

ASSESSING THE URBAN IMPACT OF AGENCY CAPITAL INVESTMENTS

A Discussion Paper

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Prepared by the

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Bureau for Technical Assistance
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AID/W
TA/UD

Discussion Paper

ASSESSING THE URBAN IMPACT OF AGENCY CAPITAL INVESTMENTS

Introduction

The Agency continues to make sizable capital investments which also influence directly or indirectly the development of urban areas. From FY 1949 through FY 1971, such projects comprised 67% of total Agency capital projects and for the past two fiscal years the figure was still substantial at 37%. Nevertheless, these projects are approved and implemented with little or no consideration of this impact, not only on specific urban areas, but also on the contribution of these areas to national development.

There are four good reasons, at least, for AID to be concerned with this shortcoming and to take initiatives to develop appropriate analytical procedures:

- (a) urbanization is a major dimension of development;
- (b) urban areas are effective target areas for addressing priority Agency goals;
- (c) neither LDC's nor international development agencies have designed adequate guidance for investments influencing urban areas although this influence is dramatic and frequently unanticipated; and

- (d) despite AID's declining budget for capital assistance, any methodological breakthroughs produced will hold much potential utility for the developing countries as their investments in this area continue to rise rapidly.

Similar reasoning is contained in the Administrator's "Guidance Statement on Urban Development" of June 15, 1973 (see attached).

This paper is a beginning attempt to explore Agency programming of capital projects in categories influencing urban development. It is intended initially to look at patterns of investment and the nature of project analysis within those categories of investment most directly related to urban development. Since the paper is to serve as a baseline for devising a set of methodologies for analyzing the impact of capital investments on urban development, it will be expanded subsequently to examine programming procedures of other agencies, to deal with the more technical aspects related to urban development, and to identify specific issues and problems in these categories.

The Urban Impact

Urban impact has two connotations in the context of this paper. First, there is the primary impact, the positive and negative effects a particular capital project has on the shape, form, or dynamics of one or more urban areas. The positive side has to do with employment generation, developing or opening up new areas, accommodating new population, adding to productivity and income, and otherwise improving the quality of life. The negative side involves pollution, stimulation of unwanted population growth and congestion, expansion of cities in unanticipated ways or directions, creation of bottlenecks for other projects, and other unexpected conflicts with developmental objectives.

The second type of urban impact is that of the city or system of cities on national development. This acts on policy alternatives and goals, such as centralization or decentralization, development of economically lagging regions, integration of isolated regions into the national polity, exploitation and management of natural resources, and stimulation of agriculture. Although these considerations are at the macro level of development policy, they are related integrally to analysis

at the project or micro level. Improved analysis at the project level ultimately must take into account the linkages with macro policy.

Selected Project Categories
Influencing Urban Development

In assessing patterns of investment, specific categories of AID capital projects were identified on a priori grounds as having either direct or indirect impact on urban development. For convenience, they were organized into seven major categories. As seen in Table I, they are ranked according to their dollar percentage of the total in order to help establish some priorities for the current analysis. A sense of both the historical and current patterns of investment is conveyed by presenting the data in two time frames, FY 1949 - FY 1971 and FY 1972 - FY 1974.

Some major changes are taking place in the Agency's investment profile (see Table II). The category New Urban, so named because it did not show up at all in the FY 1949 - 71 period, emerged as the second ranked category in the current period.^{1/} Power and Communications remained high on the list but was less than half its percentage in the earlier period. Within Transportation, Inter-City Highways and Urban Transit and Traffic Engineering rose from negligible to substantial categories

^{1/} It should be pointed out that 11.0 of the 16.7 percentage points are attributable to the Colombia Urban/Regional Sector Project.

while the reverse was true for Railways. Within Other Infrastructure and Construction, Urban Potable Water emerges as a highly important area, while surprisingly, environmental sanitation apparently drops out. Finally, it is clear that the position of Housing in the rankings would be altered considerably if HIG data were included in the figures.

Regional Investment Patterns

The preceding data were examined also by geographic region for the period FY 1972-74 and results are shown in Tables III and IV. Nearly half of the investment in urban-related projects are in Latin America (45.1%) followed by Asia (31.5%) and Africa (23.4%). Interestingly, this ordering is consistent with the level of urbanization by region (Latin America 54%, Asia 25%, and Africa 22%). 2/

Nonetheless, this pattern is a departure from historical investment patterns. Agency capital projects influencing urban development have been concentrated overwhelmingly in Asia. The

2/ Source: TA/UD, Focus on Urban Development: Perceptions, Problems, Approaches and Needs -- A Potential Role for U.S. Foreign Assistance, pp. 230-233. Based on national census definitions of urban population. Figures are for 1970.

breakdown for the period FY 1949-71 is as follows: Asia 66%, Latin America 21%, and Africa 13%. ^{3/}This phenomenon is largely a result of very heavy investments in power, highways, and rail-ways in Asia over the past two decades.

While historical patterns and changing trends are of interest, the current investment picture is more germane to this discussion. Looking again at the FY 1972-74 data, it is noteworthy that each region tends to concentrate heavily in one of the major categories -- namely, Latin America 37% New Urban, Africa 72% Transportation, and Asia 44% Power and Communications. Significant of the lesser categories is the fact that Housing is all in Latin America, Urban Water is almost entirely in Asia, and Development Banking is concentrated in Latin America.

This tendency for regional specialization suggests useful starting points for further analysis of the major categories and possibly for field testing of analytical procedures, should these be developed.

^{3/} TA/UD, "Urban Growth and Development as a Component of Agency Policy and Programs," February 12, 1973, p. 21.

Agency Analysis of Capital Assistance Projects

An effort was made to determine the nature of capital assistance programming in the Agency as it relates to urban impact. The relevant Agency Manual Orders were seen as the starting point, to be followed by a survey of selected capital assistance papers approved during FY's 1972 and 1973.

The basic M.O. states that the capital assistance paper is the principal document for description, explanation, and evaluation of the proposal and should objectively set forth all principal factors that would influence the funding decision. While no uniform format is prescribed, the M.O. calls for coverage of certain topics as applicable and feasible, including history and background, and engineering, economic, and financial analyses among others (M.O. 1242.1 attached).

Urban impact, among others, was added to the categories above to form the basis for the survey of capital assistance papers. In all, 50 capital assistance papers were surveyed to determine the degree of analysis given. For convenience, the various topics were rated as having been analyzed in depth, just mentioned, or omitted.

The data support the contention, which was made earlier in this paper, that capital projects in the selected categories are approved and implemented with little or no consideration of their

urban impact. Of the 50 papers analyzed, 39 omitted any reference to urban areas, 5 merely mentioned urban impact, and only 6 contained any in-depth urban impact analysis. Of the six papers, 2 were New Urban, 1 Transportation, 2 Development Banking, and 1 Manufacturing and Processing.

Agency loan analysis focuses on engineering, economic, and financial aspects. One or the other of these is emphasized, depending on the nature of the project. However, as with urban impact, very little consideration is given to negative externalities. To the extent externalities are treated at all, the emphasis is overwhelmingly on benefits. Separate analyses of each category failed to indicate patterns unique to one or more sectors.

Sectoral Issues

In the real world projects most often are planned and programmed within a sectoral context. For this reason, the sector is the starting point for this analysis of urban impact. However, this approach should not ignore the inter-sectoral linkages which also are critical to development of approaches for assessing urban impact.

Some reorganizing of the original seven categories of projects produced the five sectors to be discussed in this section. The sectors and their respective proportion of FY 1972-74 projects are as follows:

<u>Sector</u>	<u>Project Category</u>	<u>Proportion Of FY 1972-74 Projects</u>
Urban and Regional Sector	- -	37.1
	New Urban	(16.7)
	Development Banking	(11.9)
	Manufacturing and Processing	(8.5)
Transportation	Transportation	29.1
Power and Communication	*Power and Communication	16.7
Environmental Sanitation and Other Infrastructure	Other Infrastructure and Construction	10.9
Housing	Housing	7.3
	<u>Total</u>	<u>100.0</u>

* The power and communication sector sector will not be discussed further in this section.

Only a few of the urban impact issues are presented here. The in-depth sectoral and cross-sectoral analysis needed to identify methods for assessing urban impact is beyond the scope of this discussion paper. It is intended that this fuller analysis will emerge from further project activities.

Urban and Regional Sector. Urban and Regional sector projects are something of an anomaly in that they include all of the above sectors and many more. They generally involve approaches to urban development on a national or regional scale, often focusing on a primary target, such as stimulation of secondary cities, growth poles, rural market towns, etc. A combination of approaches may be involved ranging from funds for development of infrastructure and industry to programs for training municipal planners and administrators. They usually are complemented by specific national or regional policies and programs.

Currently within AID an approach to urban and regional sector projects is under discussion that would entail three levels of analysis, starting with the overall conceptual framework for the project as it relates to the country situation.

This analysis would identify the priority sub-sectors for project concentration. The second level is the macro analysis linking the urban/regional sector program to national development. Finally, the micro level of analysis involves identification and study of key cities and towns to be included in the project, leading ultimately to development of specific project activities.

The major questions concern the critical elements of urban impact to be considered at each level of analysis and how this impact can be assessed. A brief discussion paper covering these questions is being prepared by the Latin America Bureau. Related issues are dealt with in the other sectors below.

Transportation. The discussion of the transport sector is confined to roads and highways. This has been the primary focus of past AID capital programs in this sector, although railways, airways, canals, ports, and harbors have been included. Given current Agency priorities, it seems that the concentration will continue to be on roads and highways, particularly rural access and farm-to-market roads and highways linked with food production and utilization.

Even in the more limited context of roads, highways, and related structures, a host of issues must be considered. For example, in some circumstances a road or highway can create a "boom town" phenomenon in its path. To what extent can this be anticipated and adequate provisions made? What will be the impact on the public services, processing facilities, and marketing apparatus of the towns or cities involved? What serious environmental consequences can be anticipated from the resulting rapid growth and increased activity?

A road can and often does shift the locus of growth and activity, frequently in ways and with consequences that are not anticipated. How can a greater degree of certainty be built into analysis of such projects so that the projects can be adjusted as needed and the affected population concentrations can be prepared? Answers to this question relate to the effectiveness of such projects as tools for carrying out major development policies, such as income distribution, integration of isolated or lagging regions, etc.

Intra-urban transport projects also can have long-term significant impact on patterns of urban growth and development and the quality of life. How can the real internal and

external costs and benefits be dealt with in the feasibility stage? What effects will be produced in addition to easement of traffic flows in the short run?

Choice of technology for the project is another area of concern. For example, introduction of all-weather roads into an area may make trucking highly competitive with rail service resulting in considerable consequence for the economy, growth patterns, and environment of the centers affected. Choice of technology also can have direct impact on unemployment, either by being labor intensive in itself (labor absorbing) or by displacing labor intensive transport modes, such as pedicabs and oxcarts.

Environmental Sanitation and Other Infrastructure. The bulk of AID's investment in this sector continues to be in the area of water and sewer systems with the emphasis most recently on urban potable water. Both loom increasingly important as agglomerations of human beings far outpace the supply of adequate potable water and sewer systems.

That potable water and sewer systems go hand-in-hand is one of those peculiarities of engineering logic. Development of one must not outpace the other by very much. Nevertheless, they are interacting, interdependent systems that

must remain separated at all costs. They are costly in the extreme, yet quickly outgrown. Supplying water and disposing of wastes involve delicate balances in nature which, if tipped too far, can result in water contamination, depletion, or serious pollution of the natural and human environment, including rapid systematic spread of disease. Questions of size, location, nature, and timing are critical if costly or even disastrous errors and unnecessary future expenses are to be avoided.

These questions are compounded further by other factors. Suppressed or hidden demand for services is one. Stimulation of new demand is a similar problem. Presence or absence of adequate water at point of origin or destination can be a decisive factor in human migration.

Key to these complex issues is population concentration. Rapid urbanization is creating problems of human and industrial waste disposal and of water supply that are of critical proportions in some areas. It is important, therefore, that the utmost care is given to analysis of the intricate interdependencies between water and sewer systems and their links with other urban phenomena, such as migration, and population growth, natural and human environment, land use,

recreation, area development, etc. In this way the potential danger of intended solutions becoming part of the problem in this complex sector can be minimized.

Housing. A great deal has been written about the impact of housing on urban development and vice versa. In earlier days the two terms were almost synonymous. It seems unnecessary, therefore, to go on at length.

Certain basic relationships, however, deserve mention. For example, the question of housing location is very much related to the problem of where to locate people. The question turns on location of people with respect to employment opportunities, transportation and other services on the one hand and the most appropriate use of scarce urban land resources on the other.

Another view of the same linkages involves the impact new housing will have on existing services, pressures on the land, etc. Will it produce a series of negative externalities, such as transport congestion, unhealthy densities, or environmental deterioration? What will it do to local land markets and speculative trends?

The questions and issues which have been set forth under each sectoral heading above are only indicative of many which should be assessed in an analysis of the urban impact of capital projects.

Table I

Categories of Past, Present and Proposed
AID Capital Development
Influencing Urban Development
All Prior Years Compared with FY 1972 - FY 1974

	Total Dollars (\$000's) and Percent of Total			
	Prior to FY 1972 ^{1/}		FY 1972 - FY 1974 ^{2/}	
	Dollars	Percent	Dollars	Percent
<u>Transportation</u>	\$ 1,625.2	37.2	\$ 188.0	29.1
Highways	754.9	17.2	87.3	13.6
Inter-City Highways	28.8	0.7	40.0	6.2
Urban Transit and Traffic Engineering	2.3	0.1	29.9	4.6
Air Transport	170.7	3.9	15.5	2.4
Port Facilities and Harbor Improvement	81.2	1.9	7.3	1.1
Railways	588.3	13.4	8.0	1.2
<u>New Urban</u>			\$ 106.9	16.7
Urban and Regional Sector	-	-	70.7	11.0
Tourism Infrastructure	-	-	19.1	3.0
Local Government Development	-	-	12.1	1.9
Secondary Cities Development	-	-	5.0	0.8
<u>Power and Communications</u>	\$ 1,483.9	33.7	\$ 100.7	15.6
Power and Communications	1,416.4	32.2	89.6	13.9
Communications	67.5	1.5	11.1	1.7
<u>Development Banking</u>	\$ 312.9	7.1	\$ 76.4	11.9
<u>Other Infrastructure & Construction</u>	\$ 239.7	5.5	\$ 70.3	10.9
Urban Potable Water	79.4	1.8	41.7	6.5
Earthquake Reconstruction and Public Infrastructure	-	-	15.0	2.3
Engineering and Construction	82.6	1.9	13.6	2.1
Environmental Sanitation	77.7	1.8	-	-
<u>Manufacturing & Processing</u>	\$ 505.5	11.5	\$ 55.0	8.5
<u>Housing (Excluding HIG)^{3/}</u>	\$ 218.9	5.0	\$ 47.3	7.3
TOTALS:	\$ 4,387.5	100.0	\$ 644.6	100.0

1/ FY 1971 and prior year data are taken from TA/UDS, Urban Growth and Development as a Component of Agency Policy and Program, February 12, 1973, Tables IV and V.

2/ FY 1972 - FY 1973 figures are obtained from a PPC summary of loans proposed and authorized. FY 1974 figures come from PPC summaries and the FY 1974-75 Congressional Presentation.

3/ These figures do not include Housing Investment Guaranties (HIG's) which have totaled \$497.9 million since the beginning of the program in FY 1964. This figure is based on authorizations reported in Financial Summary, Housing Guarantee Program, March 31, 1973.

Table III

Categories of AID Capital Development Influencing Urban Development,
 FY 1972-1974: By Geographic Region
 and by Percent of Regional and Agency Total Capital Investments

Category	Latin America			Africa			Asia			Total	
	Dollars	Percent of L A	Percent of Total	Dollars	Percent of Africa	Percent of Total	Dollars	Percent of Asia	Percent of Total	Dollars	% of Total
Transportation	40.6	14.0	6.3	108.8	72.0	16.8	39.0	19.2	6.1	188.0	29.1
New Urban	106.9	36.7	16.7							106.9	16.7
Power and Communications				11.1	7.4	1.7	39.6	44.1	13.9	100.7	15.6
Development Banking	57.4	19.7	3.9	10.0	6.6	1.6	9.0	4.4	1.4	76.4	11.9
Other Infrastructure and Construction	21.2	7.3	3.3				35.5	17.5	5.5	70.3	10.9
Manufacturing and Processing	17.5	6.0	2.7	7.5	5.0	1.2	30.0	14.8	4.6	55.0	3.5
Housing	47.3	16.3	7.3							47.3	7.3
<u>TOTAL</u>	<u>290.9</u>	<u>100.0</u>	<u>45.1</u>	<u>150.6</u>	<u>100.0</u>	<u>23.4</u>	<u>203.1</u>	<u>100.0</u>	<u>31.5</u>	<u>644.6</u>	<u>100.0</u>

Sources: FY 1972-1973 figures are obtained from PPC summary of loans proposed and authorized. FY 1974 figures come from PPC summaries and the FY 1974-75 Congressional Presentation.

APPENDICES

1. Guidance Statement on
Urban Development
2. Manual Order 1242.1

GUIDANCE STATEMENT

ON

URBAN DEVELOPMENT

Introduction

The Administrator's Advisory Council recently has discussed urban development program policy. This was based on staff papers developed through a long process of consultations, study and analysis, involving field surveys in 19 developing countries and both informal and organized discussions with a large number of LDC personnel, U.S. experts, Agency personnel and involved persons from developed countries and other assistance agencies. *

This statement provides interim guidance for Agency action in this field. It recognizes the development opportunities found in urban development, the need to give more systematic recognition to urban development as an integral part of national development, and the need to gain increased understanding of the complexities of urban problems, all with due regard to Agency program priorities. The guidance will need continuing re-examination over the next few years, as we learn more about needs and opportunities for focusing on the expanding urban dimensions of LDC development.

Background

AID has made sizeable investments in urban development, particularly in Latin America. While our knowledge of urban development processes is limited, it is growing. Meanwhile, competing demands for funds in agriculture, education, population, health, nutrition and other fields are putting a heavy strain on Agency resources. Tight budget prospects deepen this problem.

Nevertheless, we must recognize certain facts.

- A large and growing proportion of LDC people are in urban areas. This situation often makes it easier to reach them effectively in pursuit of priority development goals such as employment, health, education, and family planning. Urbanization is a major dimension of development, affecting both rural and urban areas, that can not be separated out or ignored by LDCs as they strive for better lives for their peoples.
- The developing countries, AID and other donors continue to make heavy investments in urban areas, without an adequate knowledge base or analytical guidance on the effects of alternative investments and policies, in the urban context, on their array of development goals. These investments will rise rapidly, regardless of the involvement of AID capital assistance.

* The findings of this reconnaissance and study process are contained in a staff paper, "URBAN GROWTH AND DEVELOPMENT AS A COMPONENT OF AGENCY POLICY AND PROGRAMS," TA/UDS, 2/12/73.

- There may well be an increasing number of situations in which LDCs are particularly interested in AID assistance in urban contexts. LDCs correctly see the U.S. as having relevant technical talents.

A further factor is that some other major assistance agencies have also been rethinking their role in this field. They have recognized the foregoing facts and the desirability of collaborative efforts.

Program Conclusions

Weighing these needs and opportunities along with the constraints on AID's pursuit of additional urban development activities at this time leads to the following conclusions.

- (1) As a major development agency, AID needs to keep abreast of the urban dimensions of the development process in LDCs and to look ahead to the implications of their growing urbanization for LDC development programs and policies. Thus we should continue to build on the good start already made in establishing our base of understanding.
- (2) Country programs should continue to provide capital and technical assistance and investment guarantees for urban development, selectively, where host country interest and support is strong and where the activities are comparatively potent means of improving the quality of life. This would include pursuit of opportunities to advance priority Agency goals by developing population, health, nutrition and education programs aimed at the urban poor. In order to get the best results from these and other development efforts, we should support efforts to improve the systematic analysis of their interaction with the other factors affecting urbanization.
- (3) As Agency resources permit, a modest set of R&D and interregional services activities should be supported to:
 - . increase the awareness and understanding of LDC decision-makers on urban problems;
 - . improve the quantity, quality and accessibility of information available to LDCs on urban development;
 - . expand the availability of skilled manpower in LDCs to guide the process of urban development.

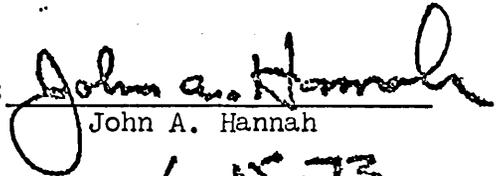
R&D efforts should to the maximum extent possible take into account the need of LDCs for pragmatic practical solutions to pressing urban problems. The efforts should be geared to the solution of these immediate problems and have a high transfer value.

- (4) We should encourage other assistance organizations to become more active in this field, as feasible, including private voluntary organizations. For this purpose and to strengthen the impact of AID's other efforts, we should foster building of collaborative networks of R&D and experience sharing among LDC organizations working on urban development and selected U.S. and third country organizations best able to contribute to their efforts.

Action Responsibilities

The division of responsibilities within AID applying to urban development should continue, as described in the attached Table.

Approved:



John A. Hannah

6-15-73

Date

AGENCY FOR INTERNATIONAL DEVELOPMENT

MANUAL TRANSMITTAL LETTER

DATE

March 4, 1969

NO.

11:56

MATERIAL TRANSMITTED:

M.O. 1242.1 - Capital Assistance Application: Intensive Review

A new paragraph IV.E. sets forth Agency procedure for the review and determination of a proposed project's insurance, surety bond, and financial guarantee requirements.

In addition, incorrect references to other manual orders and changes in office designations are corrected, and pertinent manual orders referenced.

SUPERSEDES:

M.O. 1242.1 (TLs 11:7, 11:17, and 11:21)

FILING INSTRUCTIONS:

1. Remove superseded M.O. 1242.1 (TLs 11:7, 11:17, and 11:21).
2. File the attached in its place.
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4. Initial the Transmittal Check Sheet beside TL number 11:56.

Address inquiries concerning this manual order to PPC/CA.

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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MANUAL ORDER

AGENCY FOR INTERNATIONAL DEVELOPMENT

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MANUAL ORDER

AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT Capital Assistance Application: Intensive Review	EFFECTIVE DATE March 4, 1969	ORDER NO. 1242.1
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I. General

The result of an intensive review of an application for capital activity financing is a specific recommendation to the regional Assistant Administrator that A.I.D. provide such financing or reject the proposal on substantive grounds relating to the merits of the capital activity.

II. The Capital Assistance Committee

A. Committee Functions

The intensive review of a proposal for capital activity financing and preparation of the Capital Assistance Paper is undertaken by a Capital Assistance Committee located either in the Mission or A.I.D./W. This committee will examine in depth the technical, economic, and financial details of the proposed capital activity, initiate appropriate recommendations to the Regional Assistant Administrator, and conduct negotiations leading to a contractual obligation with the borrower/grantee.

B. Committee Composition

The Capital Assistance Committee is constituted in accordance with procedures established by Regional Bureau. Normally, it is comprised of a Capital Assistance Officer, Engineer, Counsel, and Program or Desk Officer. As appropriate, the committee may also include, or draw upon, the expertise of a technical specialist, financial analyst, economist, or contract specialist. Generally, the chairman of the committee is the Capital Activity Officer. The Regional Assistant Administrator or his designee determines whether the Capital Assistance Committee shall be made up of field or A.I.D./W personnel, or both.

C. Factors to be Reviewed

The various factors to be taken into account by the Capital Assistance Committee in reviewing a proposed activity are set forth in M.O. 1242.2 - Checklist of Statutory Criteria,

Development Loan Funds, M.O. 1242.3 - Checklist of Statutory Criteria, Alliance for Progress, M.O. 1203.1 - Capital Assistance: General Policies, M.O. 1211.1 - Identification of Capital Activities, M.O. 1221.1 - Capital Projects: Engineering, Construction, and Insurance Considerations, M.O. 1222.1 - Capital Projects: Managerial and Operational Considerations, M.O. 1223.1 - Cost Estimating Methods for A.I.D.-Financed Capital Projects, and paragraphs IV. and V. below which discuss the content of a Capital Assistance Paper.

D. Capital Assistance Paper

The result of the work of the Capital Assistance Committee is a recommendation either that A.I.D. provide the financing requested by the applicant or reject the application. This recommendation is submitted in the form of a Capital Assistance Paper.

III. Capital Assistance Paper, General

A. Responsibility

The Capital Assistance Committee is responsible for preparing a presentation of its recommendations in a document entitled "Capital Assistance Paper," to facilitate a decision by the appropriate Agency official.

B. Scope

The Capital Assistance Paper is the principal detailed description, explanation, and evaluation of the capital assistance proposal. Therefore, it is a basic A.I.D. document and should be regarded as such. From time to time, certain political matters are considered in connection with a proposal. The Paper should reflect these considerations. It should set forth all the principal factors, including political considerations, if any, which underlie or influence the evaluation of the request that A.I.D. finance the activity.

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C. Annexes

The Capital Assistance Paper is a working paper which is used throughout the implementation and monitoring of the Capital Activity. Therefore security classification should be avoided. Relevant classified material should, to the maximum extent possible, be included in an ancillary document supporting the Paper or an annex to the Paper, separable from the document. However, discretion should be exercised in attaching annexes to the Paper. Each annex should be relevant and should be carefully examined by the Capital Assistance Committee before inclusion in the Paper. Indiscriminate reproduction of excerpts from the application or feasibility study should be avoided.

D. Drafting

1. The Paper's central text should be a readable, self-contained exposition of the proposed activity. It should explain what the activity is, why financing is recommended or not recommended, and how the activity will be accomplished. It should include sufficient detail to enable responsible officials to judge the merits of the proposed activity, whether the necessary intensive study has been accomplished, the reliability and soundness of the data and material incorporated in the Paper, and the validity of the conclusions drawn.

2. The Paper should emphasize and expand those elements which are of particular importance for the understanding and evaluation of the proposal presented. No uniform format is prescribed. The material presented should be organized in light of the nature and peculiarities of the activity discussed. Under no circumstances should the Paper be a mere brief or apology in favor of the proposed activity. It must set forth fully and objectively new difficulties anticipated, any problems known to exist, and whatever reservations the drafters may have. Issues affecting the proposal should be clearly identified as such. While any proposal will have points of weakness, these may be outweighed by other factors or ways to minimize their unfavorable impact may be possible. An honest exposition of deficiencies is essential.

IV. Contents of the Capital Assistance Paper

The points noted below should be covered to the extent applicable and feasible. Specific

instructions supplementing this outline may be issued by the Regional Bureaus.

A. Table of Contents and Summary Page

The Paper should contain a Table of Contents enabling the reader to find quickly the page on which each of the items is discussed. It should generally contain a summary and recommendations page. (See Attachment A to this M.O.)

B. History and Background

Ordinarily the Paper should open with a brief description of the activity, its history, the past participation of A.I.D. in its inception, and the nature and amount of A.I.D. assistance requested.

C. Borrower or Grantee

A sufficient description of the experience and administrative and technical capacities of the borrower/grantee or, where appropriate, the actual executing agency, should be provided to indicate the ability of such borrower/grantee, or executing agency, to execute and administer the activity. Relevant matters to discuss are the history of such borrower/grantee, or executing agency, its form of organization, its principal activities and past successes or failures in executing and administering similar or comparable activities, and its ownership, control, and management including an appraisal of the experience, continuity, reputation, and competence of key personnel. See M.O. 1222.1 for a further discussion of the managerial and technical considerations to be taken into account in evaluating a capital assistance proposal. See also M.O. 1612.83.1 - Urban, Development and Housing, paragraph III., with regard to the regional and/or urban planning studies which should be undertaken before initiation of large-scale capital projects.

D. Engineering Analysis

The engineering analysis should describe the activity in a manner understandable to a layman, identifying items to be financed by A.I.D. and items to be financed by others, referring

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to anticipated technical difficulties or to the routine character of the activity both generally and within the particular country. The analysis should draw upon the feasibility studies that have been made and report the general conclusions reached, evaluate the quality and completeness of the studies, describe how the cost estimates have been developed and appraise the reliability of such estimates, (See M.O. 1223.1.) the selection of the project site, the availability and reliability of raw materials and supplies, transportation and power, the adequacy of relevant supply contracts, and the availability of the needed skilled labor, supervising cadres, technical management, etc. See M.O. 1221.1 for a further discussion of engineering considerations to be taken into account. On the basis of the foregoing analysis as well as that outlined in paragraph C. above, a conclusion, with respect to the proposed activity's technical feasibility, should be reached.

E. Insurance, Bond, or Guaranty Analysis

1. Insurance Risk Analysis

a. Definition and Purpose

(1) An insurance risk survey and analysis is a planned effort to determine the hazards, exposures, and the risk of loss to which a project could be subject, and provides for methods of insurance protection or transfer.

(2) The analysis includes the determination of the amounts of insurance needed or required for each type of risk, such as fire, windstorm, liability to third persons and employees, or financial loss such as that caused by fraud.

(3) Such an insurance survey and analysis for any given project starts with an analysis of the project itself. The first step in the analysis is to determine loss exposure. The second step is to find out which of these exposures is insurable. The third step is to decide which of the insurable exposures should or can be insured. Exposures that are capable of producing large losses, and generally those that have more than a slight chance of happening, are those exposures that must be given adequate consideration in any insurance or risk survey.

(4) The survey and analysis will enable the borrower to assure itself that contractors have a definite loss-prevention program that will cover:

- (a) Industrial or on-site injuries.
- (b) Major damage to property.
- (c) Fidelity, crime, and liability losses.

(5) The purpose of a loss-prevention program is to provide for the elimination or reduction or risk of loss. Such a program could include good architecture, engineering, and facility design; safety program; a fire prevention and inspection program; and the provision and installation of equipment to prevent injury to persons or damage to property. The objective of a good loss-prevention program is to increase efficiency, lower cost, and reduce losses.

b. Insurance Market Restriction and Lack of Capacity

(1) Some cooperating countries restrict the placement of insurance and reinsurance by law. These restrictions may take any of a number of forms, among which are the following:

(a) A requirement that insurance or reinsurance be placed locally, e.g., in privately or nationally owned enterprises. Such a requirement might apply only to cooperating country-government-sponsored projects.

(b) A requirement that insurance be written in the local language and for local currency.

(c) A requirement subjecting insurance placed outside the cooperating country to taxation or to a different rate of currency exchange than normally applicable to commercial transactions.

(2) Insurance problems can generally be anticipated, and should be identified and evaluated well in advance of the project loan. On the basis of such evaluation, a determination should be made concerning the required coverage.

(3) Contractors on projects involving sizable operations or unusually high risks may encounter difficulty in obtaining

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2. Surety Bond and Bank Guaranty Determination

A determination is to be made of the type, form, and amounts of surety bonds, bank guarantees, or other forms of security to be required. Particular attention should be given to unusual aspects of the project, to past experience, to applicable projects and conditions, and to the advisability of greater than minimum limits. Particular attention should be given to the need for or advisability of providing performance bond or bank guaranty coverage greater than the minimum of 30 percent of the contract price, including all amendments aggregating 10% or more, as provided for in the A.I.D. Capital Projects Guidelines, Section 1440 of the A.I.D. Manual.

3. Operational Performance Financial Guarantees for Industrial, Including Utility Projects

a. Consideration should be given each industrial project, including utility projects, as to whether special provisions should be made concerning the guaranteed performance during a specific operating period.

b. On all "turn-key" or "single-responsibility" projects there must be a determination regarding the applicability, type, and amount of a financial guarantee covering project performance during a specified period of operations up to 2 years.

c. Financial guarantees that might be considered are:

- (1) Monies placed in escrow by the contractor.
- (2) Additional retained payments.
- (3) Payments retained beyond the normal acceptance test period on a basis formulated in the contract.
- (4) A specified portion of the contract price to be paid only upon stipulated conditions regarding satisfactory operation.
- (5) Extension by amendment of the usual corporate surety bond covering performance to cover the desired period of operating performance.
- (6) Bank guarantee.
- (7) Cash penalty payment, usually for various degrees of subpar but acceptable performance.

4. Staff Office Assistance

a. The Office of Procurement (Insurance Specialist) with the cooperation of the Office of Engineering and the Office of Private Resources will provide assistance, on request, on the making of a risk analysis and all matters pertaining to insurance and surety bond coverage.

b. The Office of Private Resources and the Office of Engineering, with the cooperation of the Office of Procurement, will provide assistance, upon request, with regard to the financial guarantee of operational performance.⁴

F. Economic Analysis

The economic analysis of the activity should explain at the outset how the proposed activity fits into the cooperating country's development program and the U.S. assistance strategy, and should state the rationale for selection of the proposed activity for A.I.D. financing, as opposed to possible alternative uses of A.I.D. resources. See M.O. 1024.1 - The Goal Plans (GP) Goals in A.I.D. Programming, and M.O. 1211.1 for further discussion of the factors to be taken into account in such an analysis.

1. This section of the Paper should include, in addition, an analysis of the specific contribution the activity will make to the economic development of the cooperating country, either by directly increasing the output of a particular sector of the country's economy or by facilitating the growth of other sectors. (See M.O. 1203.1.) In this analysis it may be useful to analyze the impact produced by other comparable activities undertaken within the cooperating country or within comparable economies. If the success of the proposed activity will be dependent on other activities within the cooperating country, this interrelationship of activities should be analyzed.

2. The impact of the proposed activity on the country's balance of payments

⁴The staff offices will work closely with the Regional Bureaus to ascertain experience and, as appropriate, jointly develop definitive guidelines to facilitate greater effectiveness in the development, evaluation, and decision-making pertaining to guarantees of operating performance of the wide variety of industrial projects.

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situation also should be examined. First, the extent to which the activity promises to increase the country's foreign exchange receipts or results in net foreign exchange savings should be estimated to the extent feasible. Second, the justification for A.I.D. dollar financing of the foreign exchange costs of the proposed activity should be appraised by reference to the country's balance of payments and exchange reserve position. When A.I.D. makes both program and project loans or finances a series of projects, the analysis need not be repeated in detail in every Paper, but the major conclusions should be restated. Third, when A.I.D. dollar financing of local costs is recommended or involved, the proposal for such financing should be analyzed in accordance with the criteria set forth in M.O. 1011.6 - Programming Implications of Basic A.I.D. Policy: Financing Local Costs - Determining the Amount of Dollar Aid. Such A.I.D. financing of local costs requires special justification in terms of the country's balance of payments position and exchange reserve position.

3. The economic soundness of the activity must also be analyzed in this section. The anticipated profitability of a revenue-producing project should be evaluated, taking into account such factors as the present and prospective market for its product or services, prices of its products and services, operating and non-operating costs (including debt service), and domestic and import competition. The basis on which price and cost figures have been developed should be sufficiently stated to indicate the reliability of the estimates submitted. For example, the prices received and costs incurred by similar comparable activities as well as the historical trend of prices and costs within the relevant industry or sector should be indicated. The prospects for inflation or deflation within the cooperating country's economy also should be noted, to the extent feasible. While the detailed analysis may be set forth in a footnote or annex, its main conclusion should be stated in the body of the Paper.

4. An examination should also be made, in order to appraise the economic soundness of the proposed activity, of the question of whether the national economic profitability of a revenue-producing project is different from its financial profitability. (See M.O. 1024.1 and M.O. 1211.1.) Such an analysis requires, in part, an evaluation of the indirect positive or negative effects on the cooperating country's total economy (such as a power project which also facilitates irrigation or a project which unduly depletes scarce natural resources) of a revenue-producing project. At

the same time, it also requires that artificial distortions of the price system (such as artificially high exchange rates or subsidized interest rates) which affect the profitability of a revenue-producing activity be taken into account. Special attention also should be paid to the effects of existing or prospective government policies on the proposed activity. For example, government subsidies (direct or in such form as import protections), price exchange, export or import controls, etc., should be taken into account. The justification for supporting a revenue-producing project whose profitability is dependent on one form or other of government subsidy or protection should be carefully examined in light of the degree of protection required and the length of time for which such protection is contemplated. In the case of a nonrevenue-producing project, the ability of the cooperating government to support the costs of such a project (including the government's initial contribution as well as the project's operating and maintenance costs and debt service requirements) from its general revenues should be analyzed in light of the government's overall fiscal situation and its competing priorities. In addition, this section, as part of the determination of whether an activity is economically sound, should evaluate, where applicable, whether the desired end can be achieved more economically by such means as alternate design, instruction methods, use of alternate raw materials, or alternate locations.

5. In order to gauge the effect of a loan on private enterprise activities, each loan paper should contain the following:

a. Of the total amount of money loaned, it is estimated that:

(1) \$ _____ are being loaned directly to private enterprise.

(2) \$ _____ are being loaned to intermediate credit institutions for relending to private enterprise.

(3) \$ _____ are being loaned to a government for disbursement to finance the import of commodities by private enterprise or for the use of private enterprise.

(4) \$ _____ are being loaned to a government to finance project work (including procurement) done under contract by private enterprise.

(5) \$ _____ are being loaned to a mixed enterprise (with _____ % private

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ownership), of which \$ _____ are to be spent for work done under contract by private enterprise and \$ _____ are to be spent for the purchase of goods directly from private enterprise.

(6) \$ _____ are being loaned to a government for the direct purchase by the government for its own use of goods from private enterprise.

b. The contemplated impact of the proposed loan on development of private enterprise in the cooperating country is: (to be filled out in narrative form, unless the impact is negligible or described fully elsewhere in the loan paper).

6. On the basis of the foregoing analysis, a conclusion should be reached concerning the proposed activity's economic soundness and prospective contribution to the economic development of the cooperating country.

7. Projects in the field of social infrastructure will, in general, also have significant economic implications although these may be somewhat indirect. The project analysis in cases of this sort should in the first instance focus upon the social objectives directly served, such as the contribution of the school or university to the increased level of public education in the field involved. This should be assessed in the general context of the present availability of, and the present and projected demand for, the skills to be developed. The analysis can then proceed to an appraisal of the contribution these skills can be expected to make to economic development, though, obviously, these economic benefits can not readily be quantified.

G. Financial Analysis

1. The financial analysis should indicate the total financing required, the various other sources of financing, and the degree of firmness and the terms of other financing commitments already obtained. The Paper should indicate what consideration was given to other Free World financing sources and should explain, when appropriate, why financing by such sources is not available or desirable. (See M.O. 1213.1 - Alternative Sources of Free World Financing.)

2. In the case of revenue-producing projects, a summary, expressed in U.S. dollars, of the principal financial statements submitted by the applicant should be included. Normally, this summary should contain:

a. A breakdown of the borrower's past and prospective sales and other revenues (including an indication of whether the borrower's sales are primarily on a cash or credit basis), operating costs, nonoperating costs (other than depreciation and interest), depreciation, total interest, gross income, taxes, net income, dividends (if any), and total debt amortization. This analysis should ordinarily cover the borrower's past 5 years of operation (when applicable) and should be estimated for future years until its operations are expected to become stabilized.

b. A breakdown of the borrower's present and projected capital structure (including the terms of any long-term debt or preferred or other special class of stock).

c. The borrower's current and prospective working capital position and ratio of total liabilities to net worth.

d. Descriptions of any liens or encumbrances on the borrower's assets and of any contingent liabilities of the borrower.

e. A source-and-application-of-funds statement covering the borrower's past 5 years of operation (when applicable), and estimates for future years until its operations become stabilized. For an illustration of one form of source-and-application-of-funds statement, see Annex E of M.O. 1221.2 - Feasibility Studies, Economic and Technical Soundness Analysis, Capital Projects.

f. The objective of such an analysis is to permit appraisal of the borrower's past and prospective profitability, balance sheet position, and ability to service its overall debt requirements. In presenting projections care should be taken to indicate the basis on which the various projections were developed.

g. In addition to the foregoing summaries of financial statements, information developed from an investigation of the borrower's credit standing in the case of private or mixed companies or semiautonomous public institutions should be set forth. Any factors which may adversely affect the borrower's ability to service its debt, such as restrictive provisions of other financing, pending law suits, unpaid tax claims, etc., should also be noted and their significance evaluated.

h. On the basis of the foregoing analysis and information, recommendations concerning financial covenants should be developed to the extent warranted.

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i. When a guaranty from a specific institution is to be required, the reputation and financial position of the proposed guarantor should be analyzed. Such analysis should consider past and present financial statements of the institutions.

H. Repayment Prospect

In connection with applications for development loan financing, the Paper should include a finding by the drafting committee of the reasonable prospects of repayment. When repayment is based solely on the country's ability to service its foreign debt, such findings may be based on a determination made periodically in accordance with the setting of loan terms for a particular country or the making of a commitment to extend a certain level of development lending. In the cases of capital activities financed by two-step (dual-term) loans, the interest rate and maturity of the loan to the borrower should be analyzed separately from the standard terms applicable to the individual cooperating country. See M.O. 1203.1 and M.O. 1052.1 - Dollar Loan Policies, for further discussion of this problem.

I. Impact on U.S. Economy

The Paper will normally discuss the expected effect of the activity upon the U.S. economy, relevant procurement considerations, and the presence and extent of any actual or potential competition with U.S. enterprises. In the case of local cost financing, the Paper should describe the method by which the local currency is to be generated and the procedures to be followed to insure that the dollars provided by A.I.D. are utilized for procurement in the U.S. (See section 1160 of the A.I.D. Manual and M.O. 1512.1.1 - The Generation of Local Currency and the Acquisition and Allocation of Local Currency for Technical and Capital Assistance Projects.)

J. Conditions and Covenants

The Paper should describe the principal conditions and covenants which A.I.D. should obtain in order to properly carry out the activity or remedy defects in the proposal. These may concern retention of engineering services, management contracts, training programs, operational reorganization, pricing or rate changes designed to make a project self-sustaining, or legislative action, financial restrictions, etc.

K. Implementation Plan

The Paper should include an "Implementation Plan" which may be set forth as an annex. The implementation plan should describe:

1. The various steps required to execute the activity (e.g., the anticipated

engineering, construction, and other procurement arrangements; recommended advisory services; etc.).

2. The means by which these steps are to be taken. Here the Paper should specify whether the borrower/grantee or A.I.D. will be responsible for accomplishment of the various implementation steps. If A.I.D. is to be responsible for any phase of implementation (other than its normal monitoring function), the reasons for vesting such responsibility in A.I.D. should be explained. (The implementation plan should comprehensively delineate all the responsibilities of all the parties concerned with providing or financing logistic support overseas to A.I.D.-financed contractors, in accordance with M.O. 1514.1 - Financial Management of Local Currencies, General, paragraph II. F.; and with M.O. 1412.2 - Logistic Support Overseas to A.I.D.-Financed Services Contractors.)

3. The estimated time table for completion of the various steps required to implement the activity (e.g., engineering and construction schedules as well as a disbursement schedule which indicates the proposed timing of disbursements on a periodic basis).

4. The proposed terminal date for the satisfaction of conditions precedent to disbursement and the proposed terminal date for disbursements. It is understood that these dates are to be tentative targets and will be subject to negotiation and revision.

5. The assignment of monitoring responsibilities to the appropriate A.I.D. personnel should be spelled out to the extent feasible.

L. Issues

The Paper should clearly indicate all issues which arose during the consideration of the activity and which should be brought to the attention of the reviewers. Policy issues should of course be highlighted.

M. Checklist of Statutory Criteria

The Paper should include, as an annex, a checklist of statutory requirements indicating, by references to the body of the paper, or to other annexes, how such requirements have been met or why they are not applicable. *Forms AID 1240-1, Checklist of Statutory Criteria; Development Loan Fund, and form AID 1240-2, Checklist of Statutory Criteria (Alliance for Progress), set forth statutory criteria in the left column and provide space in the right column to summarize the information or conclusion requested. (See M.O. 1242.2 and M.O. 1242.3.*

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N. Draft Authorization

The Paper should include, as an annex, a draft of the proposed A.I.D. loan or grant authorization. (See M.O. 1251.1 - Authorization of Capital Assistance.)

V. Special Requirements of Capital Assistance Papers on Feasibility Studies

A Capital Assistance Paper reviewing a proposed loan or grant to finance a feasibility study should normally include, in addition to the various factors outlined in paragraph IV. above which may be applicable, a discussion of the following considerations:

A. The specific manner in which the projects to be studied would contribute to the economic growth of the cooperating country and the accomplishment of the U.S. assistance strategy. Consider possible alternative uses of the cooperating country's internal and external resources.

B. The likelihood that financing will be available from the cooperating country's internal or external resources, within a reasonable period of time for projects identified by the study as technically and economically feasible.

C. The manner in which financing of the proposed feasibility study will itself contribute to the development of the cooperating country. In this connection, the Paper should examine the borrower/grantee's ability to finance the proposed study from its own or external resources, the availability within the cooperating country of the professional and technical services needed to conduct the technical and economic investigations contemplated by the proposed study, and the availability of other projects which might be financed without first financing a feasibility study. Special consideration should be given those feasibility studies which would provide opportunities for A.I.D. to improve the techniques and institutions utilized by the cooperating country to translate its development objectives into specific projects. The possibility of use of U.S. personnel financed by A.I.D. to conduct such studies to train local personnel should be explored whenever possible.

D. In the case of projects which might be financed by private enterprise, the efforts made to interest private firms in carrying out the proposed feasibility studies and the possibility of including private firms to carry out the studies with the assistance of an Investment Participation Survey Grant. (See M.O. 1523.1 - Investment Surveys.)

E. In the case of a proposal to finance studies to be selected in the future, the manner in which the individual studies will be selected for financing.

F. In the case of a proposal to finance a specific project or a specific series of projects, the estimated cost of the study or studies.

VI. Special Requirements of Capital Assistance Papers on Intermediate Credit Institutions

In addition to the consideration described in paragraph IV. above, as applicable, a Capital Assistance Paper for proposed A.I.D. financing of an intermediate credit institution should normally discuss the following:

A. Objectives

The Paper should discuss the justification for the financing, considering the demand within the cooperating country for the type of credit to be offered by the institution and the extent to which the institution will be oriented towards developing sectors of the economy important to the cooperating country's development program and the U.S. assistance strategy. The objectives of the institution and its planned rate of activity must be realistic in terms of overall projected economic development of the cooperating country and the particular sector or sectors which the institution is intended to serve. In this connection, the Paper should include an evaluation of whether the requisite technical and professional skills exist or will be provided within the sector or sectors of the economy to be served sufficient to permit their development. If such skills are lacking, the question of whether they may be provided through technical assistance or by the intermediate institution itself or by other sources should be explored. In the case of a proposal to establish a new intermediate credit institution, a relative cost comparison should be made as between direct loans by A.I.D. and other Free World sources to the sector or sectors to be served by the proposed institution and the cost of establishing and operating the intermediate institution. See M.O. 1524.1 - Development Banks, as to A.I.D. policies with respect to financing Development Banks.

B. Management

The Paper should review the reputation, experience, and competence of the institution's personnel. This should include not only a review of the qualifications of the key managerial personnel but also consideration of whether the institution has a sufficient number of qualified technical and professional personnel to carry out the functions which it will perform. When the managerial, technical, or professional personnel available within the cooperating country are not adequate, consideration should be given to hiring foreign experts to fill key posts, or to act as consultants, or to train local personnel. If such outside assistance is required, the method of financing such assistance should be discussed.

C. Other Financing

The amount of proposed A.I.D. financing should be discussed in relation to the funds provided or to be provided from other sources.

D. Interest Rates

The Paper should analyze the spread between the rate charged by A.I.D. and the rate to be charged by the institution to the ultimate borrower, taking into account:

1. The institution's administrative costs. Any special technical assistance functions which the institution must provide as an inherent part of its loan operations should be noted, e.g., supervised agricultural credit.

2. The cost to the institution of attracting further resources through such means as the payment of adequate interest rates on deposits, the payment of adequate dividends to shareholders, and the payment of adequate interest to other lenders. The relationship of these rates to others prevalent in the country should be noted. In countries where there exists a history or expectation of internal inflation and/or currency depreciation, the spread established must be sufficient to provide a hedge against impact of such possible inflation or currency depreciation. In considering the impact of such inflation or depreciation, attention should be focused on whether the institution's borrowing and lending costs will be adjusted according to fluctuations in a designated cost-of-living index, exchange rate, etc.

3. The cost to the institution of providing for reserves against likely losses. The need to establish such reserves should also be considered in appraising the capital structure of the institution.

4. Government subsidies.

5. The relationship of the rate charged by the institution to other interest rates prevalent in the cooperative country, particularly for comparable types of credit. See M.O. 1524.1.

6. Whether subsidized interest rates for the sector or sectors of the cooperative country economy to be served by the institution are justifiable in terms of the country's development requirements.

7. The leverage provided the institution's equity holders by the institution's debt-equity ration.

E. Maturity Dates

The Paper should discuss the proposed maturity of the A.I.D. loan in relationship to the proposed maturities of subloans.

F. Assumption of Exchange Risk

The Paper should discuss whether the exchange risk on the repayment of the principal of and interest on the A.I.D. loan should be borne by the intermediate credit institution, the ultimate borrower, or the host government or Central Bank and the rationale for imposing the risk on such party.

G. Operations

The Paper should include a detailed description of the institution's policies, methods of operation, and loan terms. Particular emphasis should be given to the institution's criteria for making loans, its procedures for review and approval of loan applications, and its method of implementing and monitoring loans. The security to be required of borrowers and whether the main considerations in the institutions' approval of loans are to be the collateral offered by the applicant or the institution's appraisal of the applicant's project should be indicated. This section should also include a description of the liquidity and other pertinent legal and regulatory requirements (including the extent of supervision by local authorities to which the institution is subject under local law. A summary of the types of projects financed by the institution should be provided. In sum, the objective is to provide as complete as possible a picture of the basic philosophy and operations of the institution.

II. Financial Analysis

The Paper should include an appraisal of the financial condition of the institution. In the case of a new institution, the appraisal would be limited to a review of its capital structure as called for in paragraph C. above and an analysis of its projected operating statements. In the case of an existing institution, the appraisal should also refer to the institution's present and, to the extent feasible, past balance sheets or statements of condition, operating statements, and loss experience. The institution's liquidity should be examined. This will entail consideration of the general nature of its obligations and the maturities of its outstanding loans, including the relationship between income from loan repayments and other sources and expenditures. The Paper should

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discuss steps to be taken to enable the institution to become self-sufficient, that is no longer dependent upon government subsidies or development-type loans.

I. Limitations on Subloans

This paper should discuss limitations, if any, on the types of subloans which the intermediate institution will be authorized to make.

J. Implementation Plan

The Implementation Plan (See paragraph IV.K. above.) should include an appraisal of the ability of the institution to utilize the A.I.D. financing within a reasonable period of time (normally 18-24 months) taking into account such factors as the effects of A.I.D. statutory and policy requirements applicable to the use of such funds and the time required for organization and training of necessary personnel. It should also describe the system to be employed by A.I.D. to approve subloans and to monitor the institution's operations.

VII. Review of Capital Assistance Papers by Missions and Regional Bureaus

A. Submission to Regional Assistant Administrator

If the Capital Assistance Committee recommends that the activity be financed by A.I.D., the Paper should be submitted to the regional Assistant Administrator for his approval. If the Capital Assistance Committee is located in the Mission, the Paper should first be reviewed and concurred in by the Mission Director before transmittal to the Regional Assistant Administrator.

B. Recommendations for Rejection

If the Capital Assistance Committee recommends rejection of the application, the Committee, except to the extent that the Regional Assistant Administrator otherwise directs, shall prepare a summary form of the Capital Assistance Paper, setting forth the reasons for the rejection and including a proposed letter of rejection addressed to the applicant for signature by such Agency official as may be designated by the Regional Bureau.

C. Regional Bureau Review

Each Regional Assistant Administrator shall adopt an appropriate system for reviewing capital assistance proposals to assist him in

the discharge of his responsibilities hereunder. One mechanism frequently used for assisting the Regional Assistant Administrator in discharging responsibilities hereunder is the establishment within the Regional Bureau of a Capital Assistance Executive Committee, composed of heads of regional offices or staffs and constituted for the purpose of providing the Regional Assistant Administrator with guidance and advice in connection with matters placed before it. Representatives of the Office of *Private Resources* and the Office of *Program and Policy Coordination* are invited to attend the meetings of the committee. (See paragraph E. below.)

D. Mission Reviews

Each Mission shall adopt such system as its Director may deem appropriate to assist the Mission in carrying out the various capital activity functions assigned to it. One recommended approach is to organize a Capital Assistance Executive Committee within the Mission responsible to advise the Director. Normally, such a committee would consist of the Deputy Mission Director, the Capital Development Officer, the Program Officer, Counsel, an Engineer, as available, and other staff as appropriate. The committee would provide both general policy guidance and specific recommendations with respect to the various capital activity responsibilities of the Mission.

E. Staff Office Review

Regardless of the form of procedure adopted, the Regional Assistant Administrator should assure that the Office of *Program and Policy Coordination*, the Office of *Private Resources*, and other A.I.D. staff offices, as he deems appropriate, are afforded reasonable opportunities to review Capital Assistance Papers and to comment thereon prior to his final judgment as to whether A.I.D. should finance the proposed capital activity. The foregoing does not require staff office concurrence in any of the actions or recommendations which the Regional Assistant Administrator is authorized to make.

F. Distribution of Loan Papers to DLC

Copies of all Capital Assistance Papers are transmitted to the members of the Development Loan Committee prior to the authorization of such financing by either the Administrator, the *Regional Assistant Administrator* or his designee. Copies are simultaneously distributed to other offices concerned. See *M.O. 1054.1 - Dollar Loans, Cooley Loans, and Investment Guaranties: Interagency Coordination.*

A.I.D. MANUAL ORDER	TRANS. LETTER NO. 11:56	EFFECTIVE DATE March 4, 1969	PAGE NO. A-1	NO. 1242.1 Attachment A
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Capital Assistance Paper: Outline for Summary Page (See paragraph IV.A. of the basic manual order.)

SUMMARY AND RECOMMENDATIONS

(Title _____)

1. Applicant
2. Amount
3. Loan/Grant (If a loan, indicate maturity and interest rate.)
4. Total Cost of Activity
5. Description of Activity
6. Purpose of Activity
7. Background of Activity
8. EX-IM Bank Interest
9. Mission Views
10. Statutory Criteria
11. Issues
12. Recommendation

Capital Activity Committee Members:

