)	39,712	39,712	39,712	39,712	39,712	39,712	39,712	39,712	39,712	39,712	39,712	39,712
Monthly Total	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832
Cumulative Cost LE	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832	436,832
Cumulative Cost $	132,373	132,373	132,373	132,373	132,373	132,373	132,373	132,373	132,373	132,373	132,373	132,373
Number of Borrowers	12,433	12,931	13,442	13,966	14,501	15,051	15,614	16,192	16,784	17,390	17,679	17,974

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ASSUMPTIONS

30% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
20% Annual Increase in Operating Expense
NBD Adds LE 1 Million/Month for 10 Months
20% Annual Devaluation in LE
Average Loan Size Increases by LE 1,000/Year

Average Loan Size (LE)	Units in Operation	Average Annual Effective Interest	Average Default	Loan Length Months	Inflation Recurrent Costs/Annum	Exchange Rate $1-LE 3.96
					20.00%	
4,000	16	30.00%	2.00%	6	0.2	3.96

	Year III Month 1	Year III Month 2	Year III Month 3	Year III Month 4	Year III Month 5	Year III Month 6	Year III Month 7	Year III Month 8	Year III Month 9	Year III Month 10	Year III Month 11	Year III Month 12
Loan Funds Available ($)	13,846,406	14,069,618	14,278,149	14,502,134	14,731,710	14,967,016	15,206,194	15,456,392	15,708,780	15,968,451	16,234,623	16,507,439
Total US Source (LE)	54,831,775	55,676,066	56,541,470	57,420,462	58,337,672	59,269,363	60,224,449	61,203,363	62,206,666	63,236,065	64,289,106	65,369,459
New NBD Loan Funds	0	0	0	0	0	0	0	0	0	0	0	0
Gross Loan Funds Available	54,831,775	55,676,066	56,541,470	57,420,462	58,337,672	59,269,363	60,224,449	61,203,363	62,206,666	63,236,065	64,289,106	65,369,459
Gross Principal Repaid	8,987,131	9,138,629	9,279,346	9,423,678	9,571,409	9,722,929	9,878,230	10,037,406	10,200,569	10,367,781	10,539,177	10,714,861
Allowance for Default	14,979	15,231	15,486	15,706	15,962	16,206	16,464	16,729	17,001	17,280	17,566	17,858
Net Principal Repaid	8,972,152	9,123,398	9,263,862	9,407,872	9,555,456	9,706,724	9,861,767	10,020,679	10,183,558	10,350,502	10,521,612	10,696,993
Gross Int. Income LE	1,370,794	1,391,602	1,413,537	1,435,711	1,458,439	1,481,736	1,505,611	1,530,084	1,555,167	1,580,877	1,607,228	1,634,236
Allowance for Default	2,284	2,320	2,356	2,393	2,431	2,470	2,509	2,550	2,592	2,635	2,679	2,724
Net Interest Repaid	1,368,510	1,389,682	1,411,181	1,433,318	1,456,008	1,479,266	1,503,102	1,527,534	1,552,575	1,578,242	1,604,549	1,631,513
Total Fund Reflow	10,340,662	10,512,080	10,675,063	10,841,191	11,011,466	11,185,990	11,364,869	11,548,213	11,736,133	11,928,744	12,126,161	12,328,506
Gross Loan Funds Available LE	65,172,437	66,189,066	67,216,533	68,269,643	69,349,037	70,455,371	71,589,318	72,751,666	73,942,821	75,163,806	76,416,269	77,697,966
Total Recurrent Expense	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198
New Loan Funds Available Next Month	55,676,066	56,541,470	57,420,462	58,337,672	59,269,363	60,224,449	61,203,363	62,206,666	63,236,065	64,289,106	65,369,459	66,476,773
Cumulative Loan Funds Available ($)	14,069,618	14,278,149	14,502,134	14,731,710	14,967,016	15,206,194	15,456,392	15,708,780	15,968,451	16,234,623	16,507,439	16,787,084
RECURRENT COSTS												
Project Salaries	476,544	476,544	476,544	476,544	476,544	476,544	476,544	476,544	476,544	476,544	476,544	476,544
Contingency (10%)	47,654	47,654	47,654	47,654	47,654	47,654	47,654	47,654	47,654	47,654	47,654	47,654
Monthly Total	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198	524,198
Cumulative Cost LE	961,030	1,485,229	2,009,427	2,533,626	3,057,824	3,582,022	4,106,221	4,630,419	5,154,618	5,678,816	6,203,014	6,727,213
Cumulative Cost $	242,684	375,058	507,431	639,804	772,178	904,551	1,036,924	1,169,298	1,301,671	1,434,044	1,566,418	1,698,791
Number of Borrowers	13,706	13,919	14,136	14,357	14,584	14,817	15,056	15,301	15,552	15,809	16,072	16,342

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ASSUMPTIONS

30% Effective Interest Rate
Only Branch Salaries Counted As Recurrent Costs
All Loanable Funds Extended
20% Annual Increase In Operating Expense
NBD Adds LE 1 Million/Month for 10 Months
20% Annual Devaluation in LE
Average Loan Size Increases by LE 1,000/Year

Average Loan Size (LE)	Units In Operation	Average Annual Effective Interest	Average Default	Loan Length Months	Inflation Recurrent Costs/Annum	Exchange Rate $1=LE 4.76
					20.00%	
6,000	18	30.00%	2.00%	6	0.2	4.762

	Year IV Month 1	Year IV Month 2	Year IV Month 3	Year IV Month 4	Year IV Month 5	Year IV Month 6
Loan Funds Available ($)	13,989,220	14,206,994	14,428,179	14,655,909	14,889,323	15,129,662
Total US Source (LE)	66,478,773	67,606,845	68,662,706	69,844,879	70,764,081	71,890,828
New NBD Loan Funds	0	0	0	0	0	0
Gross Loan Funds Available	66,478,773	67,606,845	68,662,706	69,844,879	70,764,081	71,890,828
Gross Principal Repaid	10,894,610	11,079,482	11,251,147	11,427,118	11,607,460	11,792,343
Allowance for Default	18,158	18,486	18,762	19,045	19,346	19,664
Net Principal Repaid	10,876,752	11,060,996	11,232,396	11,408,072	11,588,134	11,772,680
Gross Int. Income LE	1,661,918	1,687,672	1,714,068	1,741,122	1,768,852	1,797,273
Allowance for Default	2,770	2,813	2,857	2,902	2,948	2,996
Net Interest Repaid	1,659,148	1,684,859	1,711,211	1,738,220	1,765,903	1,794,278
Total Fund Reflow	12,535,901	12,745,858	12,943,606	13,146,293	13,354,037	13,566,967
Gross Loan Funds Available LE	79,012,674	80,252,740	81,506,312	82,791,171	84,108,098	85,457,893
Total Recurrent Expense	629,038	629,038	629,038	629,038	629,038	629,038
New Loan Funds Available Next Month	67,606,845	68,662,706	69,844,879	70,764,081	71,890,828	73,068,166
Cumulative Loan Funds Available ($)	14,206,994	14,428,179	14,655,909	14,889,323	15,129,662	15,373,772

	Year IV Month 7	Year IV Month 8	Year IV Month 9	Year IV Month 10	Year IV Month 11	Year IV Month 12
Loan Funds Available ($)	15,373,772	15,625,103	15,882,709	16,146,736	16,417,361	16,694,737
Total US Source (LE)	73,068,166	74,260,488	75,474,618	76,729,301	78,016,296	79,333,392
New NBD Loan Funds	0	0	0	0	0	0
Gross Loan Funds Available	73,068,166	74,260,488	75,474,618	76,729,301	78,016,296	79,333,392
Gross Principal Repaid	11,981,821	12,176,028	12,375,081	12,579,103	12,788,217	13,002,660
Allowance for Default	19,970	20,293	20,626	20,966	21,314	21,671
Net Principal Repaid	11,961,851	12,155,734	12,354,456	12,558,138	12,766,903	12,980,879
Gross Int. Income LE	1,826,404	1,856,262	1,886,866	1,918,233	1,950,382	1,983,336
Allowance for Default	3,044	3,094	3,145	3,197	3,251	3,306
Net Interest Repaid	1,823,360	1,853,168	1,883,721	1,915,036	1,947,132	1,980,029
Total Fund Reflow	13,785,211	14,008,903	14,238,177	14,473,173	14,714,036	14,960,908
Gross Loan Funds Available LE	86,841,377	88,259,390	89,712,795	91,202,474	92,729,333	94,294,300
Total Recurrent Expense	629,038	629,038	629,038	629,038	629,038	629,038
New Loan Funds Available Next Month	74,260,488	75,474,618	76,729,301	78,016,296	79,333,392	80,684,383
Cumulative Loan Funds Available ($)	15,625,103	15,882,709	16,146,736	16,417,361	16,694,737	16,979,037

RECURRENT COSTS	Year IV Month 1	Year IV Month 2	Year IV Month 3	Year IV Month 4	Year IV Month 5	Year IV Month 6
Project Salaries	571,853	571,853	571,853	571,853	571,853	571,853
Contingency (10%)	57,185	57,185	57,185	57,185	57,185	57,185
Monthly Total	629,038	629,038	629,038	629,038	629,038	629,038
Cumulative Cost LE	7,356,251	7,985,289	8,614,327	9,243,365	9,872,403	10,501,441
Cumulative Cost $	1,548,033	1,680,406	1,812,779	1,945,153	2,077,526	2,209,899
Number of Borrowers	13,296	13,501	13,713	13,929	14,151	14,378

RECURRENT COSTS	Year IV Month 7	Year IV Month 8	Year IV Month 9	Year IV Month 10	Year IV Month 11	Year IV Month 12
Project Salaries	571,853	571,853	571,853	571,853	571,853	571,853
Contingency (10%)	57,185	57,185	57,185	57,185	57,185	57,185
Monthly Total	629,038	629,038	629,038	629,038	629,038	629,038
Cumulative Cost LE	11,130,479	11,759,517	12,388,556	13,017,594	13,646,632	14,275,670
Cumulative Cost $	2,342,273	2,474,646	2,607,019	2,739,393	2,871,766	3,004,139
Number of Borrowers	14,611	14,850	15,096	15,348	15,603	15,867

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SMALL ENTERPRISE CREDIT PROJECT
263-0228

Economic Analysis

In evaluating the economic merits of establishing a small enterprise credit project, it is not feasible to quantify, with a high degree of accuracy, the various costs and benefits associated with such an investment. Such an analysis would entail a number of assumptions regarding such factors as the amount of employment generation created by the project, increase in borrowers' net profits, levels of reinvestment, etc. Given the difficulty in defending such assumptions in this case, the results of a quantitative analysis would be of limited utility. It is therefore more useful to perform a descriptive analysis based on two main issues, namely, the economic rationale behind establishing the project and the degree of sustainability envisaged by the project.

The economic rationale of the project stems from both the existing market deficiencies in terms of imperfect knowledge by investors and financial institutions, as well as the project's potential for generating positive externalities and economic benefits.

Financial institutions in Egypt mainly deal with large scale investors who demand relatively large loans. Thus, loan appraisal and approval procedures as well as the organizational structure of Egyptian banks' lending operations are geared towards serving a relatively small number of large borrowers. This factor, as well as the large capital base of Egyptian banks and hence their high fixed costs makes lending to small enterprises an unprofitable operation, in the absence of organizational and procedural adjustments. Moreover, these institutions do not possess sufficient market information to enable them to identify trustworthy small investors. Therefore, lending to small enterprises involves a high degree of risk. On the investors' side, small scale enterprises are not able to undertake many investment decisions due to lack of finance. They either confine their operations to the funds they can save or borrow from individuals, or refrain from investing. The project is expected to solve the problem of low credit access faced by these small entrepreneurs by providing them with the required finance. Once they prove to be efficient, repay their loans on time and manage to expand their businesses, other financial institutions presumably would be eager to have them as customers. In other words, the establishment of the project will act as a model and induce a change in the institutional framework of the financial sector.

Providing credit to small businesses is also justified on the grounds that it creates positive externalities in addition to the direct economic impact on its beneficiaries. The direct benefits enjoyed by the small enterprises served by the project lie in improved performance in terms of sustained higher income and profitability as well as increased wage levels for labor. Experiences in other developing countries (e.g. Peru and Bangladesh) support this conclusion.
Under the RSSE project, 89 percent of project-assisted enterprises reported a growth in income while 24 percent reported increased employment levels. The average income growth ranged from 15 to 22 percent.

The project's positive externalities include backward and forward linkages. The former encompass benefits earned by suppliers of raw materials and tools to the assisted enterprises while the latter involve income multiplier effects generated by increased consumption and new investments made available by profit accumulation. In addition to these linkages, expansion of small scale enterprise activities is expected to have a positive impact on employment as the labor/capital ratio of small and micro enterprises is higher than that of large scale investments. In fact, as increased employment is considered a major goal for the project, priority should be given to borrowers whose expanded activities result in employment generation.

In addition to the economic benefits of the project, there are two other points to consider: additionality and sustainability. Additionality implies that the project would make funds available to small enterprises and allow for business expansion that could not have been possible without the project. The premise here is that many entrepreneurs will seek loans through the SEC project that they otherwise would not pursued through informal sources of credit, most of which charge exorbitant interest rates. Sustainability means that the project's activities will continue after the completion of external (AID) finance.[1] To achieve this goal and to ensure that loan revenues are directed to the highest valued sources, the pricing of the loan should be such that revenues cover recurrent operating costs (cost of funds, inflation and provision for bad debts) and earn a profit for reinvestment and expansion. An efficient management system to ensure adequate screening of loan applicants is also an essential pre-requisite for sustainability.

[1]Design and Management of Credit Projects for Small and Medium Scale Enterprise, 1988, p. 11.

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SMALL ENTERPRISE CREDIT PROJECT
263-0228

Social Soundness Analysis

I. DEFINING THE SIZE OF THE SMALL AND MICRO ENTERPRISE SECTOR

In Egypt, as elsewhere, there are numerous definitions for SMEs. However, based on a review of the literature and persons interviewed in both the public and private sectors at the time of design of the Small and Micro Enterprise Development Project (263-0212), a consensus was reached on a definition for USAID purposes. The definition of micro-scale enterprise includes those private firms that employ ten or less people, while small-scale enterprises are the private firms that employ 15 or less. Under this Project, SMEs are further defined as existing businesses with fixed, movable assets (machinery and equipment) of LE 5,000 to 30,000, exclusive of land and buildings.

Despite the sizable resources which have been invested in small enterprise studies in Egypt, satisfactory counts have yet to be made. There is a consensus, however, that the sector is growing very rapidly in the urban areas, especially in Cairo and Alexandria.

The most commonly used source for statistical data on the small-scale industrial sector is a World Bank report.[1] This report indicated that there are an estimated 250,000 manufacturing establishments in Egypt employing between one and nine persons and about 7,500 firms with ten or more workers. The two groups together employed 624,000 people in 1981/82, equivalent to over 40 percent of industrial employment, with over 90 percent of the establishments employing less than fifty workers. Firms employing less than ten persons were concentrated in woodworking, leather products, textiles and metallurgy/engineering. Over 75 percent of these businesses were located in either the Greater Cairo or Alexandria areas.

A.D Little's study[2] estimated that there were 7,350 privately owned firms with 10 or more employees, and that approximately 62 percent, or 6,900, employed between 10 and 50 employees. Dr. Aly

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[1] The World Bank. Staff Appraisal Report, Arab Republic of Egypt, Small and Medium Scale Industry Project. 1984.

[2] Arthur D. Little International. Review and Evaluation of Small-Scale Enterprises in Egypt. March 1982.

Helmy's study[3] indicated that firms employing between 10 and 50 individuals represented about 90.6 percent of the estimated 13,000 privately owned industrial firms, or 11,778 firms. Checchi[4] estimated that artisan sector firms employed two thirds of the private sector industrial work force as of 1981, producing an annual gross product equivalent to 25 percent of the entire formal sector production.

SMEs produce a wide range of products including: food products, leather goods, cosmetics, wooden furniture, and fabricated metal products. SME production is concentrated in the area of final consumer goods. In terms of percentage of the total work force, the largest groups are: furniture (12.4 percent, fabricated metal products (12.2 percent), and tailoring (10.5 percent). Very small units play an important role in this sector, with 37 percent categorized as one-person shops, and another 28 percent with only one employee.[5]

Available studies on SMEs in Egypt reveal problems endemic to the sector. SMEs experience poor access to financing for working capital and investments, due primarily to a lack of collateral and little contact with established financial institutions. Low income results from 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 businesses. In addition, there exist certain legal impediments, accompanied by an absence of incentives, to formalize businesses and the workers employed there.

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[3] Dr. Aly Helmy. Small Scale Industrial Enterprises in Egypt. June 1985.

[4] Checchi & Company. Artisan Sector Studies Project: A Profile of Artisanal Establishments in Greater Cairo, Alexandria, Assiut and Damietta. 1982.

[5] National Cooperative Business Association. Egypt Micro and Small Business Project Design Report. 1984.

II. ENTREPRENEUR PROFILE

A. NCBA Survey

As part of its study[6], NCBA sought to analyze the financial, technical support and management constraints facing SMEs which would affect the feasibility of promoting an SME community- designed and managed credit and technical assistance project. The methodology centered on the administration of 45 in-depth interviews and an additional 25 group meetings with SME entrepreneurs in Cairo and Alexandria. Successive meetings were held with the same group of entrepreneurs over a two-week period to present new concepts of the credit design system, discuss shared problems, and business expansion possibilities, etc. Interviews and discussions were held among owners of SMEs in four industry or manufacturing sub-sectors: ready-made garments, leather and footwear, metal industry, and woodworking and furniture.

The majority of SME entrepreneurs who participated in this study started out as apprentices and then broke-off to start their own businesses. Two thirds of the study population ran their businesses in rented shops and the remaining one-third owned their business locations. This was not surprising given the very high cost of property in the communities of Cairo and Alexandria.

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

Employment patterns favored non-family workers with 70 percent of all workers hired outside 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 was LE 14,521, with the low end at LE 7,966 in leather and footwear manufacturing and the high of LE 26,070 for the metal industry.

Average gross sales per month were just over LE 16,280 with the low end of the scale among leather and footwear businesses at just under LE 4,770 and the highest monthly gross sale figure of LE 37,315 for the metal industry. Production sales figures per month were also utilized to help estimate the current, shop

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[6] National Cooperative Business Association. Egypt Micro and Small Business Project Design Report. 1984.

capacity of the sample of enterprises visited. The average operating capacity for the total 45 enterprises was nearly 52 percent. The ready-made garment business demonstrated the highest operating capacity of 67 percent, while leather and footwear had an estimated capacity of only 32 percent. The last two figures represented a fairly accurate picture of the current status of the garment and leather industries. At that time, the ready-made clothing industry was enjoying a boom and was expanding very rapidly. The expansion was being felt by the micro-scale enterprises as well, and their owners admitted to good sales during that period. On the other hand, the leather and footwear industry seemed 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 was direct sales to final customers. With the exception of six entrepreneurs (garments and leather) who sold a portion of their production on the international market, the rest sold domestically (57 percent local and 38 percent regional sales).

Very few entrepreneurs had been able to secure loans from formal sector banking institutions. Five of the forty-five entrepreneurs interviewed said they had been 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 provided few useful services. The businessman who received the DIB loan borrowed LE 150,000 to expand his small-scale, furniture business. The loan was repayable over 10 years with 13 percent interest plus LE 50 service fee. Of the two remaining proprietors to receive a bank loan, one was able to secure a loan amounting to LE 1,500 (garments industry). Collateral provided included promissory notes and the guarantee of a public sector employee. The remaining entrepreneur to receive a bank loan was operating a metals industry shop and obtained LE 20,000 to purchase machinery and equipment. The remaining respondents, many of whom dealt with banks for other services such as savings or checking accounts, stated that banks required 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 pointed to more difficulty in securing bank loans among the micro-scale entrepreneurs. Most used a variety of informal mechanisms. A common practice among the garment, leather and metals industry entrepreneurs was to purchase raw materials on credit. Although some material suppliers required a major cash payment up front, and a short term to repay, (one-two months), the total purchase price remained six to 18 percent, per unit higher. The furniture manufacturers interviewed all were forced to pay cash for their lumber. The alternative to high cost supplier credit was 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" were common sources of business finance (26 and 27 of the 45 interviewees 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 LE 50 to 100 for a period of 10 to 12 months, as agreed among members. Members draw lots to determine which month they can utilize the entire group savings.

Partnerships appeared 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" was usually an unregistered transaction and apparently was often between friends and neighbors. The amount borrowed was LE 5,000. The agreement between them was to invest the money for one year, after which the entire amount plus approximately 20 percent 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 pointed to the need for management and technical assistance to enhance management skills and improve productivity, which was lowest among the leather goods and wood production SME 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 LE 500 to LE 50,000, with the majority of the proprietors responding in the LE 10,000 to 30,000 range.

B. <u>Oldham's Study</u>

This study[7] adds some detail with respect to the start up of SMEs. In the vast majority of cases, persons operating small scale shops entered the trade at a very early age as apprentices. Today the age has advanced to 13-14, as both owners and parents perceive the value of literacy to professional advancement. Boys advance with their growing skills to the position of helper, then skilled worker. Contrary to the belief of many, treatment of boys working in these shops as apprentices is generally very good: owners make such an investment in training these boys that it is in their interest to build strong social links not only with them but with their families. (In trades where boys work as laborers, not apprentices, the conditions were sometime very different.) By and large, the owner of a parent shop will support a skilled workman to establish a shop of his own, by farming out parts of the production process to him on a piecework base, or by giving him overflow work. In some cases the owner of the parent shop co-invests or provides loans to enable the worker to set up on his own. This assures the continuity of a long term relationship beginning with the apprenticeship and adds considerably to both the flexibility of the original shop and to the functioning of the sector as a whole.

C. <u>ESED Cairo Survey and Loan Experience in Alexandria</u>

In 1990, the Egyptian Small Enterprise Development Foundation undertook a baseline survey in Cairo prior to initiating lending activities under the Small and Micro Enterprise Development Project. The methodology involved administering questionnaires to 227 SME entrepreneurs selected on a random basis in the Greater Cairo area. Of these, 22 percent were in the wood sector, 26 percent were in garments, 24 percent were in metal works, 11 percent were in leather, and 17 percent were other. 89 percent of those interviewed were male and 11 percent female. At that time, 49 percent felt that the market situation was stable, while 19 percent (primarily garments and metal) felt that it was expanding. A total of 30 percent of those interviewed felt that the market situation was either deteriorating or in a recession. A major indication presented by the survey was that the majority of entrepreneurs were pushing for loans at or above the upper range presented by the questionnaire: particularly in metal, garments, and wood sectors, the respondents felt that credit should be provided in the LE 2,500 - 3,000 plus range. This is corroborated by actual loan experience with the Alexandria Businessmen's Association

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[7] Linda Oldham. Small Enterprise in Egypt: A Description of the Sector and Recommendations for VSO Participation in Support Programs. July 1990.

where 80 percent of the loans are in the LE 1,000 to LE 5,000 range. An examination of loan terms shows that 89 percent were for between four to six months, with 5 percent going to women.

III. SOCIO-CULTURAL FEASIBILITY

In Egypt, religious and social tradition affects the design of this project in a key area: 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. This is usually handled by using terms like "cost recovery" or "profit sharing" rather than "interest rates" or "interest charges". This Project will maintain an awareness of this issue. It is important to note that experience with credit projects in Egypt that charge relatively high interest rates receive almost no complaints from the borrowers themselves. Availability and accessibility are far larger issues than cost.

IV. IMPACT

Unless credit programs are specifically designed to account for social and economic differences within the communities served, they will very likely reinforce inequality by promoting additional opportunities for the more privileged. Including the issues of equity, empowerment, and community development as integral concerns of credit projects can add to opportunities for both growth and equality among individuals and within the communities served. The most effective mechanisms for promoting equality of opportunity among potential borrowers are the following:[8]

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

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

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[8]Robert Hunt. Private Voluntary Organizations and the Promotion of Small Scale Enterprises. AID Evaluation Special Study No. 27. 1985.

- Owners and employees of existing, small scale enterprises, in the geographical areas designated to be served;
- Primarily involved in the productive value added private sector of the economy, for example: light manufacturing and assembly operations; maintenance transport, storage and distribution services; and agricultural product processing and marketing;
- Going concern, with a minimum number of one year of operation;
- Creditworthy, as determined through personal references or a credit history in the Project;
- Employ less than 15 people and have fixed assets generally not exceeding LE 25,000, not including buildings and land; and
- Request the loans for specific purposes, such as short term working capital needs to purchase inventory, acquisition of small capital equipment and tools, etc.

In addition, care will be taken by the NBD to avoid any concentration of loans to any one group or specific sector of the economy. This has been successfully managed under the RSSE. Other criteria include:

- Actively promoting the participation of women and women's groups in the project, both in terms of beneficiaries of Project loan monies, as well as in staff, trainee, or policy advisory capacities within the implementing organization. Loans to women under the RSSE Pilot Project were approximately 10 - 20 percent; NBD will target the employment of women for at least 20 percent of the loan officer positions under the project, in an attempt to increase this percentage.
- Extend loans to qualified beneficiaries in a range not less than LE 250 nor more than LE 5,000. This is raised from LE 2,500 in the RSSE Pilot Project. This upper limit, however, will be granted only in cases where (1) the past credit history of the borrower in the Project has been exemplary and (2) the cash flow analysis supports this decision.

As a result of the expansion of the SEC Project, it is expected that the following number of beneficiaries will be reached in the first eighteen months of Project Life:

- 20,000 new direct beneficiaries, i.e., loan recipients;
- 40,000 non-family member employees benefitting from improved earnings;
- 90,000 new indirect beneficiaries, i.e., members of households who benefit from improved earning, quality of life, and greater freedom of choice in the market place; and
- 18,000 jobs strengthened or created.

The overall population in the project areas will benefit from a more efficient local economy, greater liquidity, greater employment opportunity, and higher income.

V. SPREAD EFFECTS

The need to strengthen and create jobs has never been stronger in Egypt than it is now. World-wide experience has shown that investment in small and micro enterprises is one of the most cost-effective methods of rapidly providing expanded employment among unskilled and semi-skilled labor, along with enhancing the economic condition of the actual owners of the small enterprises. Many SMEs have a labor pool of both family and hired employees; improving the income of small enterprises owners directly affects the health and welfare of the owner's family, the workers, and their families.

A review of AID's experience[9] indicates that, generally, when employment creation is the most important criterion, priority ordinarily should be given to small-to-medium size firms rather than to micro enterprises, to manufacturing industries rather than to service industries, and to service industries rather than to retail industries. However, under appropriate conditions, lending to micro enterprises (one to five persons) can be very productive.

A study completed for AID,[10] suggests that, on the whole, it is clear from the experience of those development agencies dealing with the larger of the small firms that they are likely to produce substantial numbers of new jobs, especially in the

[9] Donald Bowles. AID's Experience with Selected Employment Generation Projects. AID Evaluation Special Study No. 53. March 1988.

[10] Robert Hunt. Private Voluntary Organizations and the Promotion of Small Scale Enterprises. AID Evaluation Special Study No. 27. 1985.

manufacturing sector. Although microenterprises are unlikely to generate many new jobs in the usual sense, evaluations suggest that they may reduce underemployment within owner families. Therefore, if attention is accorded to underemployment and to the fact that microenterprise owners are from the poorest sectors of society, the advantages of microenterprises may become evident. Furthermore, they may have significant employment impacts beyond the family in that firms of this size may provide more economic linkages to local, smaller firms than do larger ones.

Because they are relatively easy to establish and tend to rely on simple technologies, SMEs provide more managerial and job opportunities, especially for the less skilled, than other forms of enterprise. With their impact on the distribution of skills and opportunities, they may therefore be seen as forces that increase the possibility for stable and democratic change.

Short-run employment objectives may sometimes be sacrificed to create a small business base, reduce underemployment, increase productivity, or eliminate negative attitudes toward the private sector that bar sectoral growth.

Long-run employment effects depend largely on such factors as forward and backward linkages and value added in the enterprise, as well as such broader issues as policy and the level of economic integration. There is some evidence that the general level of overall development affects the amount of employment that can be generated by stimulating small firm development through credit. This makes intuitive sense because growth and consequently employment generation cannot occur in an area with weak, undeveloped linkages.

Despite the massive proliferation of small industrial workshops over the past two decades, these communities' social isolation presents an important constraint to their further development. Information travels rapidly through such communities of industrialists and among industrialists in particular subsectors across the city. Social linkages among firms within a settlement are multiplex: money is co-invested and borrowed within these circles, conflicts are resolved, marriages are made, technology is shared, production processes are divided up in a given subsector or across subsectors, and news circulates. Between the rest of the society and these shops, however, quite little information travels, and between these shops and industrial developments elsewhere in the world, almost none in any direct sense. New knowledge tends to spread through the system very rapidly, but the initial access to this new knowledge is very restricted.

Based on the project approach of seeking out clients at their work places and/or residences, dissemination of the program within the SME sector can be expected to be relatively rapid, with the resulting use of the credit program enhancing SME's productivity and the level of value added. In Cairo, most SMEs are located in areas where many other SMEs are located. Experience under RSSE has shown that many businesses learn of the program through neighboring enterprises which are participating in the program. However, additional efforts such as marketing, technical assistance to indigenous and alternate sources of inputs, research, and lobbying must be undertaken to strengthen forward and backward linkages, as well as to deal with such broader issues as policy and the level of economic integration. Activities in these areas will be included in the planned expansion of the Small and Micro Enterprise Development Project (263-0212).

VI. WOMEN IN DEVELOPMENT ISSUES

Women's limited access to capital in the face of their creditworthiness and their willingness to respond to economic opportunities underscores the importance of addressing women's financial needs -- not just for reasons of equity but even more importantly for economic reasons.[11] Women's financial conservatism translates into a propensity to save and high loan repayment rates. Women's sense of responsibility, their concern for their future ability to obtain credit, and their perpetual drive toward financial security make them good savers and creditworthy borrowers.

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

Women need access to credit for their income generating activities, though their need varies by socio-economic status. Berger[12] concludes that the "ultra poor" are likely not good candidates for lending since their situations force them to use whatever cash they have for consumption. These women might best

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

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

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

Egypt's formal financial system, for the most part, has been unable to respond to women's financial needs. Some of the major factors that limit their participation are related to institutional requirements, others to cultural and social norms, and still others to the type of productive activities in which women predominate.[13]

A. Institutional Issues

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

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

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

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

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

B. <u>Gender-Related Issues</u>

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

1. <u>Literacy</u>. In Egypt, approximately 70 percent of adult females are illiterate, as opposed to 41 percent of adult males. This factor decreases women's capacity to approach financial institutions for services.

2. <u>Transaction Costs</u>. From the borrower's perspective, interest rates constitute only one component of the costs of loans. Additional costs such as transportation to the bank, the time necessary to travel and negotiate a loan, and costs associated with filling out documents are considered important transactions costs that increase the cost of formal loans. For women, these costs are higher than for men because their domestic responsibilities require additional time and provide less flexibility. In addition, social considerations in conservative communities further limit women's mobility.

The experience of the last decade in implementing micro enterprise credit programs demonstrated the capacity of these programs to integrate women as program clients. The following outlines aspects of the RSSE/SEC methodology which facilitates the program reaching women.

<u>Simplicity in Loan Application and Review</u> - Because individual producers require immediate access to small amounts of working capital, these programs establish a system for simple loan application, review and approval procedures. In most cases, a first loan requires two to three weeks from application to disbursement. Subsequent loans require less time. The possibility of providing subsequent loans automatically if certain standards have been adhered to will be examined under the SEC Project.

<u>Flexible Loan Terms</u> - The amount lent, the frequency of payments and the duration of the loan are also established to respond to

the needs of the borrower. Most micro entrepreneurs require very small loans -- on the average LE 750 under the RSSE Pilot Project -- as well as payment schedules that are responsive to their own cash flow situation. Garment producers, for example may prefer to make weekly payments, while persons who retail agricultural products may prefer monthly payments. By adapting these terms to the borrowers' needs, the program takes into account the borrowers' financial ability to repay loans. This flexibility allows a woman to establish a repayment schedule according to her needs and also decreases the amount of time she must spend making payments.

Built-in Repayment Incentives - There are several ways in which the RSSE/SEC program encourages timely repayment of loans. These include access to larger loans once previous ones are repaid, refund of the late payment penalty fee if the loan is paid on time and the loan officer's visit to borrowers for repayments.

The above features of the RSSE/SEC program seek to resolve those factors existing in the formal financial sector that have become the major constraints to providing financial services to women. To date, women's participation in the program constitutes approximately 10 percent. Efforts to increase this percentage will be undertaken as part of Project implementation. This could include putting more emphasis on loans to women, training the loan officers to be more balanced in their selection of borrowers, undertaking a survey to ascertain where women entrepreneurs operate (i.e. what districts, and types of business), and hiring a minimum of 20 percent female loan officers. The role of women loan officers will be carefully examined with a view to ensure availability of well-trained, carefully chosen female loan officers who could help enhance women's participation as beneficiaries in the project.

Finally, under the SME development project a study on the "role of women in the informal sector is being carried out. Findings and recommendations of this study will be considered in the implementation of the SEC project.

SMALL ENTERPRISE CREDIT PROJECT
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Administrative Analysis

The principal implementing agency is the National Bank for Development. NBD was founded in 1980, with its primary focus being on delivery of credit to large industries in rural areas. It has regional offices in 17 of Egypt's 26 governorates, with approximately 80 branch offices nationwide. There are eighteen branches within the metropolitan Cairo area where this project will be implemented. Ten of those branches are wholly owned by the central NBD; other branches fall under the regional affiliates that have both their own capital and NBD central office shareholding.

The Central Office of NBD has total ownership of the participating branches in Cairo Governorate. It also owns approximately 50 percent of the five regional offices which will participate in the project, but the regional offices do have their own Boards of Directors. The regional offices have some autonomy. To ensure that the project is operated with the same methodology as is described herein, and will be further detailed in a subsidiary agreement between USAID and NBD, NBD will be required to provide evidence that the regional chairmen and managers concur with the project approach and are willing to carry out the project as it is designed.

Until the beginning of the RSSE project three years ago, nearly all of NBD's portfolio was devoted to mostly public sector, capital-intensive industries. The NBD is organized under Egyptian Law 159 and acts as a private sector corporation. Purely public sector banks in Egypt generally have to return any profits to the Central Bank at the end of the fiscal year and then are given funds for the ensuing operational year. However, NBD acts as a private sector, profit-retaining institution, even though the bulk of its shares are owned by public sector corporations.

In its capacity as an "intermediate financial institution" in this project, NBD does not have full institutional capability to carry out the project independently. However, it will obtain assistance from ACDI in developing and implementing needed procedures and systems. These activities include, but are not limited to, project cost projections and monitoring, loan projections and monitoring, and alternative methodologies of delivering and collecting loans to small entrepreneurs. A computerized Management Information System will be utilized from capability to operate the project. It is expected that the NBD will be fully capable of carrying on this project upon the conclusion of ACDI's three years of technical assistance.

Figure 1 presents the proposed organizational structure to monitor and implement the SEC project. This structure, with minor variations, is currently being utilized under the ongoing RSSE project described elsewhere in this paper. It is important to note that successful project implementation will require coordination of all of the parties involved through regular interaction.

1. NBD Follow Up and Monitoring Steering Committee
The NBD Follow Up and Monitoring Steering Committee will be composed of the Chairman of the NBD, the Chairmen of all regional NBD banks involved, the General Secretary for Regional Banks, the SEC National Project Manager, and the ACDI Technical Advisor.

2. Office of Finance and Investment
USAID's Office of Finance and Investment is responsible for technical design of the project, modifications when necessary, overall monitoring of project implementation, and general project direction. The responsible personnel currently consist of one USDH, one FSN, and one personal services contractor.

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

4. NBD Branch Offices
Sixteen NBD Branch offices have been tentatively identified to serve as the "home base" for loan officers and for supervisory and support personnel that will implement the project. Each branch office will have a project manager, assistant manager, nine loan officers, up to two MIS personnel, an internal control officer, and a secretary. The loan officers will spend the majority of their time at the business locations of the clients. Branch managers will be primarily responsible for monitoring overall performance and reporting back to the SEC National Office.

5. ACDI Management
ACDI will provide at least two long term small enterprise advisors to serve concurrently for approximately three years. They will also provide a range of short term advisors, as required. One of those short term advisors will be a management information systems specialist, although other specific needs may arise over the period of project implementation. It is also

assumed that a limited number of local support personnel will be required under the project.

Current planning, pending negotiation of the Cooperative Agreement, indicates a continued need for ACDI to assist the NBD in forecasting and supervision of the operational costs. It is proposed that ACDI be provided a rolling 90 day advance of the operational costs. This should be limited to the first two years of project implementation. At that point in time, NBD will be fully responsible for management of the operation, albeit with some continued assistance from ACDI.

SMALL ENTERPRISE CREDIT PROJECT

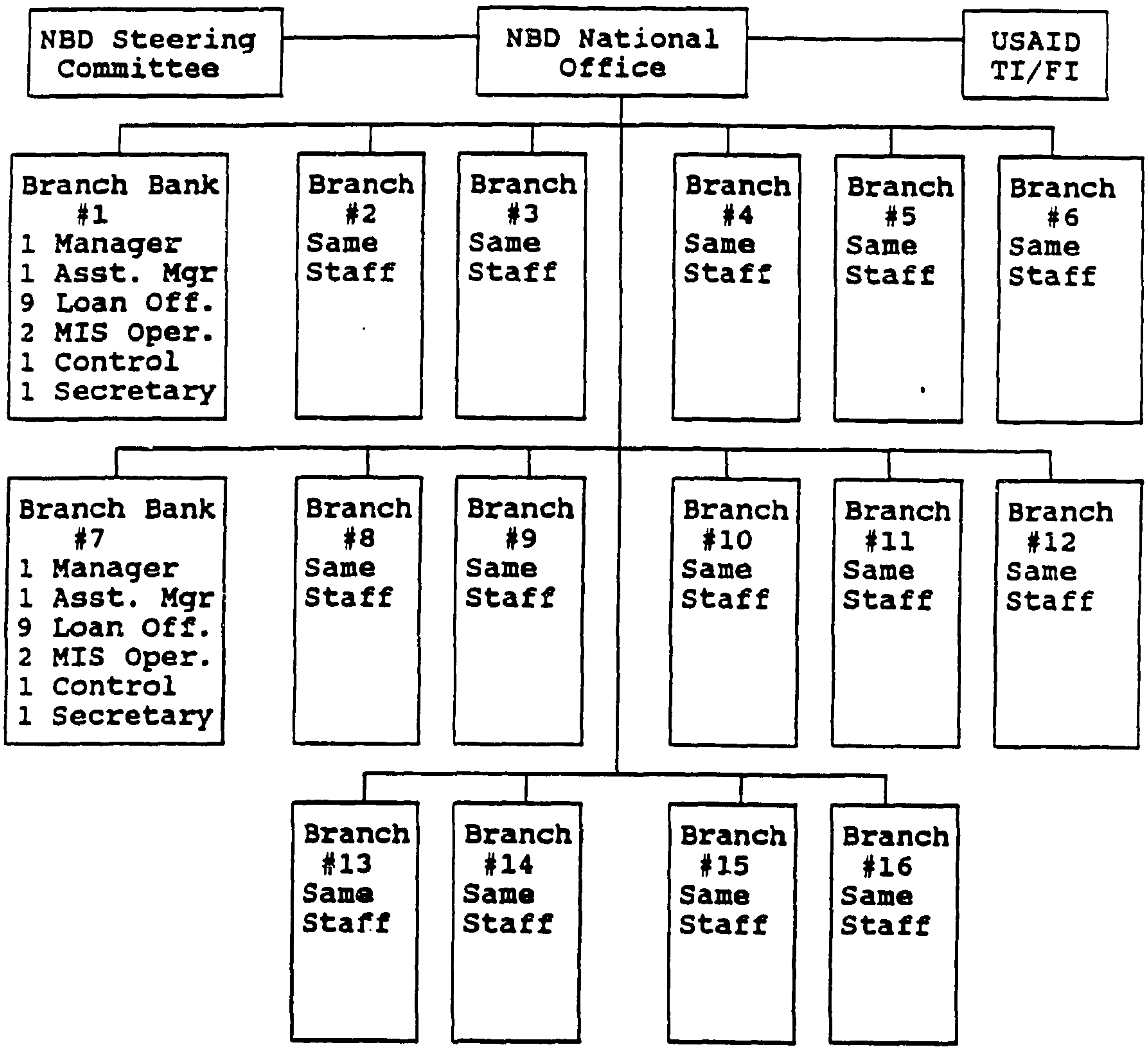

Fig. 1. Organizational Chart

ANNEX 5

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO. EGYPT

ACTION MEMORANDUM FOR THE ENE BUREAU ENVIRONMENTAL COORDINATOR

DATE: November 28, 1990

FROM: Ken LuePhang, Mission Environmental Officer (MEO), USAID/Cairo

SUBJECT: Egypt - Small Enterprise Credit Project (SECP) (263-0228) Approval of Categorical Exclusion from AID Environmental Procedures

ISSUE

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

BACKGROUND

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

DISCUSSION

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

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

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

AUTHORITY

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

RECOMMENDATION

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

APPROVED: Ronald Greenberg
Ronald Greenberg, ENE/TR

DISAPPROVED: ____________

DATE: 12/7/90

Clearance:

TI/FI: B. Cypser BC
OD/TI/FI: L. Brown LB

Drafted:GRutanen-Whaley:PDS/PS:DocID:TI\SECPENV.N90
GR-W

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RECORD OF CATEGORICAL EXCLUSION

Project Location	:	Egypt
Project Title and Number	:	Small Enterprise Credit Project Project No. 263-0228
Funding	:	AID - $16 million
Life of Project	:	Three Years, FY 1991 - FY 1994
Categorical Exclusion Determination Prepared by	:	Signature Glenn Rutanen-Whaley Glenn Rutanen-Whaley, PDS/PS Project Development Officer Date: 11/27/90
Environmental Action Recommended	:	Categorical Exclusion
Mission Environmental Officer's Concurrence	:	Signature Kenneth P LuePhang Kenneth P. LuePhang, ~~DR~~/ENG Date: 11/27/90.
Associate Mission Director's Concurrence	:	Signature for Gregory F. Huger, AD/TI Date: 11/27/90
Decision of Environmental Coordinator, Bureau for Europe and Near East	:	Approved: Ronald Greenberg Ronald Greenberg, ENE/TR Disapproved: Date: 12/7/90

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ANNEX L

SMALL ENTERPRISE CREDIT PROJECT
263-0228

ACDI PIO/T - DRAFT STATEMENT OF WORK

Major Objectives

The expansion of productive small enterprises is a major objective of the Government of Egypt and the Agency for International Development in Egypt. The major objective of this Cooperative Agreement is to develop the National Bank for Development's (NBD) capability to extend, supervise, and recover short term credit to small entrepreneurs, with a primary concentration on the area of metropolitan Cairo. Small enterprises are initially defined as having fixed assets, excluding land and buildings, of less than LE 25,000 and less than fifteen employees. The NBD will administer in excess of $10 million (equivalent) AID-supplied loan funds, as well as adding a minimum of $3 million (equivalent) of loan funds from the NBD. The Grantee shall assist the NBD in the projection, utilization, and reporting on initial operational capital to be supplied by AID. It is expected that up to 20,000 small entrepreneurs will be served by this project. Loan requirements of each entrepreneur is expected to range from L.E. 500 to L.E. 10,000 over the life of project.

Purpose and Outputs

The general purpose and scope of the Cooperative Agreement are to develop staff and systems to ensure the timely and efficient delivery of credit and other required support to the target clientele. The Grantee shall:

1. Assist the NBD in the design and delivery of training to the staff of the NBD regarding loan extension and recovery, savings generation, portfolio management, bookkeeping, accounting, and reporting;

2. Develop detailed policy guidelines, operational plans, manuals, loan and savings forms, and monitoring and reporting systems that can be utilized by NBD on a regularized basis; and,

3. Assist the NBD in administering a loan program with a fee structure that will allow the NBD to reach a break even and profitable operation in the shortest reasonable time period.

End of Cooperative Agreement Status

At the end of the period of technical assistance, it is expected that NBD's central and branch office staff(s) will be trained, a regularized system to deliver and recover credit to new and repeat borrowers will be established through an efficient branch office system, and a monitoring and reporting system will be in operation that can provide timely and accurate data on loans, savings, employment, and NBD small enterprise operation profitability.

Scope of Work

The Grantee shall make available experienced personnel to perform the activities outlined below. In order to achieve project objectives and provide the services required under this project, the Grantee shall organize a team of U.S. and/or Egyptian experts to provide services to develop a capacity in NBD to administer the program and to operate a profitable lending operation. An illustrative composition of specialists and level of effort is presented in Section C. below.

A. Master Plans

Within six weeks of beginning of long term technical assistance, the Grantee shall produce and deliver to USAID's Office of Finance and Investment a Master Plan of Action and Schedule detailing activities to be undertaken that is acceptable to NBD and USAID. The Plan of Action and Schedule shall be phased to:

- Show strategies and modes of team operations to the point in time where end-use lending begins; and,
- How longer term field implementation will be effected; and,
- The first year's lending targets by quantity of loans and borrowers.

The Grantee is required to update this Master Plan of Action and Schedule on an annual basis, and submit it to USAID.

B. Specific Activities

To accomplish the purpose and produce the outputs outlined in, above, the Master Plan shall provide for:

1. Training of the core staff responsible for implementing NBD's lending operation, including branch managers, support

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staff, and loan officers to extend, administer, and collect loans;

2. Identification of the specific geographical areas in Cairo to be served with a level of staff effort for each area;

3. Development of a computerized management information system that will provide management with timely and thorough information on loans extended, repayment performance, and projections for subsequent periods. This system should also have a data base that can provide verifiable information on the clients, including gender, that will allow measurement of benefits accruing to the clientele over the life of project;

4. Development of standard operating procedures and manuals to assure that there are adequate internal controls, i.e., that clear policies and procedures on lending and funds management are in place and followed;

5. Provision of policy guidance and suggestions for improved implementation of the project to A.I.D. and NBD, including promotion of credit services to women owned/operated businesses; and,

6. Provision of timely and accurate reports on project implementation and ACDI activity to USAID;

7. Projection, on a quarterly basis, loan and operational funds required to meet the credit needs of the small entrepreneur clientele; and,

8. Procurement of required office equipment and vehicles.

C. <u>Staffing and Projected Level of Effort</u>

The composition and estimated total person-months given below is illustrative. The Grantee may negotiate or recommend a different combination of specialists and/or level of effort to meet project objectives. However, the long term advisors should not serve less than 36 months each. Once a Cooperative Agreement is negotiated, modifications or adjustments shall be made only with the agreement of the NBD and USAID.

The Grantee shall provide two key experienced U.S. long term advisors for a period of 36 months, serving concurrently.

1. The long term advisors shall provide specialized technical input to the project and serve to coordinate the overall activities of the NBD related to the delivery and recovery

of small enterprise credit. The advisors shall have demonstrated experience in assistance to small enterprises with a particular focus on credit.

2. Project implementation will also require short term assistance in the development, installation, and training of personnel of a computerized management information system. The Grantee may provide either expatriate or Egyptian person(s) for this requirement.

Illustrative Team Composition

	Number of Person Months
U.S. Source	
Team Leader/Sr. Project Advisor	36
Small Enterprise Credit Advisor	36
Administrative Advisor	7
U.S. or Egyptian Source	
Management Information Specialist	6
Credit, Management, or Training Specialists	6
Cairo Office Support Staff	36

D. Reports

The Grantee shall furnish the NBD and USAID with the following reports:

1. Five copies of quarterly progress reports describing work performed and an outline of the work to be performed during the subsequent three month period. When end use lending begins, these reports shall include detailed information on total loans outstanding, repayment ratios, and numbers of new and repeat borrowers, savings attracted, as well as projections for the subsequent quarter. It is also expected that the reports shall provide recommendation for policy improvements and/or reforms as appropriate. These reports are due at USAID's Office of Finance and Investment fifteen days after completion of a given quarter.

2. Five copies of an annual report that shall summarize project progress and recommendations for the future implementation of the project. These reports are due at USAID's Office of Finance and Investment one month after the completion of a given year.

SMALL ENTERPRISE CREDIT
Projected TA Support Budget

		Burdened Monthly Rate	Person Months	Cost in US$
1.	U.S. Source			
1.a	Team Leader/Sr. Project Advisor	12,500	36	450,000
1.b	Small Enterprise Credit Advisor	12,500	36	450,000
1.c	Administrative Advisor	12,500	7	87,500
2.	U.S. or Egyptian Source			
2.a	Manangement Information Specialist	6,000	6	36,000
2.b	Credit Specialist	6,000	2	12,000
2.c	Training Specialist	6,000	2	12,000
2.d	Management Specialist	6,000	2	12,000
3.	Egyptian Source			
3.a	TA Support Staff	900	36	32,400
				$1,091,900
	Overhead at 40%			436,760
		TA Total		$1,528,660
		Amount	Number	
4.a	Office Transportation & Equipment (TA)			70,000
4.b	Vehicle Procurement (for NBD)	16	20,000	320,000
4.c	Office Equipment (for NBD)	16	25,000	400,000
		Equipment Total		$790,000
		Sub Total (1–4)		$2,318.660
		Contingency (8%)		185,493
				2,504,153
		Rounded to:		$2,500,000

Justification of Non-Competitive Grant Award

Background: ACDI has been providing technical services to the National Bank for Development for over three years to assist them in the development of a delivery mechanism for short term credit to small and micro enterprises. This has included both the conceptual development of the program, long and short term planning, development of operations manuals, training, establishment of a management information system, and day-to-day guidance of a unique and innovative lending system. The NBD has made major strides in development of the field of small enterprise credit in Egypt; the pilot project undertaken by NBD and ACDI in Sharqiya and Damietta was evaluated in October 1990, and states, "The success of the project [RSSE] has exceeded all expectations..."[1]

NBD has implemented a strong pilot project. NBD management deserves credit for the progress they have made, but it has only been achieved with continuous and dedicated input from ACDI. The long-term advisor's world-wide experience and his special relationship developed with the NBD over his period of service is a key factor in the progress of the project to date. USAID/Cairo and the NBD are now considering a major expansion of the work achieved under the RSSE project; we are looking at a ten-fold expansion of the activities carried out to date, and looking at an extremely short time frame to achieve this expansion. It is critical that there be no break in service nor a change of technical assistance at this time.

Recommendation: Handbook 13, Chapter 2, paragraph 3.B. states:

> Competition is not required for assistance awards for which one recipient is considered to have exclusive or predominant capability, based on experience, specialized facilities, or technical competence, or based on an existing relationship with the cooperating country or beneficiaries.

As ACDI fits these criteria, it is recommended that the Grant Officer accept this justification.

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[1] Rural Small-Scale Enterprise Pilot Credit Activity Technical Assessment, Gardner and Proctor, October 1990, Cairo

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Small Enterprise Credit Project

Number of Project: 263-0228

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Small Enterprise Credit Project (the "Project") for the Arab Republic of Egypt ("Cooperating Country") involving planned obligations not to exceed Nine Million United States Dollars ($9,000,000), in Grant funds over a four 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 help in financing the foreign exchange and local currency costs of goods and services required for the Project. The estimated life of the Project is four years from date of initial obligation.

2. The Project will assist in expanding the economic output of small and micro entrepreneurs by increasing their access to credit and other banking services.

3. The Project Agreement may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority. The Project shall be subject to the following essential terms, together with such other terms, conditions, and covenants as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services financed by A.I.D. under the Project, except for ocean shipping, and as stated herein, shall have their source and origin in the United States, or in Egypt as authorized pursuant to the requirements of State 410442, except as the USAID/Cairo Mission Director, or his/her designee, may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed on flag vessels of the United States.

Based on the justification stated in the Procurement Plan, set forth in Section 4.2.1 of the Project Paper, up to the local currency equivalent of $400,000 in office and MIS-related equipment may be purchased locally in Egypt, and be of Egyptian and/or Free World source and origin.

4. Based upon the justification set forth in the Project Paper, I hereby determine, in accordance with Section 612(b) of the Act, that the expenditure of United States Dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this Project; the purposes of this Project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement; and the administrative official approving local cost vouchers may use this determination as the basis for the certification required by Section 612(b) of the Act.

Marshall D. Brown
Director

5/30/91
Date

Clearances:

OD/TI/FI, LBrown
AD/TI, GHuger
AD/PDS, CCrowley
AAD/FM, NWijesooriya
OD/PDS/PS, RJordan
LEG, VMoore
D/DIR, GWachtenheim

DRAFTED:LEG:VMOORE:1/29/91:AUTH228

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